

Andrew Klein

FROM

NAME & TITLE	Andrew Kleine, Chief
AGENCY NAME & ADDRESS	Bureau of Budget and Management Research Department of Finance
SUBJECT	City Council Bill No.10-0469 Property Tax Discount

CITY of
BALTIMORE
MEMO



DATE: April 19, 2010

TO

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

This bill proposes that the property tax discount rate be adjusted from a 1% discount if tax is paid in July and a 0.5% discount if the tax is paid in August to a single 0.5% discount if the tax is paid in July.

Analysis

The intent of an early payment discount is to improve cash flows. When the bill was last modified in 1969, the prime rate was around 8.5%. Since then interest rates have fallen. Currently the City earns an annual return of 0.62% on its investments while the discount is a 6% annual return to homeowners. This results in an annualized 5.38% loss to the City.

The primary early payers are property owners with mortgage escrows. Because mortgage escrows must by law pay the lowest tax, the City is not expecting to see a large drop-off in early payments. According to the Bureau of Treasury Management, the City does not expect to experience any cash flow problems should this change be enacted.

By reducing the discount rate, citizens and businesses that pay early will receive a smaller discount. The table below shows the current and proposed impact on citizens at varying property values. For property owners who pay taxes semi-annually the amounts shown would be halved.

Citizen Impact of Discount Reduction				
Taxable Home Values	Est'd Property Tax Bill	Current Policy		Proposed Policy
		Discount if Paid Before July 31 (1%)	Discount if Paid Before August 31 (0.5%)	Discount if Paid Before July 31 (0.5%)
\$60,000	\$1,361	\$14	\$7	\$7
\$135,000	\$3,062	\$31	\$15	\$15
\$250,000	\$5,670	\$57	\$28	\$28

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Fiscal Impact

The Fiscal 2010 budget for discounts is \$3.5 million. Implementation of this change is expected to reduce the early payment outlay to approximately \$1.0 million, resulting in \$2.5 million dollars in savings.

Recommendation

The Finance Department urges the passage of this rate increase as the additional revenue is needed to fill critical budget gaps for Fiscal 2011. This proposal is part of a \$50 million revenue package that shares the burden of new taxes and fees among residents, non-residents, businesses and nonprofit organizations. The new revenue will contribute to a comprehensive plan for closing the City's \$121 million budget gap. The plan closes 60% of the gap with spending reductions and 40% with revenue enhancements.

CC: Edward J. Gallagher
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