

FROM	NAME & TITLE	Robert Cename, Chief	CITY of BALTIMORE MEMO	
	AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 432, City Hall (410) 396-4941		
	SUBJECT	City Council Bill 18-0307 – Water Accountability and Equity Act		

DATE:

TO

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

May 15, 2019

City Council Bill #18-0307 was created for the purpose of increasing the affordability of water and wastewater service charges to low-income City residents by establishing the Water-for-all Discount Program, creating the Office of Water-Customer Advocacy and Appeals and the Committee for Office Oversight. The Bill also proposes amendments to Subtitle 8 of Article 28 of the City Code by reducing the interest rate from 12% to 5% on redemption from tax sale on owner-occupied properties.

Background

The City’s Department of Public Works (DPW) currently offers a Low-Income Assistance Program, which is available to households with income within 175% of the Federal Government’s official poverty Income guidelines. Customers meeting these criteria are granted a fixed \$236 credit per year. DPW has also proposed a new program, the Baltimore H2O Assist, which provides a flat discount on water and sewer charges. In addition to this initiative, DPW offers other programs intended to assist customers unable to pay their water bills such as bill adjustments, payment plans or financial assistance, credits and fee exemptions for financial hardship.

The proposed legislation intends to expand the existing program with the creation of the Water-for-all Discount Program, which increases the household income eligibility criteria to 200% of the Federal Government’s official poverty Income guidelines. The proposed legislation would also adjust the assistance amount to be calculated based on water consumption and three poverty brackets.

Impact and Analysis

The Finance Department has identified two areas of concern of the proposed legislation:

- **Water and Wastewater Funds:** The proposed Water-for-a discount program includes a new office of Customer Advocacy, new thresholds for customer assistance and numerous new regulations regarding the management of the program. Any new costs would be borne by the water and wastewater funds and could lead to rate adjustments beyond those already planned. It is unclear how the proposed legislation compares to DPW’s proposed Baltimore H2O Assists program. Therefore, we defer to DPW on the impact to these funds.
- **Incentive to Reduce Tax Sale Participation:** The proposed amendments to Subtitle 8 of Article 28 of the City Code would have a direct negative impact on the City’s General Fund. The bill proposes to reduce the interest rate applied to the tax sale redemption of owner-occupied real property from 12% to 5%, which reduces the incentive for investors to participate in the City’s tax sale process. Historically, the tax sale process has proven to be an effective enforcement

mechanism for the City to recoup delinquent property tax (General Fund) revenues. For example (based on the limited available data) in Fiscal 2018, at the time Final Bills and Legal Notices were sent to property owners, it is estimated that the City had more than \$40 million of real property tax revenue outstanding subject to tax sale. By year end, it is estimated that only \$7.3 million was uncollected. It is also estimated that about 56% or \$22.5 million of the delinquent amount represent owner-occupied property.

The existing 12% redemption interest rate represents the only incentive to investors to participate in this lengthy and time consuming program. Reductions to this rate would deter investors from tax sale as we do not believe that a 5% return is nearly enough to compensate investors for the risk of collection of delinquent bills. For illustrative purposes, the following table summarizes a set of investments options by average rate of return and level of risk:

Investment Type	Interest	
	Rate	Risk
S&P 500 (including dividends)	10.0%	High
Bail Bond	10.0%	High
Long-Term Private Lender	5.0%	Medium
Proposed Baltimore City Tax Sale	5.0%	High
Peer-to-Peer Lending	4.9%	Medium
6-Year Certificate of Deposit	3.1%	Low
US 10-Year Government Bond	2.7%	Low
Online Saving Account	2.2%	Low

In the current process, at the time of Final Bill and Legal Notices \$22.5 million of outstanding revenue is owed on owner-occupied property taxes, without the threat of tax sale, all of this General Fund revenue is at risk.

Another angle at analyzing this is to look at the City's overall collection. For example, in Fiscal 2018 the City collected 98% of property tax revenues. Even a 1% reduction in the City's collection rate represents about \$9 million of lost revenues.

Position

Based on these findings, the Department of Finance opposes CC Bill 18-0307.

cc: Henry Raymond
Jeffrey Amoros