

TO: Regina T. Boyce, Delegate
Maryland House of Delegates

FROM: Edward J. Dodson (Cherry Hill, New Jersey)

DATE: March 5, 2021

SUBJECT: Testimony in Support of H.B. 1320
(Baltimore City / Property Taxes / Authority to Set Special Rates)

I have been requested by a group of Baltimore citizens who support the above bill to offer comments regarding the importance of this legislation to Baltimore residents as a whole and to those living in neighborhoods long plagued by high unemployment, absentee ownership and abandoned properties. My endorsement is based on many years of first-hand observation and study of the economic and social problems caused by the conventional property tax system in our nation's cities and towns.

From 1984 to 2005 I worked at Fannie Mae, the last decade as a business manager and market analyst in the Housing & Community Development group. In community after community our efforts to develop public/private initiatives to significantly increase the supply of decent, affordable housing were hampered because the conventional property tax encourages the acquisition of property purely for speculative gain rather than development. The greater our success the higher became the cost of site acquisition and the amount of public funds required to subsidize new housing.

As others will surely testify, the property tax imposes a cost of ownership on two different classifications of assets. Housing units and other buildings are depreciating assets that require ongoing maintenance and periodic systems replacement in order to maintain resale value as well as functional utility. The annual property tax on buildings equates to the imposition of a sales tax, year after year after year. If this is a logical way to raise public revenue, then all depreciating assets ought to be subject to this form of taxation. Imagine getting a tax bill each year for your automobile, computer, stereo, camera, or refrigerator.

Locations are a different story, as any real estate agent will testify. Locations in a city are valued based on the perceived and actual advantages attached thereto. Thus, locations in the city's central business district are valued by the square foot because of the competition by individuals and businesses to locate there. Locations in residential neighborhoods will be valued by the quality of the housing stock (e.g., its historic character), the presence of good public transportation, schools, police protection, libraries, hospitals and other public and private amenities. Every location has some potential annual rental value, a value that comes to the location because of these public goods and not because of anything the owner does or does not do to improve the location.

Thus, from my perspective the optimum revenue from the property tax should come from location value only. Absent this complete reform of the property tax, authorizing the city to at least impose a higher rate of taxation on the assessed value of locations than on buildings is a positive step in the right direction. Every few years the city council can consider moving a bit closer to a land-value only property tax after evaluating the impact on residents and businesses.

I hope these comments add to the deliberations on this important legislation.