

Department of Legislative Services  
Maryland General Assembly  
2011 Session

**FISCAL AND POLICY NOTE**

House Bill 822  
Ways and Means

(Delegate Haynes, *et al.*)

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**The Restoring and Sustaining Baltimore City Communities Act of 2011**

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This bill requires Baltimore City to grant a property tax credit for real property that is located in the Harlem Park, Pennsylvania Avenue, or Poppleton Community, and is owned by qualifying owners of a vacant or newly constructed dwelling.

The bill takes effect June 1, 2011, and applies to all taxable years beginning after June 30, 2011.

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**Fiscal Summary**

**State Effect:** None.

**Local Effect:** Baltimore City property tax revenues decrease beginning in FY 2012. 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 program spurs revitalization efforts in otherwise depressed areas, other city tax revenues may benefit. Baltimore City expenditures increase by \$75,000 in FY 2012 for computer programming and administrative expenses. **This bill imposes a mandate on a unit of local government.**

**Small Business Effect:** Minimal.

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**Analysis**

**Bill Summary:** The property tax credit granted must be equal to: (1) 100% of the property tax imposed for the first 5 taxable years in which the property qualifies for the tax credit; (2) 50% of the property tax imposed for the next 10 taxable years in which the

property qualifies for the tax credit; (3) 34% for the sixteenth taxable year in which the property qualifies for the tax credit; and (4) 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.

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). The city advises that the program has grown substantially and is currently the third most expensive local option real property tax credit, costing the city \$4.8 million loss in revenues in fiscal 2010. The city reports that, to date, only a few applications have been made from the areas targeted by this bill.

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 20 percentage points annually). The city advises that the program is very rarely used, particularly as compared to the Newly Constructed Dwelling Tax Credit Program.

In 2010, five properties in the city participated in this program, none of which were located in the neighborhoods targeted by this bill.

**Exhibit 1** shows the number of Newly Constructed Dwelling Tax Credits that have been issued since fiscal 1996.

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**Exhibit 1**  
**Newly Constructed Dwelling Tax Credit Program**  
**Fiscal 1996-2010**

<b>Fiscal Year</b>	<b>Credits Granted</b>	<b>Amount of Credits</b>
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 (March)	371	4,792,624
<b>Total</b>	<b>3,519</b>	<b>\$21,350,626</b>

Source: Baltimore City

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**Local Revenues:** Baltimore City property tax revenues will decrease beginning in fiscal 2012 depending on the number of properties that become eligible for the tax credit. Baltimore City estimates that there are 2,223 properties in the neighborhoods targeted by the bill, of which 1,058 are vacant lots or buildings. At this time, it cannot be reliably estimated how many of these properties may become eligible for the property tax credit imposed by the bill. The city estimates that a vacant building in these neighborhoods has

an assessed value of approximately \$15,000. Assuming these buildings are under private ownership, the city collects approximately \$340 in property taxes for each property.

As a point of reference, and *for illustrative purposes only* assuming that one vacant building is rehabilitated pursuant to the bill and its assessed value increases to \$80,000 and becomes eligible for the tax credit, city property taxes will decrease by approximately \$1,814 for each of the first five years of the tax credit. The amount of the decrease will be less in subsequent years as the value of the tax credit decreases until finally phasing out after the seventeenth year. Depending on the number of properties that become eligible, the property tax decrease may be significant. However, to the extent that the property tax credit program spurs revitalization efforts in otherwise depressed areas, other city revenues may benefit.

**Local Expenditures:** Baltimore City reports that because the tax credit proposed by the bill may be used in conjunction with the Newly Constructed Dwelling Tax Credit and the Vacant Dwelling Tax Credit, the city will have to upgrade and modify existing computer systems to be able to administer the interaction between the multiple tax credits. Baltimore City estimates that the costs for the system upgrades will total approximately \$75,000 in fiscal 2012. It is estimated that the annual cost per applicant would be approximately \$200 for each following year.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 6, 2011  
ncs/hlb

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