FROM		
NAME & TITLE	Robert Cenname, Chief	
AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 432, City Hall (410) 396-4941	
SUBJECT	City Council Bill 18-0193 – Food Desert Incentive Areas – Expenditure Requirements for Tax Credit	

CITY of BALTIMORE

MEMO

TO

DATE:

The Honorable President and
Members of the City Council
Room 400, City Hall

April 20, 2018

Attention: Ms. Natawna Austin

We are herein reporting on CCB 18-0193, the purpose of which is to lower the minimum expenditure requirement for substantially renovated supermarkets that may be eligible for a Food Desert Incentive Area Personal Property Tax Credit under Article 28, Section 10-30 of the Baltimore City Code.

Background

City Ordinance 15-434, signed into law on January 11, 2016, established a grocery store Personal Property Tax Credit for new and existing grocers that wish to locate or make improvements to stores in the City's designated Food Desert Incentive Areas. The credit grants a 10 year, 80 percent Personal Property Tax Credit against any new investment equal to $25 per square foot of total floor space.

The intention of the credit is to retain or attract grocery stores to low-income areas of the City that lack adequate access to healthy, fresh food as determined by the Baltimore Food Policy Initiative (BFPI). BFPI was created in collaboration with the City Health Department, Planning, Office of Sustainability, and the Baltimore Development Corporation. BFPI worked with the Johns Hopkins Center for a Livable Future (CLF) to define and map food deserts across the City in order to design a Food Desert Retail Strategy with the ultimate goal of improving health outcomes for low-income City residents.

Among the 47 grocery stores located in the City, 27 are within designated Food Desert Incentive Areas. Only one grocer – a newly constructed Save-A-Lot Supermarket located at 2509 E. Monument – will receive the credit beginning in Fiscal 2018. At 14,594 total square feet, Save-A-Lot had to meet a minimum expenditure requirement of $364,850 in personal property to qualify for the credit. As a new store, this threshold was satisfactorily met through the initial purchase of equipment and supplies necessary to open for business. The State Department of Assessments and Taxation (SDAT) has not yet assessed the new supermarket's personal property for Fiscal 2018, so the exact credit amount is unknown. Based on the minimum expenditure requirement, however, Save-A-Lot should receive at least a $16,404 Personal Property Tax Credit in Fiscal 2018 as a result of this program.

The remaining 26 stores could make substantial renovations to qualify for the credit. To date, no existing stores have qualified.

Analysis

Current versus Proposed Structure

CCB 18-0193 would maintain the $25 per square foot investment requirement for newly constructed stores, but it would adopt a tiered structure for newly renovated supermarkets in order to lower the expenditure requirement and expand eligibility. The proposed tiered structure is as follows:

1. 20,000 square feet or less: $5 per square foot
2. Greater than 20,000 up to 45,000 square feet: $8 per square foot
3. Greater than 45,000 square feet: $10 per square foot

The table below compares the minimum investment requirement and the annual and ten-year value of the credit for the average grocer under the Current Structure versus the Proposed Structure.

EXPENDITURE REQUIREMENT	TOTAL SQFT	MIN. NEW INVESTMENT	ANNUAL VALUE OF CREDIT	10 YEAR VALUE OF CREDIT
Current Structure ($25 per sq.ft.)				
Average Grocer	28,405	$710,120	$31,927	$319,270
Total - 26 Grocers	738,525	$18,463,125	$830,102	$8,301,021
Proposed Structure (Tiered)				
Average Grocer	28,405	$227,240	$10,217	$102,167
Total - 26 Grocers	738,525	$6,028,693	$271,050	$2,710,500

Source: Baltimore Development Corporation

Under the Current Structure, the average supermarket would need to expend at least $710,120 on new personal property and would receive $319,270 in tax credits over ten years. That same grocer would need to invest only $227,240, at minimum, under the Proposed Structure, and would receive $102,167 in tax credit savings over ten years. Both structures provide a 45% return on investment to qualifying supermarkets.

Finance projects that under the Proposed Structure, approximately 10% or 3 existing grocery stores will take advantage of the credit in a given year, for an annual cost to the City of at least $30,650 in Year 1. At this rate, the cumulative ten-year cost of the credit is $1.6 million. If all 26 grocers take advantage of the credit in Year 1, the total ten-year cost would reach $2.7 million. The table below summarizes this projection.

ANNUAL CREDIT COST	YEAR 1	YEAR 5	YEAR 10	TOTAL 10 YEAR COST
Baseline Scenario (10% of stores annually)	30,651	153,255	271,050	1,619,694
High Scenario (all stores)	271,050	271,050	271,050	2,710,500

Conclusion

City Council Bill 18-0193 would expand newly renovated supermarkets' eligibility for the Food Desert Incentive Tax Credit and subsequently reduce Personal Property Tax revenue. In the Current Structure, only one credit is being granted for an estimated cost of at least $164,040 over ten years. It is unclear what the potential increased cost of this credit would be, and if it will have the intended effect of retaining grocery stores, and in turn, on improving health outcomes of City residents.

The Department of Finance agrees with the policy goal of attracting and retaining grocery stores to low-income areas, and promoting and increasing the availability of healthy food options as to low income families as determined by the BFPI; however, Finance has concerns about the potential cost of this credit and will closely monitor its effectiveness in achieving the intended goals; therefore, the Department of Finance does not object the passage of City Council Bill 18-0193.

cc: Henry Raymond
Kyron Banks