Andrew Kleine

FROM	
NAME & TITLE	Andrew Kleine, Chief
AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research 100 Holliday Street, Room 432 – 410-396-4941
SUBJECT	City Council Bill #17-0120 – Property Tax Credit – Public Safety Officers

CITY of BALTIMORE

MEMO

CITY OF BALTIMORE 1797

TO

DATE:

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

October 17, 2017

Attention: Ms. Natawna Austin

We are herein reporting on City Council Bill 17-0120, the purpose of which is to grant an annual Real Property tax credit of $2,500 to Baltimore City Public Safety officers as defined in the proposed legislation, who own, live and use as permanent residence a dwelling located in Baltimore City. A similar bill, City Council Bill 16-0697, was introduced in Fiscal 2016; however, did not pass due to the end of the term of the sponsoring body.

<u>Fiscal Analysis:</u>

As the bill proposes, the tax credit would be granted to:

- Officers who currently own and use as primary residence a dwelling located in Baltimore City
- Officers who currently live in a rented property in the City and become an owner-occupier of a dwelling located in Baltimore City
- Officers living outside the City who relocate and become an owner-occupier of a dwelling located in Baltimore City

The fiscal impact of the proposed legislation would be estimated based on the three potential ownership and place of residence scenarios described above, and would take in consideration the impact on the City's taxable base of the proposed tax credit.

There is a total of 4,012 sworn public safety officers in the City. Out of this total, we have identified 850 individual who live in the City, but only 531 are owner-occupied residents. There is also a total of 3,162 sworn officers who live outside the City whose dwelling ownership status is unknown.

The following table summarizes the potential population of officers subject to the proposed credit:

Public Safety Officer Tax Credit - Eligible Population

	Police	Sheriff	Fire	Total
Total by Force	2,993	201	1,439	4,633
Sworn Officers	2,524	148	1,340	4,012
Living Outside City	2,029	67	1,066	3,162
Living in City	495	81	274	850
Owner Occupied Residents	274	36	221	531

Current Owner Occupied Baltimore City Residents

The current net tax liability of existing owner occupied residents is $1.4 million in real property tax, net of the Homestead, Homeowner's and Targeted Homeowner tax credits. The following table shows the estimated impact of the proposed legislation when the credit is granted to public safety officers already living in the City under the required ownership status:

Impact from Current Owner Occupied Residents		
	Individual	**Total Residents**
City Owner Occupied	1	531
City Property Tax	$3,099	$1,645,792
Total Eligible Credits*	$492	$261,111
Total Net Property Tax	$2,608	$1,384,680
Cost due to Proposed Tax Credit	$2,500	$1,148,784
Remaining Payable Taxes	$108	$235,896
Offsetting Revenues**	$0	$0
Net Benefit/(Cost) to City	($2,500)	($1,148,784)

* Eligible credits include: Homestead tax credit, Homeowner's tax credit and Targeted Homeowners tax credit
** Offsetting revenues would include income, transfer and recordation taxes. Current residents do not represent additional tax base

The current average tax liability of an owner-occupied property of a City officer is $3,100 and the average amount of tax credits allowed to be received under the proposed bill is $492; therefore, the net taxes of a current City resident officer subject to the proposed tax credit is $2,608. The proposed credit of $2,500 will reduce the average current property tax liability to $108; however, a credit granted to a current City resident would not generate offsetting income tax or any other transactional revenue such as recordation and transfer taxes.

If the credit applies to all 531 identified City officers who own and live in the City, it will represent a total annual cost of about $1.2 million.

Current Non Owner Occupied Baltimore City Residents

Non owner occupied City residents are those who we identified currently live in the City, but do not own the dwelling of residence. There are a total of 319 officers in this group. The following table shows the estimated impact of the proposed legislation on the individual basis as well as taking in consideration three level of participation: 10%, 20% and 30%. These percentages rely on the assumption that the availability of the proposed tax credit would represent an incentive to officers who currently live in a non-owner occupied property to purchase a dwelling in the City; however, the actual number of participants cannot be determined.

Impact from Current City Non-Owner Occupied Residents				
	Individual	Low Range	Mid range	High Range
City Non-Owner Occupied	1	319	319	319
Participation Rate	100%	10%	20%	30%
Est'd # of Participants	1	32	64	96
Est'd Property Taxes	$3,574	$114,021	$228,042	$342,062
Est'd Eligible Tax Credits of Participants*	$859	$16,665	$33,330	$49,995
Total Net Taxes to City	$2,716	$97,356	$194,711	$292,067
Est'd Cost from Proposed Tax Credit	$2,500	$79,750	$159,500	$239,250
Remaining Payable Taxes	$216	$17,606	$35,211	$52,817
Offsetting Revenues**	$3,975	$126,803	$253,605	$380,408
1st Year Net Benefit/(Cost) to City***	$1,475	$47,053	$94,105	$141,158
Out Years Net Benefit/(Cost) to City****	($2,500)	($79,750)	($159,500)	($239,250)

* Eligible credits include: Homestead tax credit, Homeowner's tax credit and Targeted Homeowners tax credit
** Offsetting revenues would include income, transfer and recordation taxes. Current residents do not represent additional tax base
*** When renters become homeowners the City will realize additional revenues from recordation and transfer taxes
**** For the years after current non-owner occupied residents become homeowners there will be no offsetting revenues to the cost of the program

The estimated average impact of the proposed legislation on non-owner occupied City residents is a 92.0% reduction of the estimated real property tax liability of properties currently paying the full tax amount. This is a reduction in revenues from an average $2,716 to $216 per year per dwelling.

There is a net revenue gain to the City in the first year of program. On the marginal basis the City would realize about $1,475; however, there would be an annual revenue loss of $2,500 for the following years. The net gain for the first year is explained by the increase in one-time transactional revenues from transfer and recordation taxes, but no gain from income tax is realized.

The cost of the program would vary according to the participation level. Under this scenario, assuming a 10% participation of the 319 current non-owner occupied, the City would be able to realize a $47,000 net revenue gain since the anticipated cost of the program would be offset by the one-time transfer and recordation taxes, but it would represent a full real property tax revenue reduction to the City thereafter. Similarly, assuming a 30% participation rate, it is estimated that the City will experience a net revenue gain of $141,200 during the first year of participation, but a net loss of $239,300 per year thereafter.

Non Baltimore City Residents

We have identified a total of 3,162 City officers who currently do not live in the City. Their ownership status cannot be determined; therefore, the fiscal impact for this group will be estimated for 5%, 15% and 35% participation levels.

The following table shows the estimated impact of the proposed legislation on the individual basis as well as taking in consideration these participation levels:

Impact from Non Residents				
	Individual	Low Range	Mid range	High Range
Current Non-City Residents	1	3159	3159	3159
Participation Rate	100%	5%	15%	35%
Est'd # of Participants	1	157.95	473.85	1105.65
Est'd Property Taxes	$3,574	$564,564	$1,693,692	$3,951,947
Est'd Eligible Tax Credits of Participants*	$859	$82,516	$247,547	$577,609
Total Net Taxes to City	$2,716	$482,048	$1,446,145	$3,374,338
Est'd Cost from Proposed Tax Credit	$2,500	$394,875	$1,184,625	$2,764,125
Remaining Payable Taxes	$216	$87,173	$261,520	$610,213
Offsetting Revenues**	$5,550	$899,324	$2,697,973	$6,295,271
1st Year Net Benefit/(Cost) to City***	$3,050	$504,449	$1,513,348	$3,531,146
Out Years Net Benefit/(Cost) to City****	($925)	($123,402)	($370,205)	($863,812)

* Upon eligibility, these include: Homestead tax credit, Homeowner's tax credit and Targeted Homeowners tax credit
** Offsetting revenues would include income, transfer and recordation taxes.
*** The City will realize additional revenues from income, recordation and transfer taxes.
**** For the years after current non-City residents become homeowners only income tax will be the offsetting revenue to the cost of the program.

The individual impact of the proposed legislation on officers relocating to the City is the same as the estimated average impact on non-owner occupied City residents, a 92.0% reduction of the estimated real property tax liability from $2,716 to $216 per year; however, there is a larger marginal net revenue gain to the City on the first year of program of about $3,050 and a substantial reduction in the annual revenue loss estimated at $925 for the following years.

For relocating officers, the City will not only realize one-time transactional revenues, such as transfer and recordation taxes, but if successful, the program would help to increase the income tax taxable base.

The net cost of the program would vary according to the participation level. Under this scenario, assuming a 5% participation of the 3,159 current non City residents, the City would be able to realize a $504,500 net revenue gain during the first year since the anticipated $395,000 cost of the program would be offset by not only one-time transactional revenues, transfer and recordation taxes, but also income taxes, paid to the jurisdiction of residence. Also, income tax would permanently offset part of the cost of the program moving forward. Similarly, assuming a 35% participation rate, it is estimated that the City will experience a net revenue gain of $3.5 million during the first year of participation the program, and the annual estimated credit cost of $2.8 million thereafter would be partially offset for a total net cost to the City of $863,800 annually.

In summary, the estimated annual net cost (after Year 1) is $1.35 million at low participation and up to $2.25 million at high participation.

Summary - Estimated Impact of Proposed Legislation				
		Participation Level		
	Current Residents	Low	Mid	High
Number of Participants	531	721	1,069	1,732
Tax Liability	$1,384,680	1,964,084	3,025,537	5,051,085
Cost of Proposed Tax Credit	$1,148,784	1,623,409	2,492,909	4,152,159
Remaining Payable Taxes	235,896	340,675	532,628	898,926
1st Year Net Benefit/(Cost) to City	($1,148,784)	($597,282)	$458,669	$2,523,520
Out Years Net Benefit/(Cost) to City	($1,148,784)	($1,351,936)	($1,678,489)	($2,251,846)

Other considerations

In addition to the estimated costs detailed above, there will be other expenses and recommendations to be considered:

- It is estimated that there will be a one-time cost related to the programing and incorporation of the proposed tax credit to the City's Tax Credit System of about $105,000.
- It is estimated that the proposed tax credit would require a full-time employee in order to properly manage the program. The estimated cost is about $84,000 per year.
- It is recommended that the annual screening for eligibility to be carried out by the HR departments of the corresponding agencies where eligible public safety officers work.

Conclusion

The Department of Finance has no position in regards to the passage of City Council Bill 17-0120.

cc: Henry Raymond
Kyron Banks