mg on behalf of

FROM	
NAME & TITLE	Robert Cenname, Budget Director
AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 432, City Hall
SUBJECT	City Council Bill 22-0212 – Residential Retention Tax Credit—Amendment

CITY of BALTIMORE

MEMO

TO

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

DATE: June 28, 2022

Position: Oppose

The Department of Finance is herein reporting on City Council Bill 22-0212, Residential Retention Tax Credit—Amendment, the purpose of which is to amend application requirements for the Portable Homestead Tax Credit and eliminating the sunset of the credit.

Background

The Portable Homestead Property Tax Credit was enacted in October 1, 2014 by Ordinance 14-303, as required by Chapter 623 of the General Assembly Acts of 2014. This tax credit program provides a Real Property Tax credit to City residents who, among other qualifications, over the past five years have owned and occupied, as a principal dwelling, a dwelling in the City; received a Homestead Tax Credit for that dwelling; and occupy a newly purchased dwelling in Baltimore City. The intent of the credit is to offset the loss of the Homestead Tax Credit that some City residents face when relocating within the City. The typical amount of the tax credit is $4,000 over five years. For new dwellings located within a low or moderate income (LMI) census tract the credit is $5,000 over five years.

Year	Typical Credit	LMI Credit
1	$1,000	$1,200
2	$900	$1,100
3	$800	$1,000
4	$700	$900
5	$600	$800
Total	**$4,000**	**$5,000**

The proposed legislation specifies that an application for the Portable Homestead Property Tax Credit is to be submitted within 90 days of settlement on the newly purchased dwelling, or by September 30, 2022 if settlement on the newly purchased dwelling occurred between July 1, 2020 and June 30, 2022. The legislation also eliminates the expiration of the tax credit, and changes the credit payment schedule for credit recipients whose settlement of the new dwelling occurred between July 1, 2020 and June 30, 2022 so that up to two years of the applicable credit amount pays upon settlement of the new dwelling. Finally, the proposed legislation requires a report that evaluates the efficacy of the credit to be submitted on or before December 31, 2024 and every two years thereafter.

Fiscal Impact Analysis

The Department of Finance anticipates that the legislation will have minimal fiscal impact for the City. It is estimated that the number of taxpayers who would benefit from repealing the sunset provision of this program will not drastically increase the number of recipients from previous years. Since its implementation in Fiscal 2016, a total of 25 taxpayers have received the Portable Homestead Property Tax Credit. Among the 25 approved applicants, four had their new dwelling in an LMI census tract. The cumulative cost of the program so far is approximately $94,000. The fiscal impact of the proposed legislation would depend on the number of individuals who are able to generate assessment increases subject to the Homestead Tax Credit and purchase their new owner-occupied property within the City.

Based on the experience from the existing program, Finance estimates that five applicants will be approved per fiscal year and one additional applicant will be approved for each following fiscal year. Finance also estimates that approximately four in every 25 applications will relocate to a dwelling in an LMI census tract. It is estimated that terminating the sunset clause for the Portable Homestead Property Tax Credit will garner $26,000 in lost revenue in Fiscal 2023 and gradually increase as new credits are granted. The total estimated cost to the City for the period Fiscal 2023 to Fiscal 2027 is estimated at $141,700.

In addition, the Department of Finance anticipates an operational cost of $20,000-30,000 to make programming changes to the existing online Tax Credit Application, which may take a few months due to current project timelines.

Other Considerations

The Department of Finance has identified several areas of the bill that should be reviewed to provide further clarity and address implementation timeline concerns, should it be enacted, which are also outlined in the appendix.

First, establishing a requirement that the property owner be approved for the Homestead Tax Credit would eliminate any liability associated with being a repository of tax returns and the information contained in them.

Second, the legislation as currently written would not cover settlements completed between July 1, 2019 and July 1, 2020. This legislation retro-actively covers settlements completed between July 1, 2020 and June 30, 2022. However, the current law provides no new credits for tax years beginning on or after July 1, 2020. Therefore, if a settlement occurred between July 1, 2019 and June 30, 2020, those properties would still be ineligible for the credit. Further detail and areas for revision are noted in the appendix.

Third, due to implementation needs the effective date of the legislation should be extended from 30 days to 180 days to allow enough time to enact the necessary system changes. In addition, in (c)(3)(ii), the September 30, 2022 date should be changed to accommodate the required time to implement the programming changes to the online Tax Credit Application. Finance recommends that date be May 31, 2023.

Fourth, Sections 2 and 3 should be revised to indicate that the credit is limited to five years starting with the first full year of ownership or state if the credit should be granted for a different credit term.

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

Conclusion

Based on the participation levels of the expired program, the Department of Finance does not believe the program is an effective policy to incentivize the retention of owner-occupied residents. In addition, while the fiscal estimate is limited, this legislation establishes a long-term fiscal commitment for the City. Finally, this tax credit should be reviewed by the Mayor's Tax Credit Review Committee to guarantee a 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 22-0212.

cc: Henry Raymond
Natasha Mehu
Nina Themelis

Appendix

Should this legislation move forward, the Department of Finance recommends the following revisions:

Requirements

- Require that the property owner be approved for the Homestead Tax Credit on the new property for each year this credit is sought.

  - The current language in (c)(4)(ii) should be eliminated due to the liability associated with being a repository of tax returns and the information contained in them. It should be replaced by the requirement that property owners be approved for the Homestead Tax Credit on the new property for each year this credit is sought.

Timing

- Section 4 be amended to accommodate the four to six months for BCIT to make the necessary programming changes to accept new applications.

  - Section 4 to be changed to **"SECTION 4. AND BE IT FURTHER ORDAINED,** That this Ordinance takes effect on the 180th day after the date it is enacted."

- In (c)(3)(ii), the September 30, 2022 date be changed to accommodate the required time to implement the programming changes to the online application. Finance recommends May 31, 2023.

Clarifications

- Also, the existing statute provides that no new credits may be issued for tax years beginning on or after July 1, 2020. If a property was not eligible to receive a credit on a tax bill issued on or before June 30, 2020, the property was not eligible for the credit. In other words, if the new property did not qualify for this tax credit on July 1, 2019, the property was not eligible. Therefore, the credit did not apply to any property purchased on or after July 1, 2019.

  - The current wording of the legislation provides a period of retro-activity for those that settled between July 1, 2020, and June 30, 2022. The Council should be aware that this will exclude anyone that settled between July 1, 2019, and July 1, 2020.

  - (c)(3)(ii) to be changed to "BY MAY 31, 2023, IF SETTLEMENT ON THE NEWLY PURCHASED DWELLING OCCURRED BETWEEN JULY 1, 2019 AND FEBRUARY 28, 2023;"

  - If the above is considered, Sections 2 and 3 should be amended accordingly.

- Furthermore, the language in Sections 2 and 3 should be altered to indicate that the credit may be applied for five years starting with the first full year of ownership or clarify if the credit should be granted for a different tax credit term.