


*H. Raymond*

<b>FROM</b>	NAME & TITLE	Henry Raymond, Deputy Director	CITY of BALTIMORE <b>MEMO</b>	
	AGENCY NAME & ADDRESS	Department of Finance Room 454, City Hall		
	SUBJECT	City Council Bill No. 14-0399 – Tax Credits – Historic Properties – Calculations		

DATE: August 4, 2014

**TO**

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

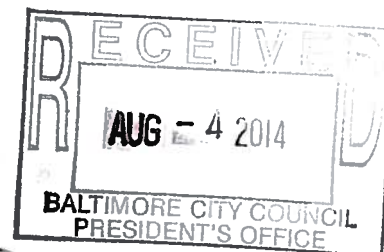
City Council Bill 14-0399 amends the City Code provisions that govern the tax credit for historic improvements, restorations, and rehabilitations to incorporate new requirements enacted by Chapters 193 and 194 of the General Assembly Acts of 2014. Specifically, the bill alters the method by which the credit is calculated. For all credits initially granted on or after October 1, 2014 this legislation requires the use of appraisals, completed before and after the improvements are made to the property, for the calculation of the tax credit amount. Prior to October 1, 2014, the calculation will still be based on assessments completed by the State Department of Assessments and Taxation (SDAT).

Additionally, this legislation includes language providing a floor on a property owner's tax liability. The language prohibits the application of the credit, in whole or in part, if the property owner's tax liability ends up below the amount that he or she was subject to prior to the commencement of the eligible improvements. This floor is necessary to protect against credits based on appraisals which are completed prior to, and more accurately reflect the improved value of the property than, the corresponding post-improvement assessments by SDAT.

Analysis

The Historic Improvements, Restorations, and Rehabilitations Tax Credit is designed to encourage the preservation and rehabilitation of historic properties in the City of Baltimore. The credit is granted on properties that meet certain historic criteria and have completed improvements greater than 25% of the property's pre-improved value. If the required criteria are met, the property is awarded a credit for 10 tax years that is equal to the difference between the value of the property prior to the improvements and the value of the property after the improvements.

As shown in the chart on page 2, in Fiscal Year 2014, there were a total of 1,434 historic tax credits granted. These credits cost the City \$6,872,153 in Fiscal Year 2014. On average, there were 143 new historic tax credits added each year and each of these credits averaged \$4,806 per year.



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<b>FY2014 HISTORIC CREDIT COSTS</b>				
<b>First Year of Credit</b>	<b>Number of Properties</b>	<b>Total Assessed Value (FY2014)</b>	<b>Total Credit Amount (FY2014)</b>	<b>Average Credit Amount (FY2014)</b>
2005	88	\$32,280,133	\$436,341	\$4,958
2006	71	\$29,187,368	\$462,838	\$6,519
2007	134	\$75,184,165	\$1,059,332	\$7,905
2008	229	\$67,181,363	\$1,116,101	\$4,874
2009	169	\$71,134,267	\$1,154,871	\$6,834
2010	92	\$28,082,434	\$374,208	\$4,067
2011	142	\$43,182,533	\$612,179	\$4,311
2012	113	\$29,101,116	\$367,563	\$3,253
2013	223	\$67,501,955	\$887,970	\$3,982
2014	167	\$44,354,526	\$391,055	\$2,342
<b>Grand Total</b>	<b>1434</b>	<b>\$489,728,760</b>	<b>\$6,872,153</b>	---
<b>Averages</b>	<b>143</b>	<b>\$48,718,986</b>	<b>\$686,246</b>	<b>\$4,806</b>

The recent enactments of the General Assembly deal with several issues the City discovered with credits that had been calculated by SDAT, including:

1) The timeliness of reassessments following the completion of improvements:

The inability of SDAT to perform reassessments of improved property within a reasonable time following the completion of the improvements has often led to credit recipients not receiving their credits in a timely manner. By calculating the credit based on appraisals performed by a certified appraiser, the credit can be calculated and awarded in a timelier manner.

2) The accuracy of assessments both before and after improvements were made:

In the past, the City often encountered both pre-improvement and post-improvement assessments that did not accurately reflect the value of the property. Accordingly, credits were often initially inaccurate and needed to be recalculated. The use of certified appraisals completed both before and after the property is improved will eliminate these issues and provide a new level of accuracy in the calculation of these credits.

3) The improper calculation of credits based on current property values:

Through its investigations, the City found that SDAT had systemically updated credits after they were initially awarded and recalculated them based on the most recent assessed value of the property. The historic tax credit calculation is a fixed calculation of the difference between the pre-improvement and post-improvement values of the property and should not have changed. These calculation errors led to substantial issues with the information provided to taxpayers.

4) The accuracy and reliability of information provided to credit recipients:

The aforementioned issues with timeliness, accuracy, and calculation errors ultimately contributed to multiple situations in which taxpayers found that they were told one thing by SDAT at the time their credit was initially awarded, only to later be told something different.

Upon the discovery of these issues, the Administration devised a phased plan to correct the errors and discrepancies. This multi-step approach allowed the City to not only take over the calculation of tax credits, but to ensure that errors in prior calculations could be addressed. Each step in the approach built upon the next, ensuring a strong foundation for the calculation of credits moving forward.

1) **Auditing** – The first step was for the City to audit the existing tax credits and related assessments. This was essential to allowing the City to ensure that the data they were using was accurate.

2) **Process Reengineering** – The City next undertook steps to reengineer the process by which credits were calculated. The development of a dedicated IT system for the calculation of tax credits allows the City to eliminate the human errors that plagued the calculations prepared by SDAT, ensuring that calculations moving forward are correct and consistent.

3) **Correcting Injustice / Recompense** – The City, having already identified a multitude of errors in the prior calculations prepared by SDAT, next undertook a program to make whole those taxpayers that were harmed by these errors. A recompense program was established and funded to ensure that taxpayers who could show they were promised a credit of a certain amount, only to have that amount later reduced when due erroneous calculations were corrected, received the amounts they were promised.

4) **Legislative Changes** – Finally, the City worked with its representatives in the State Legislature to enact the changes that appear in this legislation. By utilizing appraisal data to calculate the credit rather than assessment data, the City has developed a method by which both the City and property owners are no longer reliant on SDAT for data necessary to calculate these tax credits.

#### Fiscal Impact

The Historic Improvements, Restorations, and Rehabilitations Tax Credit is a ten year credit on the taxes due on the difference between the property's pre-improvement and post-improvement values. The credit has historically cost the City between \$8.0 and \$10.0 million per year. However, in FY2013 the City also faced an additional expenditure related to the credit due to calculation errors committed by SDAT. Due to errors in the calculation of certain taxpayers Historic credits, SDAT had provided false information to these taxpayers with respect to the amount of tax credit they could expect to receive. For many, the correction of these errors resulted in a substantial reduction in the amount of credit that they received. In order to offset these reductions and make taxpayers whole with respect to the credits they had been promised, the City approved a recompense program for those affected

by the SDAT errors. Taxpayers that had been told their credit would be one amount and then ultimately received a reduced credit amount can apply to the City and, if proper documentation is provided, receive a payment that offsets the difference. An additional \$3.0 million on top of the FY2013 Historic tax credit costs was allocated for this program.

Ultimately, this legislation, which incorporates the changes provided by the Maryland Legislature, will prevent the City from having to bear any future costs due to errors committed by SDAT. Because future credits will be calculated based on appraisals conducted by the City, SDAT's role in the calculation of the credit amount has been completely removed. Accordingly, the City will be able to calculate credits accurately and provide taxpayers with reliable information regarding their credits. Furthermore, taxpayers will see less fluctuation in the credit amount and the City will be able to better maintain its tax revenue base.

#### Finance Department Position

The Finance Department supports Council Bill 14-0399.

cc: Harry Black  
Angela Gibson  
William Voorhees