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SUBJECT	City Council Bill #17-0030 - Tax Credit - Citywide High-Performance Market-Rate Rental Housing - Extension of Eligibility

FROM

CITY of BALTIMORE

MEMO

CITY OF BALTIMORE 1797

TO

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

DATE: May 10, 2017

Attention: Ms. Natawna Austin

We are herein reporting on City Council Bill 17-0030, the purpose of which is extend the date for termination of the High-Performance Market-Rate Rental Housing tax credit (HPMRRH) program by amending Article 28, Section(s) 10-18(a)(4)(i), (ii)(B) and 10-18(l) of the Baltimore City Code. The proposed amendments will extend the application period from December 31, 2017 to December 31, 2022 and will extend from June 30, 2019 to June 30, 2024 the deadline for issuance of the occupancy permit after completion of the construction.

The City currently grants two types of HPMRRH tax credits, one for eligible projects within specific targeted areas of the City as defined on Section 10-17(e) of this article, and another for citywide projects outside of the targeted area. The proposed amendment will only apply to citywide projects. The credit for eligible projects is structured as a ten year abatement to the real property taxes calculated as the difference between the post-construction assessed value and the pre-construction assessed value. The tax credit is granted at a rate of 80% for the first five years, declining by 10% per year thereafter.

Background

The original purpose of the tax credit program was to incentivize environmentally sustainable building options while expanding the City's inventory of rental housing. Among other requirements, eligible citywide projects must achieve at least a Silver rating according to the U.S. Green Building Council's LEED (Leadership in Energy and Environmental Design) rating system as adopted by the Maryland Green Building Council. Projects outside the targeted area must have more than 20 rental units while projects within the targeted area are required to have more than 50 rental units. The total construction cost must be above $60,000 per unit.

This credit was first granted in Fiscal 2014 to the project located at 521 Saint Paul Street for a total credit amount of $142,000; however, the cost of this tax credit has substantially grown since then. There are currently seven projects located within the targeted area and one citywide receiving the HPMRRH tax credit, for a total cumulative cost of $4.5 million from the beginning of the program. Of this amount, $3.2 million is the estimated Fiscal 2017 cost.

As of today, there are about 18 projects that have submitted applications for both targeted and citywide tax credits. Out of the 18, 11 applications are for citywide projects.

Analysis

Construction of High-Performance Buildings: The purpose of this tax credit was to encourage the construction of high-performance rental housing units and to help increase the City's population through more housing options. As defined in the State Law, High-performance buildings are those that achieve at least a silver rating according to the U.S. Green Building Council's LEED (Leadership in Energy and Environmental Design) rating system as adopted by the Maryland Green Building Council.

When the tax credit was first introduced, the City did not enforce the construction of high-performance buildings. The tax credit was introduced to encourage the development of green construction.

Part XI, Section 101.3 of the Baltimore City Building Fire and Related Codes mandates specific Green construction requirements for multiple-family dwellings that are four stories or higher with more than 5 dwelling units. Non-exempt residential buildings must be built according to the Baltimore City Green Construction Code, which itself is modeled after the International Green Construction Code (ICC), as amended. The City's Green Construction Code also allows non-exempt buildings to be built in accordance with one of several codified alternatives, including LEED Silver. All newly constructed or converted non-exempt residential buildings must comply with the City's Green Construction Code.

There are substantial financial and environmental benefits to invest in the construction of green building projects and extensive research highlights the advantages of this type of construction. A recent report issued by the US Green Building Council states that LEED-certified buildings produce 34% lower CO2 emissions, consume 25% less energy, 11% less water, and have diverted more than 80 million tons of waste from landfills in 2016.

In addition to the short and long-term environmental benefits of green construction, there are material economic and financial incentives to abandon traditional construction for the investment on the construction of high-performance projects. Some of the benefits are highlighted below:

- Green Buildings Property Value: According to the US Green Building Council, properties constructed meeting LEED certification appreciate in value by 4% annually, on average.
- Lower Fixed and Operating Costs – Green buildings report 20% lower maintenance costs, and substantially lower energy, water, waste and maintenance costs.
- Not Significant Construction Cost Differential – Some anecdotal examples show that the increase in materials and construction costs between green and non-green projects ranges between 0% and 1.4%; however, there are some cases where up to 0.4% reduction was achieved when the projects change from traditional construction to high-performance during the design stages.
- Higher Effective Rents - A study by the Burnham-Moores Center for Real Estate, University of San Diego, showed that green buildings have 3.5% lower vacancy rates and 13% higher rental rates than traditional constriction buildings.

The encouragement of construction of Green building is undoubtedly valuable for the future of the City; however, there is no financial or environmental justification for why developers would opt to invest in regular construction.

Vacancy Rates: Baltimore multifamily rental vacancy has been consistently higher than the region and National averages. For calendar 2016, the National multifamily rental vacancy rate as reported by the Census Bureau averaged 6.9%, while the Baltimore Area, including Towson and Columbia averaged 7.6% during the same year. According to the Comprehensive Housing Market Analysis released by the US Department of Housing and Urban Development, the City's vacancy rate was 9.3% in 2016, down from the 10.8% average in 2010. The higher vacancy rate in comparison with surrounding areas indicates that additional inventory without net absorption will only increase the City's vacancy rate. There about 2,300 rental buildings across the City, including about 216 exempt rental buildings.

Additional revenues: It is unarguable that construction and conservation of existing real property have short and long-term positive impact towards the increase of the City's property taxable base. Projects eligible for this tax credit generate an average increase in assessment of about $11 million, and in some cases, such as the building located at 10 Light Street, have yielded more than $70 million in assessment increases; however, the real question is how many of these developments would have been completed without the City's subsidy.

Costs of Proposed Legislation: The projected credit cost of projects outside the targeted area that have already submitted application is $14.0 million over the next ten years. It is estimated that 10 additional projects would apply if the credit is extended as proposed, costing another $11.7 million over ten years.

The total cumulative cost of the two HPMRRH tax credit programs, including the estimated cost of projects subject the proposed extension, is estimated at $58.7 million over the next 10 years.

Conclusion

The Department of Finance has no position on City Council Bill 17-0030.

cc: Henry Raymond
Kyron Banks