


FROM	NAME & TITLE	Robert Cename, Budget Director <i>Robert Cename</i>	CITY of BALTIMORE MEMO	
	AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 432, City Hall		
	SUBJECT	City Council Bill 22-0193 – Real Property Tax Credit for Energy Conservation Devices		

DATE:

TO

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

April 29, 2022

Position: Oppose

The Department of Finance is herein reporting on City Council Bill 22-0193 – Real Property Tax Credit for Energy Conservation Devices, the purpose of which is to grant a tax credit against the City Real Property Tax imposed on a dwelling that uses a solar energy device or geothermal energy device.

Background

The proposed legislation seeks to establish a tax credit against the Real Property Tax for a dwelling that installs and uses a solar energy device or a geothermal energy device. To claim the tax credit the owner of a dwelling must file a State Income Tax return as a resident of Baltimore City for each taxable year the credit is sought, file an application at least 90 days before the first tax year for which the credit is sought, and satisfy any other conditions as imposed by the Director of Finance.

Following enactment of enabling State legislation in 2006, found in Maryland Property Tax Code §9-203, other municipalities in Maryland implemented similar tax credits. Montgomery County provides a Real Property Tax Credit for installation of solar or geothermal devices. The credit is limited to the lesser of either 50% of the eligible costs of the system and \$5,000 for a device to heat or cool a structure; \$5,000 for a device to generate electricity in a structure; \$1,500 for a device to provide hot water in a structure. The total amount that is granted in all credits is \$400,000 per fiscal year. Likewise, Baltimore County also offers a tax credit for energy conservation devices. The credit is the lesser of either 50% of eligible costs or \$5,000 for a heating system and \$1,500 for a hot water supply system. Baltimore County’s tax credit limits the aggregate amount of credits offered to \$750,000.

Fiscal Impact

The Department of Finance anticipates annual cost to the City of \$750,000 based on the maximum amount established per the legislation. In addition, there is an estimated \$130,000 in one-time development costs.

Finance supports the intention of the proposed legislation, but considers that the environmental benefits without public subsidy should be the main incentive for installing energy conservation devices; additionally, it is worth emphasizing that there is already a market incentive for homeowners to install energy efficient devices. For example, a household that installs a 6 kilowatt solar panel system would spend approximately \$15,500 for the system and installation. That system would cover their energy needs, resulting in annual energy cost savings of \$1,500 to \$1,700, which would add up to \$12,500, in today’s dollars, in savings over the course of 10 years, approximately 80% of the system and installation costs. For a geothermal device, the system and installation costs are estimated at \$12,000 and annual heating and cooling cost savings of \$1,500, adding up to \$12,400, in today’s dollars, over the course of 10 years. That household’s savings would fully cover the system and installation costs in 10 years.

CC Bill 22-0193 - Fiscal Analysis		
	Solar Panels	Geothermal Heat Pump
Upfront Cost	\$15,500	\$12,000
Estimated Annual Energy Savings ¹	\$1,500	\$1,500
Discount Rate ²	5%	5%
Savings in Today's Dollars Over Ten-Years	\$12,500	\$12,400
Cost After Savings	(\$3,000)	\$400

¹The annual energy savings are rounded, which is why Saving Over Ten Years Differ.

²Discount Rate is applied to determine the value of future savings in 2022 dollars.

Coupling the homeowners' inclination to install a green device for the sake of environmental sustainability, Finance believes that there is already plenty of financial incentive to install green devices.

Other Considerations

The Department of Finance believes that establishing a tax credit to incentivize the installation and use of these devices through a tax credit is inefficient. It would be more efficient for the City to establish a partial rebate program, similar to the Private Security Camera System Rebate and Voucher Program, where individuals can apply for a rebate to subsidize the initial purchase and installation costs. This would allow the City to establish an annual budget for the program without reducing the amount of property tax collected over an extended period of time.

In order to implement a new tax credit, Finance and Baltimore City Office of Information & Technology (BCIT) estimate that it will take at least nine to twelve months to create the online tax credit application once legislation is enacted. Finance will spend about one month in drafting the application requirements, and it is estimated that BCIT will spend about eleven months to develop the online application. Given this timeframe, should this legislation move forward, Finance requests that the bill be amended to specify that applications for the tax credit will be accepted starting with the first tax year that begins at least 12 months following the enactment of the legislation. Specific language to that effect will provide clear guidance to potential tax credit applicants and give Finance and BCIT the necessary time to update the City's tax credit application system to provide for this credit.

Additionally, Finance requests clarification on a few matters surrounding this bill. The nuances of the proposed legislation are ambiguous, and clarification of these questions might require amendments, including the definition of "dwelling", whether the tax credit can be combined with other tax credits, and when the credit expires. In addition, it is unclear whether this is a one-time credit or if the credit is granted until the maximum amount is reached. Attached is an appendix that provides more details.

Finally, Mayor Brandon Scott announced the creation of a Tax Credit Review Committee tasked with the evaluation of all existing and new property tax credits. It is expected that this Committee will review existing and potential new programs and provide recommendations to ensure that these incentive programs provide sustainable and equitable growth to the City's tax base and ultimately a reduction in tax credit costs to the City.

Conclusion

While the Department of Finance understands the intent of this legislation, providing this benefit in the form of a tax credit is not in the interest of the City given the economic benefits outlined. Conservation and betterment of the environment should be the essential incentive for individuals to use solar or

geothermal energy devices. Additionally, the long-term energy consumption and cost savings generated from the use of these devices partially or fully offset the upfront cost of installing energy saving devices.

For the reasons stated above, the Department of Finance opposes City Council Bill 22-0193.

Cc: Henry Raymond
Natasha Mehu
Nina Themelis

Appendix

Questions and areas for clarification:

1. Should "dwelling" be defined as in the State Tax - Property Article 9-105?
2. Is this tax credit aimed at a) owner-occupied dwellings, b) all single-family residential dwellings, or c) all residential dwellings, including multi-family building?
 - a) If owner-occupied dwellings are the intended targets, is this credit only available to property owners approved to receive the Homestead Tax Credit?
3. Should the tax credit be kept from exceeding the Real Property Taxes on the building/structure or the Real Property Taxes on the land and the building/structure?
4. Which eligible cost can be considered for the credit?
 - a) What is considered a "reasonable cost"?
5. Is the maximum amount of the credit for the life of the credit or per year?
 - a) Is this a one-time credit?
 - b) If not, is the maximum amount of the credit calculated only once when the application is submitted and then spread out in different years?
6. Should the credit be limited to one application per property or property owner for the Energy Conservation Devices Tax Credit?
 - a) Do subsequent purchases/leases of additional qualifying devices, repairs, or parts result in additional credits, and if so, can those credits be stacked?
7. Can this tax credit be combined with other City Real Property Tax credits, other than the Homestead Tax Credit and the Homeowners' Tax Credit?
8. Should the amount of the credit section also state a maximum amount of credit for a device that cools a structure or generates electricity to be used in the structure?
 - a) The bill currently only specifies \$5,000 for a heating system or \$1,500 for a hot water supply system.
9. What happens if the property owner installs/leases both a heating system and a hot water supply system?
 - a) What is the maximum amount of the credit for the life of the application/credit if the property owner installs/leases several devices at the same time?
 - b) Is the maximum amount of the credit \$5,000, \$1,500, or \$6,500?
10. When would this credit expire?