


Andrew Kleine

FROM	NAME & TITLE	Andrew Kleine, 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 17-0048R – Approving Application for the Redesignation/Renewal of Enterprise Zone Focus Areas		

DATE:

TO

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

October 10, 2017

Attention: Natawna Austin

We are herein reporting on City Council Resolution 17-0048R, the purpose of which is to approve the submission of an application to the State of Maryland to redesignate or renew five Enterprise Zone Focus Areas. The Resolution would redesignate three Focus Areas that had lapsed as of June 30th, 2017 and renew two others so that all five Focus Areas expire simultaneously with the expiration of the Enterprise Zone designation on June 14, 2022.

Background

The State of Maryland’s Enterprise Zone program allows Baltimore City to grant ten year Real Property Tax credits to property owners who invest in designated Enterprise Zones. The credit is granted on the incremental increase in property taxes resulting from improvements. For years one through six, the credit is an 80 percent reduction to the increase in property taxes, with the benefit decreasing by 10 percent annually for years six through ten. The state reimburses the City for half of the annual Real Property Tax credit cost. Baltimore City has the most Enterprise Zone acres in the state.

Within the Enterprise Zones are designated Focus Areas that offer increased benefits because they encompass distressed areas with high commercial vacancy rates, unemployment, and poverty levels. The largest added benefit to Focus Areas is that the Real Property Tax credit remains at a flat 80 percent for all ten years, rather than declining in years six through ten. The table below summarizes the difference in traditional Enterprise Zone and Focus Area Tax credits.

Year	EZ Credit	Focus Area Credit
1 – 5	80%	80%
6	70%	80%
7	60%	80%
8	50%	80%
9	40%	80%
10	30%	80%

The cost to Baltimore City of awarding the EZ Tax credit (including Focus Area credits) averages \$15 million annually. The table below displays the annual cost of the credit over the last five fiscal years.

Baltimore City Annual Lost Property Tax Revenue from EZ Credit

	Fiscal 2014 Actual	Fiscal 2015 Actual	Fiscal 2016 Actual	Fiscal 2017 Preliminary	Fiscal 2018 Budget
Enterprise Zone Tax Credit	(12,253,774)	(16,517,996)	(14,920,059)	(17,731,717)	(14,218,000)

Analysis

The average pre-improvement assessment of a single property in an Enterprise Zone is \$2.1 million in Fiscal 2018, with a post-improvement assessment of \$25.3 million. Based on this data, the table below displays the projected annual credit, for both traditional EZ credits and Focus Area credits, over the ten year period for a project that is certified in Fiscal 2019.

Average Annual EZ and Focus Area Credits for a Single Property Owner

	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28
EZ Credit	\$435,835	\$451,931	\$473,494	\$495,200	\$518,112	\$468,549	\$414,090	\$354,955	\$292,075	\$223,999
Focus Area	\$435,835	\$451,931	\$473,494	\$495,200	\$518,112	\$535,485	\$552,928	\$567,928	\$584,149	\$597,332
Difference	-	-	-	-	-	(\$66,936)	(\$138,030)	(\$212,973)	(\$292,075)	(\$373,332)

Resolution 17-0048R would begin impacting the City budget in Fiscal 2024, as the three Focus Areas that had lapsed beginning in Fiscal 2018 would now be active. For all projects certified beginning in Fiscal 2019 within the Resolution’s proposed redesignated Focus Areas, the credit for years six through ten would remain at 80 percent, rather than declining annually from 70 to 30 percent. In other words, the increased cost to the City is the difference between the EZ credit rate and the Focus Area rate in years six through ten, multiplied by the number of Focus Area applicants who would have otherwise not received the increased credit.

During Fiscal 2016 and 2017, roughly 20 percent of all final certified applications were in Focus Areas (out of approximately 25 annually), including the three areas that expired at the close of Fiscal 2017. If we assume five new certifications every year in redesignated or renewed Focus Areas that would not have been subject to the increased credit without this Resolution, the total increased loss of Property Tax revenue is \$2,543,280 through Fiscal 2028.

The state reimburses the City for half of the cost of administering the Enterprise Zone credit; therefore, **Resolution 17-0048R would reduce the City’s Property Tax revenue by \$1,271,640 from Fiscal 2019 through Fiscal 2028.**

Despite the increased costs associated with redesignating and renewing Focus Areas, the Department of Finance has no objection to Resolution 17-0048R.

cc: Henry Raymond
Kyron Banks