


FROM	NAME & TITLE	Robert Cename, Budget Director <i>R. C. C.</i>	CITY of BALTIMORE MEMO	
	AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 432, City Hall		
	SUBJECT	City Council Bill 21-0178 – Tax Credits – Historic Properties – Definition of “Historic Property”		

DATE:

TO

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

April 29, 2022

Position: Oppose

The Department of Finance (Finance) is herein reporting on City Council Bill 21-0178, Tax Credits – Historic Properties—Definition of “Historic Property”, the purpose of which is to expand the definition of “Historic property” to include properties built at least 50 years ago.

Background

The Historic Restoration and Rehabilitation (CHAP) Property Tax Credit was established in 1996 through enabling State legislation to foster the rehabilitation of residential and commercial buildings in historic districts. The 10-year credit is granted for “significant improvements” exceeding 25% of a property’s full cash value. The credit is up to 100% of the increased tax liability from historic renovation for projects with construction costs less than or equal to \$5 million, and up to 80% of the increased tax liability from historic renovation for projects with construction costs exceeding \$5 million. This tax credit is scheduled to expire February 28, 2023.

The eligibility criteria includes (i) properties individually listed on the National Register of Historic Places; (ii) properties individually listed on the City Landmark List; (iii) properties located within a National Register Historic or Landmark District and certified by the Commission for Historical and Architectural Preservation (CHAP) as contributing to the historic significance of that district; or (iv) properties located within a CHAP District and certified by CHAP as contributing to the historic significance of that district. The proposed legislation would expand the eligibility criteria to include properties built at least 50 years ago, as confirmed by CHAP.

Fiscal Impact Analysis

The Department of Finance anticipates a cost of \$1.1 million in Fiscal 2023 and over \$50 million through Fiscal 2032.

Expense	FY23 Cost	10-Year Cost
Tax Credit	\$ 806,000	\$ 49,985,000
Operations	\$ 210,000	\$ 1,830,000
Total Costs	\$ 1,016,000	\$ 51,815,000

Finance estimates that an average of 184 properties per year will become newly eligible under the proposed legislation. Based on data as of April 2022, the estimated Fiscal 2023 average tax credit is \$4,380

for an initial total cost of \$806,000 for the first year of implementation of this provision. The long-term Real Property tax revenue reduction of the proposed legislation, assuming the CHAP Property Tax Credit does not expire as scheduled in February 28, 2023, is estimated at \$50.0 million over the next ten years. This estimated fiscal impact does not include the cost of currently eligible properties or those receiving the credit.

Annual Newly Eligible Properties	Average Tax Credit Amount in FY23	FY23 Credit Cost	10-Year Credit Cost
184	\$ 4,380	\$ 806,000	\$ 49,985,000

The CHAP Property Tax Credit currently ranks as the fifth largest incentive program in the City after the Enterprise Zone, Brownfield, and High-Performance Market Rate Rental tax credits. As of April 1, 2022, \$11,991,029 has been awarded in Fiscal 2022.

In addition to the foregone property tax revenue, there are operating costs associated with this legislation. The anticipated increase in the number of applications would necessitate one-time updates to the tax credit system, which are estimated to cost between \$20,000 to \$30,000. The increased number of applications would also require the addition of two staff members to help in processing applications, one in the Department of Finance and one in the Department of Planning. Finance estimates that each position will cost the City \$100,000 in salary and other personnel costs per year.

Expense	FY23 Cost	10-Year Cost
Personnel	\$200,000	\$2,000,000
System Upgrades	\$30,000	\$30,000
Total	\$230,000	\$2,030,000

Other Considerations

The Department of Finance has several concerns about this legislation, but it should be noted, as stated in the report from the Law Department, that the State enabling legislation does not include the criterion proposed by this legislation.

Finance believes that the intent of the proposed legislation is to expand eligibility for this tax credit to increase usage in areas outside of currently designated historic districts as a means of increasing equity. Nevertheless, this expansion of eligibility might not benefit low-income property owners. First, there is a common misconception that the tax credit provides funding upfront and that the tax credit goes toward the renovation costs, which are not true. The Department of Finance’s Fiscal Integrity Office often has to address these issues with applicants. Second, not all renovations increase the assessment of a property. For example, renovations that are considered part of normal maintenance and replacements often do not measurably increase the property’s value. Likewise, the costs of renovations do not necessarily equal the increase in the assessment of a property. Furthermore, according to Maryland Property Tax Code § 8-104 (c)(1)(iii), the State may not reassess a property out-of-cycle due to renovations unless the aggregated cost of permits is at least \$100,000, which again undermines the intentions of the proposed legislation.

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

The proposed legislation, which expands the eligibility criteria for the CHAP Property Tax Credit to properties that were built at least 50 years ago, would have a significant negative fiscal impact for the City and does not align with the eligibility requirements in the State enabling legislation. Finance anticipates that the proposed legislation would cost \$50.0 million over the course of ten years. In addition, Finance believes that the existing CHAP tax credit and any modification from its current structure should be reviewed by the Mayor's Tax Credit Review Committee, which is tasked with guaranteeing more efficient and equitable use of City resources to promote existing and new incentive programs.

For the reasons stated above, the Department of Finance opposes City Council Bill 21-0178.

cc: Henry Raymond
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