

Andrew Klein

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	AGENCY NAME & ADDRESS	Bureau of Budget and Management Research Room 432, City Hall (410) 396-4941
	SUBJECT	City Council Bill No.12-040 Targeted Homeowners Tax Credit

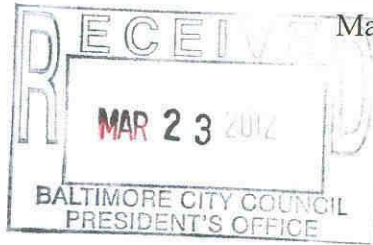
CITY of  
BALTIMORE  
**MEMO**



TO

DATE: March 23, 2012

Honorable President and  
Members of the City Council  
C/O Karen Randle  
Room 409, City Hall



This bill establishes a tax credit for owner occupied properties. The credit base is the improved assessment of the property and the rate is set annually by the Board of Estimates.

**Analysis**

This tax credit targets property tax reductions to Baltimore City homeowners. In order to qualify, one must be eligible to receive the Homestead Tax Credit under Maryland law. The credit rate will apply only to the improved portion of the total assessed value. The rate will be set by the Board of Estimates on an annual basis. The credit is authorized under 9-221 of Tax-Property of the Maryland Code.

Lower City property tax rates will act as a stimulus to City growth. Additionally, a lower rate would reduce interjurisdictional tax capitalization in the price of houses. Taxes are capitalized into the price of a property resulting in a lower value. For example, two identical homes, one in a high tax jurisdiction and one in a low tax jurisdiction will have different prices due to the tax. All else being equal, the house in the high tax jurisdiction will have a lower price than the house in the low tax district. Studies have shown that property values increased \$7 for every \$1 in tax reduction.<sup>1</sup> Higher housing prices increase not only the City's tax base but also the wealth of its residents, providing them with greater financial leverage.

The Targeted Homeowners Tax Credit is designed to reduce the effective tax rate of homeowners in the City by approximately 2 cents in Fiscal 2013 increasing to 20 cents in Fiscal 2020. The credit will be funded using 90% of the lease revenue from the City's future video lottery terminals and by responsibly reducing City spending.

Because the credit base is the improved portion of the total assessment, citizens are incented to maintain and improve their properties. The higher the value of the improved

<sup>1</sup> Rosen, Kenneth, (1982), "The impact of Proposition 13 on house prices in Northern California: A test of the interjurisdictional capitalization hypothesis", *Journal of Political Economy*, 90(11), 191-200.

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portions of the property assessment, the larger the tax credit. Initially, it is estimated that credit rate will be at 3 cents per \$100 of improved assessment. Because the credit is based on the improved portion of the assessment, properties such as row houses, which have minimal land footprint, will receive a proportionately larger share of the credit than detached homes with yards. As the ratio of the improved assessment to land assessment increases, the effective tax rate will decline for a homeowner. The table below details the relationship between the effective tax rate and the ratio of improved to total assessed value.

The top half of the table identifies, by decile, the percentage of eligible properties and the ratio of improved to total assessment. Approximately 59.9% of all properties will fall within the grey areas and over 74% of all eligible properties will receive a credit that reduces their effective rate by 2 cents to \$2.247 or less.

The bottom half of the table details the credit values based on the total assessment and the improved percent of total assessment.

THTC Credit - Effective Tax Rate and Credit by Percentage of Improved Assessment <sup>1</sup>										
	Percentage of Total Assessment that is Improved Property <sup>2</sup>									
	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
% of Total Properties Eligible <sup>2</sup>	0.04%	0.22%	0.67%	2.50%	6.26%	16.14%	27.18%	32.75%	13.70%	0.54%
Effective Tax	\$ 2.265	\$ 2.262	\$ 2.259	\$ 2.256	\$ 2.253	\$ 2.250	\$ 2.247	\$ 2.244	\$ 2.241	\$ 2.238
Tax Savings	\$ 0.003	\$ 0.006	\$ 0.009	\$ 0.012	\$ 0.015	\$ 0.018	\$ 0.021	\$ 0.024	\$ 0.027	\$ 0.030
Total Assessment	Credit Received									
\$ 50,000	\$ 2	\$ 3	\$ 5	\$ 6	\$ 8	\$ 9	\$ 11	\$ 12	\$ 14	\$ 15
\$ 100,000	\$ 3	\$ 6	\$ 9	\$ 12	\$ 15	\$ 18	\$ 21	\$ 24	\$ 27	\$ 30
\$ 150,000	\$ 5	\$ 9	\$ 14	\$ 18	\$ 23	\$ 27	\$ 32	\$ 36	\$ 41	\$ 45
\$ 200,000	\$ 6	\$ 12	\$ 18	\$ 24	\$ 30	\$ 36	\$ 42	\$ 48	\$ 54	\$ 60
\$ 250,000	\$ 8	\$ 15	\$ 23	\$ 30	\$ 38	\$ 45	\$ 53	\$ 60	\$ 68	\$ 75
\$ 300,000	\$ 9	\$ 18	\$ 27	\$ 36	\$ 45	\$ 54	\$ 63	\$ 72	\$ 81	\$ 90
\$ 350,000	\$ 11	\$ 21	\$ 32	\$ 42	\$ 53	\$ 63	\$ 74	\$ 84	\$ 95	\$ 105
\$ 400,000	\$ 12	\$ 24	\$ 36	\$ 48	\$ 60	\$ 72	\$ 84	\$ 96	\$ 108	\$ 120
\$ 450,000	\$ 14	\$ 27	\$ 41	\$ 54	\$ 68	\$ 81	\$ 95	\$ 108	\$ 122	\$ 135
\$ 500,000	\$ 15	\$ 30	\$ 45	\$ 60	\$ 75	\$ 90	\$ 105	\$ 120	\$ 135	\$ 150

<sup>1</sup> Calculated using a credit rate of 3 cents/\$100 improved assessment. <sup>2</sup> Grey area represents 59.9% of all eligible properties. <sup>3</sup> Percentage is for all properties from preceding category to listed category. For example the 20% category of improved assessment to total assessment includes all properties falling between 11% and 20%

## Fiscal Impact

The tax credit is funded at \$3.8M from expenditure cuts in the initial year. It is estimated the aggregate credit amount will increase to \$38.0M in Fiscal 2020 resulting in an average effective tax rate decrease of 20 cents per \$100 of assessed property value. Of the \$38M tax credit cost in Fiscal 2020, roughly half will be offset by video lottery terminal lease revenue and half by reductions in expenditures. Most of the expenditure reductions will take place after Fiscal 2016. A schedule of the proposed funding for the credit is below.

20 Cents By 2020 - Targeted Homeowners Tax Credit Analysis					
Tax Year	Effective Rate with Credit <sup>1,2</sup>	Cumulative Effective Rate Reduction thru Credit <sup>1,2</sup>	Total Credit Cost <sup>1</sup> (Millions)	90% of VLT Revenue <sup>3,4</sup> (Millions)	Spending Reduction <sup>5</sup> (Millions)
2013	\$ 2.248	\$ 0.020	\$ 3.8	\$ -	\$ 3.8
2014	\$ 2.170	\$ 0.098	\$ 18.6	\$ 14.8	\$ 3.8
2015	\$ 2.161	\$ 0.107	\$ 20.3	\$ 16.5	\$ 3.8
2016	\$ 2.153	\$ 0.115	\$ 21.8	\$ 18.0	\$ 3.8
2017	\$ 2.140	\$ 0.128	\$ 24.3	\$ 18.6	\$ 5.7
2018	\$ 2.117	\$ 0.151	\$ 28.7	\$ 19.2	\$ 9.5
2019	\$ 2.087	\$ 0.181	\$ 34.4	\$ 19.2	\$ 15.2
2020	\$ 2.068	\$ 0.200	\$ 38.0	\$ 19.2	\$ 18.9

<sup>1</sup> Numbers portayed in this table are contingent on the accuracy of the Video Lottery Terminal revenue estimates. Any deviation of actual receipts from the estimates will result in changes to these numbers. <sup>2</sup> This is the average effective rate citywide for this credit. Individual credits will vary depending on the ratio of land to improved property assessment. <sup>3</sup> Shows 10% of expected VLT revenue going to school construction. <sup>4</sup> Preliminary VLT revenue estimates by Baltimore Development Corporation. Actual receipt deviations from this estimate will be reflected in the actual amount of credit given. <sup>5</sup> This column is based on the Mayor's pledge to reduce spending from the FY13 expenditure level.

3/15/2012

## Recommendation

The Department of Finance supports this bill.

CC: Harry Black  
 William Voorhees  
 Angela Gibson

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