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	AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 432, City Hall (410) 396-4774		
	SUBJECT	Council Bill 19-0479 – Property Tax Credit – Low-Income Employees of the City of Baltimore		

DATE:

TO

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

January 22, 2020

Position: Does Not Support

The Department of Finance is herein reporting on City Council Bill 19-0479, Property Tax Credit—Low-Income Employees of the City of Baltimore, the purpose of which is to establish a \$2,500 tax credit against the real property tax imposed on the principal residences of certain low-income employees that fall within the lowest 25% for employees of the City of Baltimore.

Background

The City has added three new tax credits for City employees over the past two years. On November 29, 2017, the Mayor signed City Council Bill 17-0120, Property Tax Credit—Public Safety Officers, which grants a local real property tax credit of up to \$2,500 to eligible public safety officers that are owner occupied residents. On December 13, 2018, the Mayor signed City Council Bill 18-0254, Property Tax Credit—School Police Safety Officers, which extended the public safety officers tax credit to also include individuals employed by the BCPSS. On September 30, 2019, the Mayor signed City Council Bill 18-0304, Property Tax Credit 9-1-1 Public Safety Telecommunicators, which grants a local real property tax credit of up to \$2,500 to certain 9-1-1 public safety communicators.

Fiscal Impact

City Council Bill 19-0479 would provide a credit of up to \$2,500 for certain low-income employees of the City of Baltimore. Eligible low-income employees are regular, full time employees among the 25% lowest paid, who own a dwelling located in Baltimore City. In addition, these employees need to have been continuously employed for 12 months and have worked a minimum of 1,500 hours. The following table shows the details of the potentially impacted employees, and their identified residency status:

City Employee Population		
	# of Employees	%
FTE*, 12 Month Employment	11,208	
Among Lowest 25% Paid FTE*	2,712	
Low Income Owner Occupied	435	16%
Low Income Resident, Non-Owner	1,529	56%
Low Income Non-resident	748	28%

*Full-time employee

**Salary Cutoff for the lowest 25% is \$41,537

We estimated the fiscal impact based on the expected experience of three employee groups: City residents that own and occupy their home, City resident renters, and non-City residents. City residents that own and occupy their home would become immediately eligible for the proposed tax credit. For renters and non-City residents, the cost would depend on how many, if any, employees are enticed to own property in the City because of the tax credit. This is difficult to predict due to the variety of factors that impact these decisions outside of financial considerations, such as transportation, schools, and child care. For those two groups we modeled the potential impact based on three scenarios at 10%, 20%, and 30%.

Owner Occupied City Residents

We have identified 435 employees who would immediately become eligible for the proposed tax credit. The table below details the impact of the proposed legislation on current owners. As of December 2019, the total property tax liability for these employees is \$815,418. The proposed credit will reduce the total property tax liability for those employees to \$0. The table below shows the impact on the individual and total residents in this group.

Impact from Eligible Owner Occupied Residents		
	Individual	Total Residents
City Owner Occupied	1	435
City Property Tax	\$2,297	\$999,018
Property Tax Credits	\$177	\$77,189
Est'd THTC Tax Credit	\$245	\$106,411
Total Net Property Tax	\$1,875	\$815,418
Cost due to Proposed Tax Credit	(\$1,875)	(\$815,418)
Remaining Payable Taxes	\$0	\$0
Offsetting Revenues*	\$0	\$0
Net Benefit/(Cost) to City	(\$1,875)	(\$815,418)

* There are no offsetting revenues to the cost of this credit

Non-Owner-Occupied City Residents

The second group consists of employees that are not eligible as home-owners but currently reside in the City. We identified 1,529 City employees in this category. The table below shows the impact of the proposed legislation on these employees.

Impact from Eligible City Non-Owner Occupied Residents				
	Individual	Low Range	Mid range	High Range
City Non-Owner Occupied	1	1529	1529	1529
Participation Rate	100%	10%	20%	30%
Est'd # of Participants	1	153	306	459
Est'd Property Taxes	\$2,297	\$351,149	\$807,643	\$1,211,464
Est'd Tax Credits of Participants	\$177	\$27,131	\$54,263	\$81,394
Est'd THTC Tax Credit	\$245	\$37,403	\$74,806	\$112,209
Total Net Taxes to City	\$1,875	\$286,615	\$678,574	\$1,017,861
Est'd Cost from Proposed Tax Credit	(\$1,875)	(\$286,615)	(\$678,574)	(\$1,017,861)
Remaining Payable Taxes	\$0	\$0	\$0	\$0
Offsetting Revenues*	\$2,937	\$449,090	\$898,179	\$1,347,269
1st Year Net Benefit/(Cost) to City	\$4,812	\$162,475	\$219,605	\$329,408
Out Years Net Benefit/(Cost) to City	(\$1,875)	(\$286,615)	(\$678,574)	(\$1,017,861)

*Offsetting revenues include one-time transactional proceeds such as recordation and transfer taxes, and income tax; however because these individuals are already City residents, there is no additional income tax revenue to the City.

Non-City Residents

The third group consists of employees who do not currently reside within the City. The table below shows the impact of the proposed legislation on these employees.

Impact from Eligible Non-City Residents				
	Individual	Low Range	Mid range	High Range
Current Non-City Residents	1	748	748	748
Participation Rate		10%	20%	30%
Est'd # of Participants	1	75	150	224
Est'd Property Taxes	\$2,297	\$171,785	\$343,570	\$515,355
Est'd Tax Credits of Participants	\$177	\$13,273	\$26,546	\$39,819
Est'd THTC Tax Credit	\$245	\$18,298	\$36,596	\$54,893
Total Net Taxes to City	\$1,875	\$140,214	\$280,429	\$420,643
Est'd Cost from Proposed Tax Credit	(\$1,875)	(\$140,214)	(\$280,429)	(\$420,643)
Remaining Payable Taxes	\$0	\$0	\$0	\$0
Offsetting Revenues*	\$2,937	\$220,837	\$440,535	\$660,234
1st Year Net Benefit/(Cost) to City	\$4,812	\$80,622	\$160,107	\$239,591
Out Years Net Benefit/(Cost) to City	(\$1,875)	(\$140,214)	(\$280,429)	(\$420,643)

*Offsetting revenues include one-time transactional proceeds such as recordation and transfer taxes, and income tax.

The participation levels vary based on the assumption that there are many different unknown factors causing these employees to reside outside of the City.

To summarize, the City should expect an \$815,418 incremental cost based on low-income employees that already live in the City, plus the possibility of up to \$1.4 million of additional costs if 30% of current renters and/or non-City residents purchase a home in the City.

Summary - Estimated Impact of Proposed Legislation

	Participation Level			
	Current Residents	Low	Mid	High
Number of Participants	435	663	890	1,118
Net Tax Liability	\$815,418	\$1,242,247	\$1,774,421	\$2,253,922
Cost of Proposed Tax Credit	(\$815,418)	(\$1,242,247)	(\$1,774,421)	(\$2,253,922)
Remaining Payable Taxes	\$0	\$0	\$0	\$0
1st Year Net Benefit/(Cost) to City	(\$815,418)	(\$572,320)	(\$435,706)	(\$246,419)
Out Years Net Benefit/(Cost) to City	(\$815,418)	(\$1,242,247)	(\$1,774,421)	(\$2,253,922)

Note: The low, mid, and high participation levels are the sum of the impacts from each City employee grouping examined above.

Other Considerations

Policy Goals

It is unclear what policy objective is achieved by this tax credit, or for any tax credit that favors one class of employees or occupation over another.

From the City’s perspective, these credits do not provide a net financial return to the City. Choosing where to live is a complicated decision based on a variety of factors such as housing choices, transportation options, and family considerations, among others. The data collected so far on a similar credit, the Public Safety Officers Credit, indicates that few, if any, officers have relocated due to the tax credit alone. At the time of its passage, we identified 531 officers who were City homeowners and were eligible but as of December 2019 only 283 have received the credit. In practice, these credits end up providing additional benefits to employees who have already chosen to live in the City, rather than an enticement for new residents.

In addition, this tax credit is an expensive and inefficient way to direct money to any class of employees. Each new credit requires new programming in the tax credit system, requires ongoing City resources for oversight and management, and requires the employee to file an application with proof of eligibility. A better way of directing assistance to homeowners is with direct cash assistance, which the City already offers through the City employee Homeownership Incentive Program. This program provides up to \$5,000 for down payment assistance for employees purchasing their first home in Baltimore City.

Benefits Cliff

This tax credit has the potential to create a benefits cliff amongst the lowest paid City employees. City employees amongst the 25% lowest paid will run the risk of losing the benefit of the tax credit, generating a net cost for the employee if they begin earning above the 25% threshold. This could have major fiscal impacts for individuals and households that are already financially vulnerable. The table below shows how a \$100 increase in salary could lead to a loss of \$2,178 in earnings.

Potential Tax Credit Benefits Cliff		
	Eligible	Not Eligible
Salary	\$41,500	\$41,600
City Property Tax*	(\$2,698)	(\$2,698)
Avg. City Tax Credits for Low Income	\$422	\$422
Proposed Credit	\$2,276	\$0
Income Tax	(\$1,328)	(\$1,331)
Salary After City Taxes/Credits	\$40,172	\$37,994
Benefits Cliff	(\$2,178)	

*Property Tax is calculated using a home valued at \$120,000.

Implementation

Baltimore City Office of Information & Technology (BCIT) estimates it will take at least four to six months to complete the online application for the Low-Income Employee Tax Credit. BCIT has one developer working part-time on the Tax Credit System, who is currently developing the system for the 9-1-1 Specialist Tax Credit. For complex new tax credit applications, the development time may increase to one year. The estimated development cost is \$100,000.

The Department of Finance is requesting that the bill be amended to specify that the Ordinance will apply to **tax years beginning after June 30th, 2021 and ending before July 1st, 2031**. Specific language to that effect will provide clear guidance to potential tax credit applicants and give the Department of Finance the necessary time to work with BCIT to update the City's Tax Credit Application System to provide for this credit. Additionally, Section E in the bill should be changed to February 20th from January 30th to ensure that BCIT, Department of Human Resources (DHR), and Finance are able to coordinate and verify data.

Finally, Finance believes that DHR should be the responsible agency for notifying employees that they may be qualified for this new benefit. DHR is best equipped to communicate eligibility to employees for several reasons. First, they have more direct contact with employees across the City, especially when it comes to eligibility for benefits. Second, DHR would be best able to assess the most effective means of communicating with eligible employees, via mail, phone, or email, since they are in more regular communications. Finally, DHR manages the data system that houses all employee information, including salary and wages, which is vital to identifying whether an applicant is eligible. The Department of Finance's role in the tax credit process is to verify that individuals are residing in owner-occupied properties and applying the credit to their property tax bill.

Conclusion

Based on our experience with other similar credits, we believe this legislation as written will simply serve to provide a benefit to existing homeowners rather than as an incentive for new homeowners. The cost to the City will be at least \$815,418 of lost revenue, with the potential for up to **\$2.3 million** of additional lost revenue if 30% of eligible employees purchase a home in the City. We are not clear on what policy objective is being achieved with this credit (or any occupation-based credit), especially in light of existing homeownership programs that are available for City employees.

The Department of Finance recognizes the importance of providing additional assistance to City employees, especially those earning the lowest incomes, but believes that creating tax credits is not the most efficient or effective way to accomplish this. Additionally, in anticipation of the financial challenges

the City will face with the Kirwan Commission's school funding recommendations, the proposed tax credit could restrict our ability to properly fund services for City residents.

Based on these findings, the Department of Finance opposes the passage of Council Bill 19-0479.

If this bill were to move forward, we would ask for an amendment to change this credit to start on the Fiscal Year 2022 and ending by June 30, 2031, as well as DHR to be the responsible agency for coordinating and notifying eligibility to employees who may qualify for this new benefit in order to address our implementation concerns.

cc: Henry Raymond
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