HB 32

Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 32 (Delegate Haynes)
Ways and Means

Restoring and Sustaining Baltimore City Communities Act of 2016

This bill requires Baltimore City to grant a property tax credit for real property located in the Sandtown-Winchester, Upton, Fayette Street Outreach, Boyd-Booth, or Shipley Hill communities.

The bill takes effect June 1, 2016, and applies to all taxable years beginning after June 30, 2016.

Fiscal Summary

State Effect: General fund expenditures increase by $125,000 in FY 2017 and by $5,000 each year thereafter for computer programing costs at the Comptroller's Office. State revenues are not affected.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues	$0	$0	$0	$0	$0
GF Expenditure	125,000	5,000	5,000	5,000	5,000
Net Effect	($125,000)	($5,000)	($5,000)	($5,000)	($5,000)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Baltimore City property tax revenues decrease beginning in FY 2017. The amount of the decrease depends on the number of properties that qualify for the tax credit and the assessed value of each property. However, to the extent that the property tax credit spurs revitalization efforts in otherwise depressed areas, other city tax revenues may benefit. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Minimal.

Analysis

Bill Summary: The property tax credit granted must be equal to (1) 100% of the property tax imposed for the first 10 taxable years in which the property qualifies for the tax credit; (2) 88% of the property tax imposed for the eleventh taxable year in which the property qualifies for the tax credit; (3) 76% of the property tax imposed for the twelfth taxable year in which the property qualifies for the tax credit; (4) 64% of the property tax imposed for the thirteenth taxable year in which the property qualifies for the tax credit; (5) 52% of the property tax imposed for the fourteenth taxable year in which the property qualifies for the tax credit; (6) 40% of the property tax imposed for the fifteenth taxable year in which the property qualifies for the tax credit; (7) 28% for the sixteenth taxable year in which the property qualifies for the tax credit; and (8) 16% for the seventeenth taxable year in which the property qualifies for the tax credit. The tax credit phases out after the seventeenth year.

Owners of vacant or newly constructed dwellings may qualify for the tax credit by (1) substantially rehabilitating a vacant dwelling in compliance with applicable code and laws and occupying the dwelling after rehabilitation as their principal residence or (2) purchasing a newly constructed dwelling and occupying the newly constructed dwelling as their principal residence. In addition, to qualify for the tax credit, the individual must file a State income tax return during the period of the tax credit as a resident of Baltimore City.

A community development corporation or developer may qualify for the tax credit if the community development corporation or developer purchases the dwelling to be used as residential rental property.

Baltimore City must provide for procedures necessary and appropriate for the submission of an application for and the granting of a property tax credit.

A vacant dwelling is defined as residential real property that contains no more than four dwelling units and has been cited as vacant and abandoned on a housing or building violation notice for one year, or has been owned by the city for one year and is in need of substantial repair to comply with applicable city codes.

A newly constructed dwelling is defined as residential real property that has not been previously occupied since its construction and for which the building permit for construction was issued on or after October 1, 1994. This includes a vacant dwelling that has been rehabilitated in compliance with applicable local laws and regulations and has not been previously occupied since the rehabilitation.

Current Law: Baltimore City currently administers two property tax credit programs for newly constructed and vacant buildings. The first is the Newly Constructed Dwelling Tax Credit Program, which is designed to encourage the purchase and construction of new homes. It is a five-year tax credit (50% in the first taxable year declining by 10 percentage points annually). Baltimore City advises that the program has grown substantially and is one of the largest local option real property tax credits, resulting in a $3.6 million revenue decrease in fiscal 2013 and an estimated $3.2 million decrease in fiscal 2014. The city has awarded $35.4 million in property tax credits since the program began in 1996. Baltimore City advises that very few applications for this property tax credit have come from the areas targeted by the bill. **Exhibit 1** shows the number of Newly Constructed Dwelling Tax Credits that have been issued in Baltimore City since fiscal 1996.

The second program is the Vacant Dwelling Tax Credit Program, which is designed to encourage the rehabilitation of properties declared vacant for at least one year by the Department of Housing and Community Development, as well as the rehabilitation of city-owned vacant properties. It is a five-year tax credit (100% in the first taxable year declining by 20 percentage points annually). Baltimore City advises that the program is very rarely used, particularly as compared to the Newly Constructed Dwelling Tax Credit Program.

Exhibit 1
Baltimore City Property Tax Credit for Newly Constructed Dwellings

Fiscal Year	Number of Credits	Amount of Credits
1996	30	$20,295
1997	199	133,333
1998	15	229,663
1999	149	309,237
2000	141	330,747
2001	130	418,921
2002	211	481,490
2003	128	704,261
2004	165	1,120,122
2005	240	1,471,194
2006	474	1,653,005
2007	446	2,837,490
2008	444	2,848,550
2009	376	3,999,694
2010	371	5,002,670
2011	262	3,948,945
2012	223	3,044,908
2013	362	3,643,915
2014	282	3,153,662
Total	**4,648**	**$35,352,102**

Source: Baltimore City Government

State Fiscal Effect: The Comptroller's Office advises that it will incur one-time computer programming expenses of $125,000 in fiscal 2017 in order to modify the existing system to verify Baltimore City residency for income tax returns claiming the property tax credit. Expenditures will increase by $5,000 annually thereafter.

Local Revenues: Baltimore City property tax revenues may decrease by a significant amount beginning in fiscal 2017, depending on the number of properties that become eligible for the tax credit. Baltimore City estimates that there are approximately 6,800 residential properties in the neighborhoods targeted by the bill and approximately 1,625 vacant properties. The average residential sales price in these areas totals $33,136. At this time, a reliable estimate on the number of properties that may become eligible for the property tax credit cannot be determined.

As a point of reference, and *for illustrative purposes only*, assuming that 25 vacant buildings are rehabilitated pursuant to the bill, and the assessed value of the properties increases to $75,000, and become eligible for the tax credit, Baltimore City property tax revenues will decrease by approximately $42,150 in fiscal 2017. If it is assumed that 25 properties are rehabilitated each year, city property tax revenues will decrease by approximately $210,750 in fiscal 2021. The amount of the decrease will be less in subsequent years, on a per-property basis, as the value of the tax credit decreases until finally phasing out after the seventeenth year. Under these same assumptions, it is estimated that city property tax revenues will decrease by approximately $574,900 over the 17-year life of the tax credit, for each 25 vacant buildings that are rehabilitated.

Depending on the number of properties that become eligible for the tax credit, the property tax decrease may be significant. For example, the annual revenue loss from the Newly Constructed Dwelling Tax Credit Program has ranged from $20,300 in the first year that the program was enacted to $5.0 million in fiscal 2010. Over the 21 years in which the tax credit program has been in effect, the average annual revenue loss has totaled almost $2.0 million. However, to the extent that the property tax credit program spurs revitalization efforts in otherwise depressed areas, other city revenues may benefit.

Additional Comments: The Department of Legislative Services recently released a report entitled *History, Public Policy, and the Geography of Poverty* that provides a comprehensive overview of the most current information and research on the effects of poverty in Maryland. Throughout the report, there is a special emphasis on Baltimore City, where areas of concentrated and deep poverty persist despite the general affluence of the State and the Baltimore region. The report is divided into two sections. The first section presents data on the conditions of poverty that exist in the State and in Baltimore City and provides a comparison with poverty in other states and jurisdictions. The second section reviews research relevant to the poverty situation in Baltimore, touching on recent trends in poverty, housing segregation, and the evolution of public policy initiatives to address various aspects of poverty.

Additional Information

Prior Introductions: Similar bills were introduced as HB 707 of 2014, HB 1054 of 2013, and HB 822 of 2011. Each bill received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Baltimore City, Comptroller's Office, State Department of Assessments and Taxation, Department of Legislative Services

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min/hlb

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