

Just Economics

Support with Amendments: HB 002 – Authority to Set Special Tax Rates For Vacant and Abandoned Property In Baltimore

Testimony of Rick Rybeck, Director

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BLONDIE by Chic Young



Dear Members of the Ways & Means Committee:

Just Economics, LLC, is a consultancy that helps communities harmonize economic incentives with public policy objectives for job creation, affordable housing, transportation efficiency and sustainable & equitable development. Much of the work that I do regards infrastructure funding in relationship to various fees and taxes. A lot of my time and research has been devoted to the property tax.

For many years, Just Economics has educated the public and its clients about the perverse incentives embedded in the traditional property tax. Owners who construct or improve buildings are punished with higher taxes while those who allow buildings to deteriorate are rewarded with lower taxes.

HB 002 appears to rectify, at least partially, the perverse incentives associated with the traditional property tax. To that extent, I support it. However, similar legislation was enacted in Washington, DC. I want to bring to your attention some complications and unintended adverse consequences that arose from it. I also want to suggest a friendly amendment that would allow for the imposition of a vacant property penalty tax, but would also allow for a more effective and comprehensive reform to rectify the perverse incentives of the traditional property tax for all properties instead of only for those that are vacant or blighted.

VACANT PROPERTY PENALTY TAXES: Good Intentions / Difficult Implementation

In 1990, the District of Columbia enacted a penalty tax on vacant property. Initially, it was intended to tax both vacant land and vacant buildings. But, due to complications related to identifying vacant buildings, it was first applied only to vacant land. Then it was applied to vacant buildings. However, the regulations related to vacant buildings were constantly submitted to the Council only to be disapproved. There were continual re-writes of these regulations and frequent amendments to the underlying law as well. After three decades, it is difficult to say that this legislation has accomplished more than the creation of headaches for those seeking to administer it and for some who mistakenly got caught up in its enforcement mechanisms.

I am attaching a report and a presentation, prepared by Dr. Daphne Kenyon that documents some of these issues regarding the vacant property penalty tax. (Table 8 in Dr. Kenyon's report compares property tax rates in DC to those of other cities, including Baltimore.) The report and presentation were created for the DC Tax Revision Commission in 2013.

1. Will the application of a vacant property penalty tax to vacant buildings and land lead to the following:
 - a. A clash of **conflicting incentives**? Renovating vacant buildings will terminate the vacant property penalty tax but incur the traditional tax penalty associated with higher building assessments. Wouldn't it be more effective to increase the tax on land values while **also** reducing or removing the tax on building values? This "**Tax Shift**" approach would increase the tax on vacants while simultaneously reducing the tax penalty on building construction, improvement and maintenance.

THE MARYLAND TAX PARITY ACT OF 2024:

[MD. Tax - Property Code § 6-302](#) is amended as follows:

- Section 6-302(a) is renumbered as § 6-302(a)(1)
- A new section, § 6-302(a)(2), is inserted to read as follows:
 - "(2) If not otherwise prohibited by this article, the Mayor and City Council of Baltimore City or the governing body of each county may set special rates for any class of property that is subject to the city/county property tax."
- Section 6-302(b)(1) is amended by adding the following language after "and § 6–203 of this title":
 - " or unless otherwise provided by the Mayor and City Council of Baltimore City or the governing body of a county:"

This legislative language gives Baltimore City and Maryland counties the same tax rate setting authority as is now enjoyed by Maryland municipalities. Thus, it is eminently fair. And, it provides greater flexibility to jurisdictions in terms of rectifying the fundamentally perverse incentives associated with the traditional property tax.

I commend the legislators who introduced HB 002 and I hope that they and this Committee will approve the more fundamental and fair legislative language suggested above.

Thank you for considering my views.

Attachments