Deputy, for:

FROM		
NAME & TITLE	Andrew Kleine, Chief	
AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 432, City Hall 410-396-4941	
SUBJECT	City Council Bill #16-0754 Recordation and Transfer Taxes – Increases	

CITY of BALTIMORE

MEMO

DATE: October 13, 2016

TO

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

Attention: Ms. Natawna Austin

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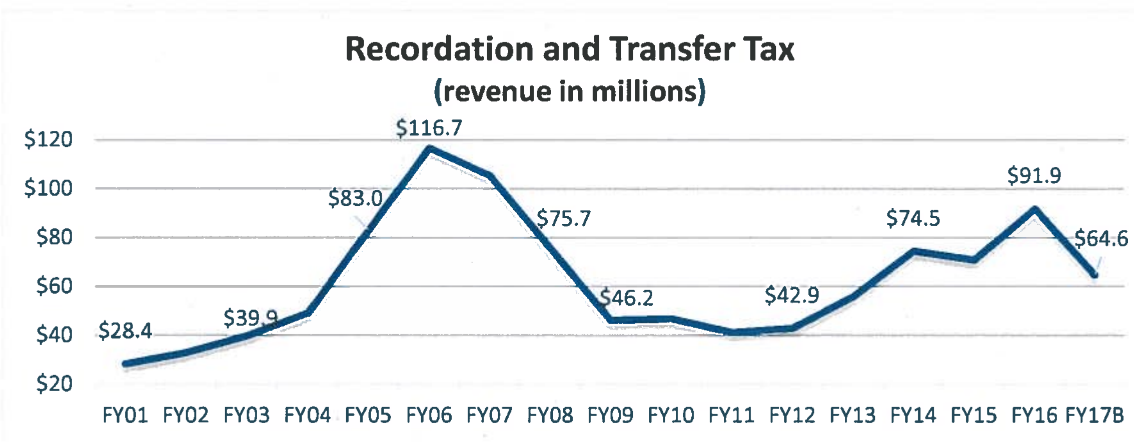
We are herein reporting on City Council bill 16-0754, the purpose of which is to increase the recordation tax from \$5 to \$6 for each \$500 or fractional part of \$500 of the actual consideration paid; and to raise the transfer tax from 1.5% to 1.75% of the taxable basis. The proposed bill would amend Article 28, Sections 16-1 and 17-2(a)(1) of the Baltimore City Code referring to the recordation and transfer taxes, respectively.

Background

Transfer and recordation tax revenues are a function of the commercial and residential housing markets, which in turn are a function of employment, income, population, supply, housing prices, and interest rate trends, among other factors. The multivariate nature of both revenue sources make them highly susceptible to changes in economic conditions.

The table below helps to illustrate this point. Between Fiscal 2001 and Fiscal 2016, the combined total collected revenue fluctuated significantly even as tax rates remained constant. In Fiscal 2017, the City is budgeted to receive \$64.6 million in recordation and transfer tax revenue.



Analysis

Applying the proposed rate changes to the Fiscal 2017 budget of \$64.6 million would result in a total projected increase of \$11.9 million to \$76.5 million in revenue for the general fund; however, this projection does not account for how increases to the recordation and transfer tax rates may impact market behavior.

We have three main concerns about the proposed rate increases with respect to how they may impede or reverse economic growth in the City:

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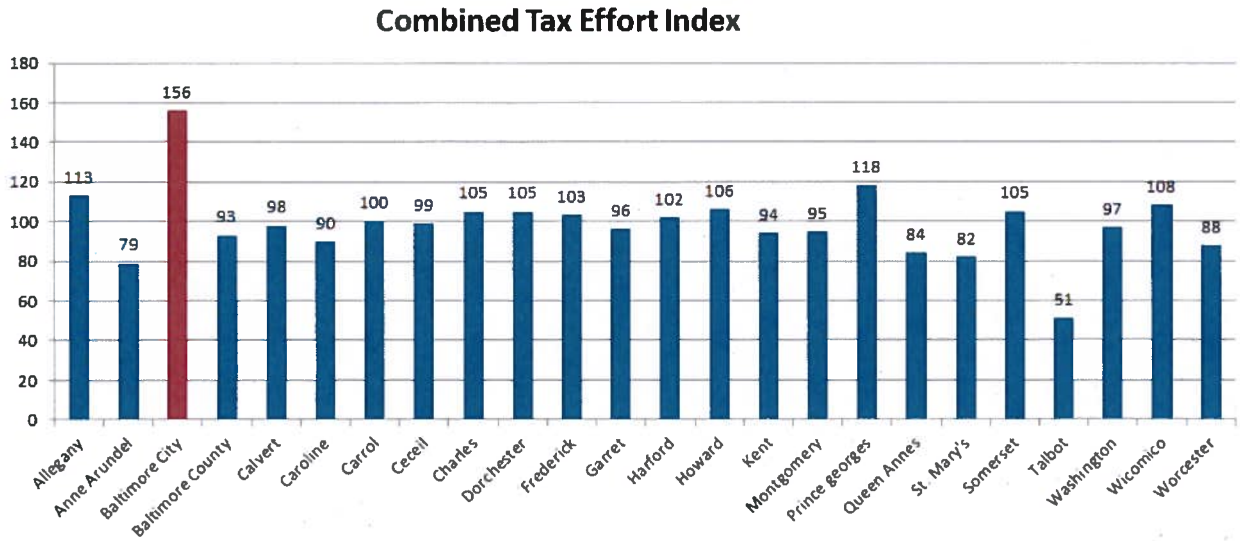
Tax Effort Comparison

In Baltimore City, where there are lower average incomes and higher rates of unemployment, even small increases to tax rates can be more harmful to residents than in neighboring, wealthier jurisdictions. One measure of this is the tax effort index, which measures the extent to which the City uses its tax capacity. The table below shows Baltimore City's tax effort in comparison to all other Maryland counties, with "100" representing the baseline State average.



The tax effort index indicates that Baltimore City is already taxing its population at 56% above the State average property and income taxes. Moreover, the burden falls primarily to residents and businesses in Baltimore who are among the least able in the State to afford it. Further increasing potential homeowners' tax rates may impede the City's ability to compete with surrounding counties for population and economic growth.

Cost of Residency

The burden placed on residents and businesses in the City is significant in comparison to both other local jurisdictions and major cities nationwide. The combined burden of state and local taxes for a family of three in Baltimore is in the top 20% of 51 cities surveyed for a recent *Tax Rates and Tax Burdens* report issued by the District of Columbia government. Furthermore, as the table below illustrates, the City has the highest property, transfer, and recordation tax rates of seven largest Maryland counties, and imposes the maximum possible local income tax rate under State law.

Jurisdiction	Property Tax	Transfer Tax	Recordation Tax	Income Tax
Baltimore City	**2.248**	**1.5%**	**$5.00**	**3.20%**
Anne Arundel County	0.923	1.0%	$3.50	2.50%
Baltimore County	1.100	1.5%	$2.50	2.83%
Harford County	1.042	1.0%	$3.30	3.06%
Howard County	1.190	1.0%	$2.50	3.20%
Montgomery County	0.999	1.0%	$3.45	3.20%
Prince George's County	1.374	1.4%	$2.75	3.20%

Economic Considerations

In recent years, significant tax increases have only been used selectively in response to clear financial crises. For example, in Fiscal 2011, facing a $121 million current services shortfall, the City increased rates for energy, income, hotel, and parking taxes, among several others. These difficult decisions were made in conjunction with large spending reductions that were needed in order to close the gap. Increasing tax rates devoid of a financial need may distort the market or otherwise negatively influence taxpayers' economic decisions.

Conclusion

City Council Bill 16-0754 does not align with the City's current goal of increasing its population and home ownership rates. Furthermore, the proposed bill may impede economic growth that directly impacts the City's financial outlook. For these reasons, the Department of Finance opposes the passage of City Council Bill 16-0754.

cc: Henry Raymond
Angela Gibson