

Andrew Klein

FROM	NAME & TITLE	Andrew W. Kleine, Budget Chief
	AGENCY NAME & ADDRESS	Department of Finance Room 432 City Hall (396-4941)
	SUBJECT	City Council Bill No. 09-0263 – Tax Credits - Historic Restoration and Rehabilitation

CITY of
BALTIMORE
MEMO



TO

DATE: February 11, 2009

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

Under current law, the Historic tax Credit may sunsets after February 28, 2009. City Council Bill 09-0263 proposes to extend the current sunset for five years, until February 28, 2014.

For projects under \$3.5 million in eligible construction costs, the Historic Tax Credit program provides a 10-year credit applicable to 100% of the taxable value added to the property by the improvements meeting CHAP guidelines. For projects over \$3.5 million in eligible construction cost, the credit is based on the Enterprise Zone Tax Credit program (80% for the first five years followed by an annual decline to full taxes in the 11th year). The program adopted by City Council was effective January 3, 1996.

Fiscal Impact

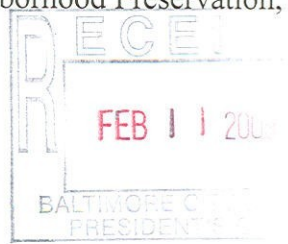
- The Historic tax credit cost has grown from \$84,000 in 1998 to \$5.3 million in Fiscal 2008, with cumulative cost of \$22.0 million since the year of its creation.
- There are about 800 properties currently receiving the benefit of the Historic tax credit at a total year to date cost of \$4.4 million. It is estimated that the actual year-end cost will surpass the current Fiscal 2009 budget of \$4.9 million.
- It is estimated that the remaining tax credit cost with the current sunset would be \$26.6 million for the next 10 years.
- It is estimated that the proposed sunset extension would benefit about 250 new applicants with a total 15-year additional estimated cost of \$14.7 million.
- The proposed sunset provision will extend the tax credit cost until FY 2024.

Analysis

The budgeted Fiscal 2009 tax credit costs, including the Homestead tax credit, account for a total of \$133.2 million, which represent 9.0% of the General Fund budget, and is larger than all City agency budgets except for the Police, Fire, and Public Works departments and the contribution to the Schools.

Currently, the City offers eight different tax credit programs encouraging redevelopment, with an estimated annual cost of \$14.8 million: the Enterprise Zone, Newly Constructed Dwelling, Brownfield, Vacant Dwelling, Home Improvement, Neighborhood Preservation,

Does not oppose



Telecommunication and the Historic tax credit. The Historic tax credit program ranks as the second most expensive of these credits, after the Enterprise Zone Tax credit.

The cost of tax credits must be weighed against other budget priorities, such as preventing cuts to basic City services and providing property tax relief.

Recommendation

The Historic tax credit has helped to spur desirable development in Baltimore, and the State has granted the City authority to continue the program. In light of these facts, and despite our concern about the cost of the credit in difficult budget times, the Finance Department does not oppose the sunset extension proposed by City Council Bill 09-0263.

The Department will continue to assess the cost and benefits of the City's tax expenditures and advise the Mayor and City Council of its findings.

cc: Edward Gallagher
Angela Gibson
Pedro Aponte