

# Mayor's Tax Credit Workgroup

## Newly Constructed Tax Credit

August 27, 2024

**BM**  **RE BUDGET**



Brandon M. Scott  
Mayor





## Today's Agenda

-  **Recap of Last Meeting** *(20 mins)*
-  **Newly Constructed Tax Credit** *(60 mins)*
-  **Developer Perspective** *(30 mins)*
-  **Policy Options Discussion** *(30 mins)*

# Workgroup Schedule

## Homeowner Protection Tax Credits

- March 26 1 ✓ Homestead Tax Credit
- April 30 2 ✓ Targeted Homeowners Tax Credit
- June 11 3 ✓ State Homeowners Tax Credit / City Supplemental

## Development Tax Credits

- July 30 1 ✓ Intro to Development Tax Credits
- Aug 27 2 Newly Constructed Tax Credit
- Sept 26 3 Historic (CHAP) Tax Credit
- Oct 22 4 High-Performance Market-Rate Rental Housing Tax Credit
- Nov 26 5 Enterprise Zone (EZ) Tax Credit
- TBD 6 Brownfields Tax Credit

# Intro to Development Tax Credits *Recap*



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# Intro to Development Tax Credits

## Recap

- 1** **Workgroup Mission:** attract additional investment to Baltimore City, create sustainable growth in General Fund revenues, and minimize the City's cost by providing only the subsidy required to make a project feasible.
- 2** **Live Baltimore** presentation about Baltimore's residential market, including buyer's preferences on new construction vs. other types of housing, and the market potential for different housing types by income / rent.
- 3** **Developers** presentation with information about how projects are financed, how tax credits factor into the project financial analysis, and some discussion of the direct benefits for the City.



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## Newly Constructed Tax Credit

1



### ***Background***

Originating Legislation, Qualifications, Maps

2



### ***History***

Historical Trends on Credits Granted and Cost / Revenue

3



### ***Impact on Homeowner Tax Burden***

Sample Properties at Low, Median, High Assessed Values

# Newly Constructed Tax Credit Background



# Newly Constructed Tax Credit

## Recent Development Examples



Locust Point

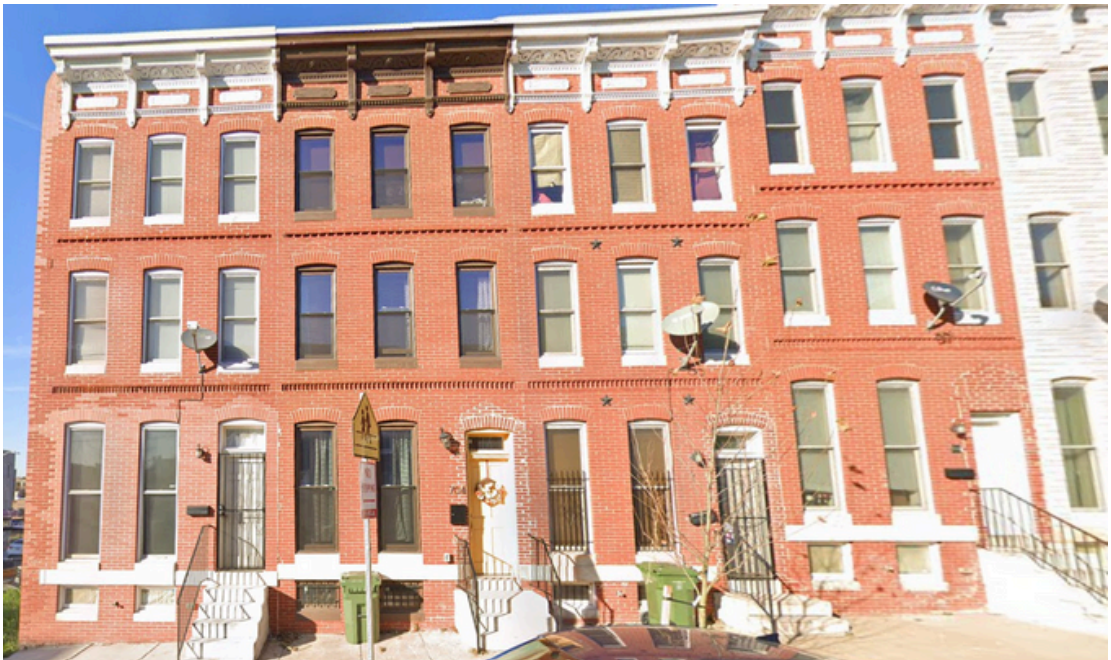


Beechfield

Medfield



Brewer's Hill



Johnston Square



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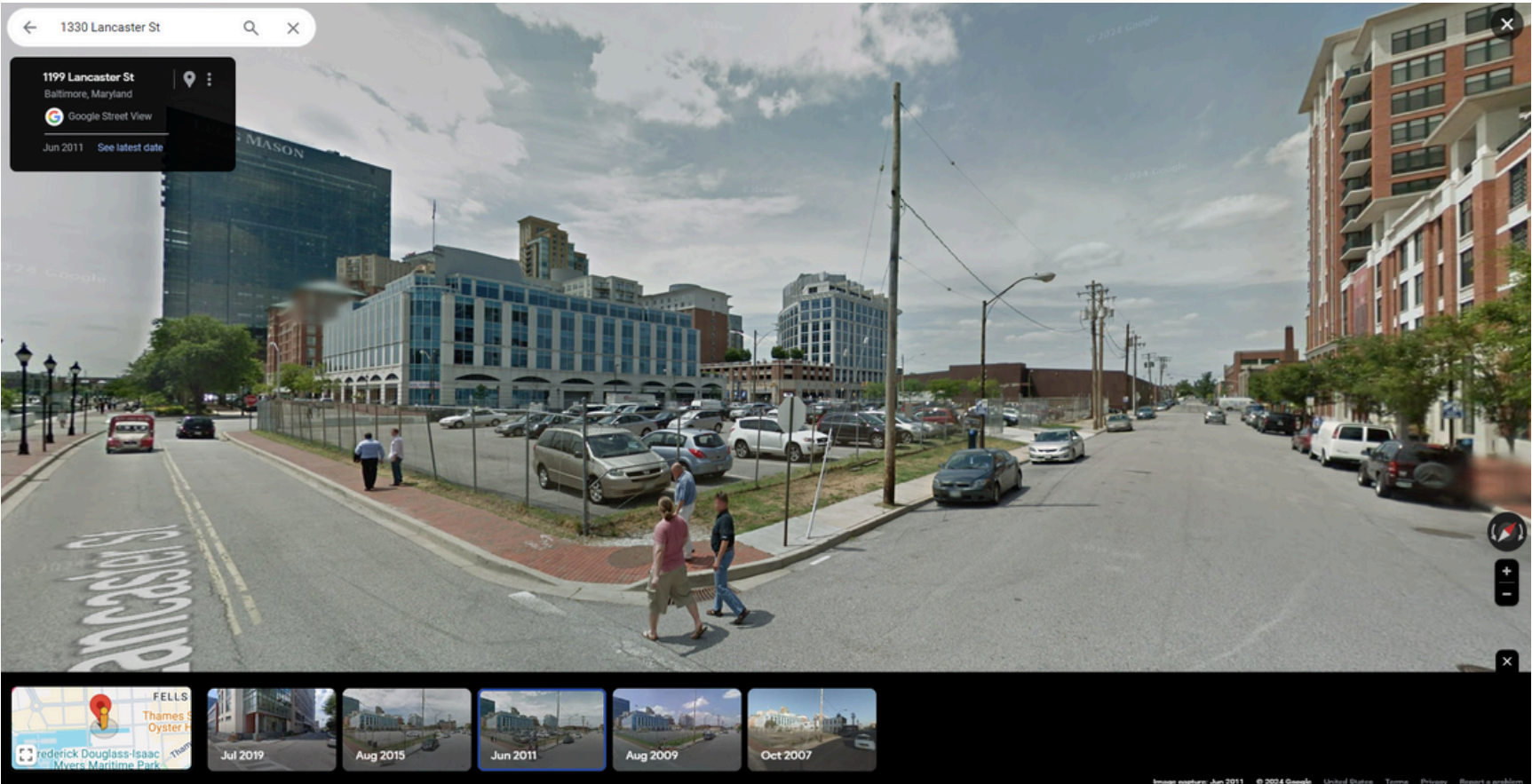


# Newly Constructed Tax Credit

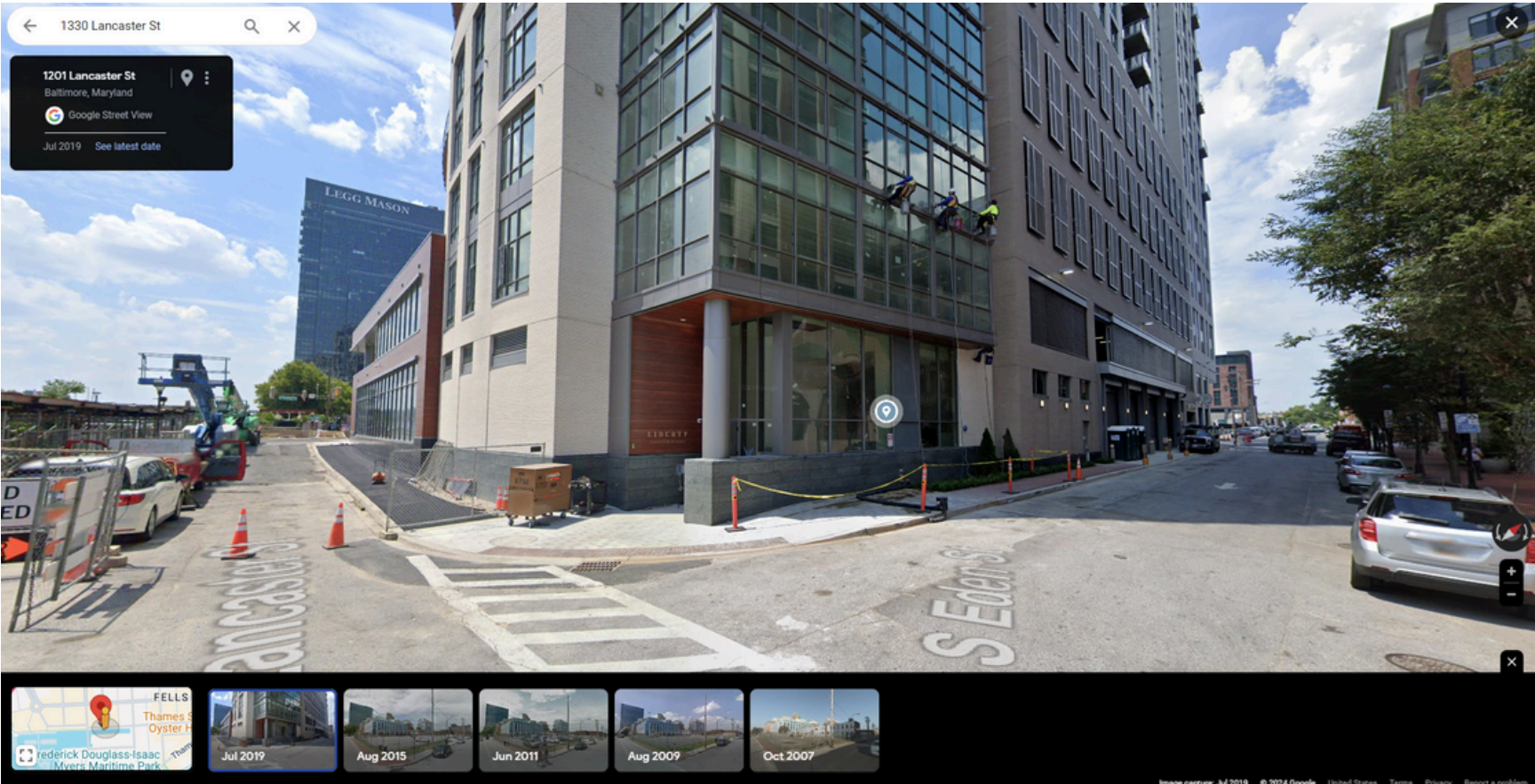
## Recent Development Examples

*Habor East, 1330 Lancaster St*

2011: Parking Lot



2019: Residential Units / Building



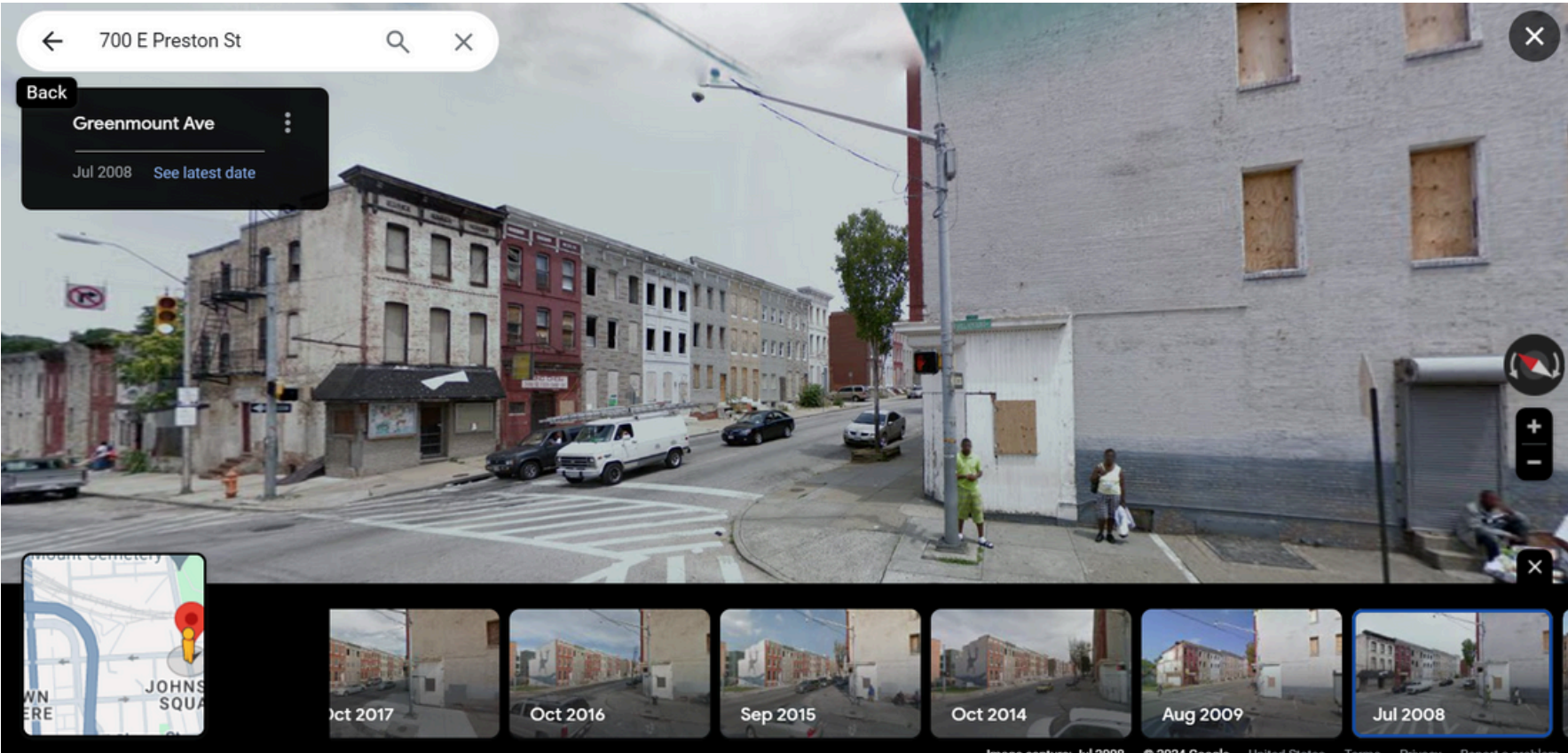


# Newly Constructed Tax Credit

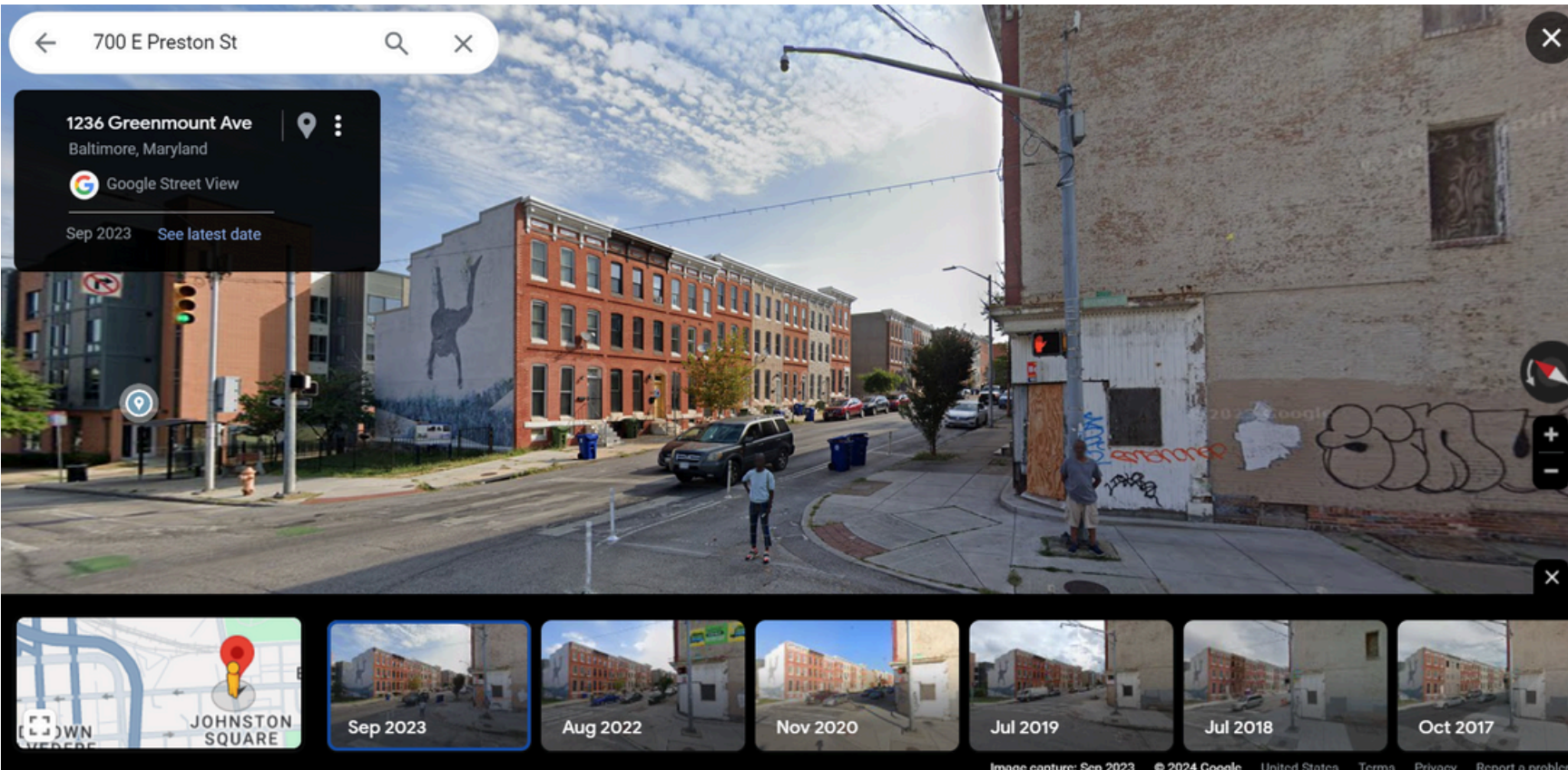
## Recent Development Examples

*Johnston Square, 700 Block of East Preston St*

2008: Vacant Buildings



2023: Rehabbed Buildings + One Demolished





# Legislative History

## **1996** - CITY COUNCIL ORDINANCE 95-464

Original legislation authorizing the Newly Constructed Tax Credit

## **2000, 2005, 2009, 2014** - VARIOUS CITY COUNCIL ORDINANCES

Newly Constructed Tax Credit was re-authorized and extended multiple times until it sunset on June 30, 2019.

## **2019** - CITY COUNCIL ORDINANCE 19-290

Tax credit was re-authorized under the auspices of the “High Performance” section of the State code, and re-named the “High Performance Newly Constructed Tax Credit.” New requirements for green building were added but most other provisions of the tax credit - including qualification, term, and credit amount - remained the same.



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# Newly Constructed Tax Credit - Basics

## 1 Purpose

- To incentivize the construction and purchase of new homes.

## 2 Class of Property

- Must be either a newly constructed dwelling OR a previously vacant dwelling that has been rehabilitated.
- Must meet the “high performance” building standards as set forth in State Tax Property Article 9-242(a) which means a building that:
  - (i) achieves at least a silver rating according to the U.S. Green Building Council’s LEED green building rating system as adopted by the Maryland Green Building Council;
  - (ii) is a residential building that achieves at least a silver rating according to the International Code Council’s 700 National Green Building Standards;
  - (iii) achieves at least a comparable rating according to any other appropriate rating system; or
  - (iv) meets comparable green building guidelines or standards approved by the State.

## 3 Application / Eligibility

- Application must be filed within 90 days of settlement.
- Property owner must occupy the dwelling as his or her principal residence.
- Property owner must file a State income tax return each year to remain eligible.



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# Newly Constructed Tax Credit - Calculation

## 1 Term and Amount

- 5-Year Tax Credit
- Year 1 (50%), Year 2 (40%), Year 3 (30%), Year 4 (20%), Year 5 (10%)

## 2 Calculation

- Credit is calculated against the City taxes on the total current assessed value.

## 3 Effect on Other Credits

- Calculation of the NCTC must occur **after** the Homestead Tax Credit and State Homeowners' Tax Credit
- NCTC can be combined with the Brownfields Tax Credit
  - NCTC must occur **before** Brownfields calculation

## 4 Transferability

- The NCTC is not transferable to a new owner.

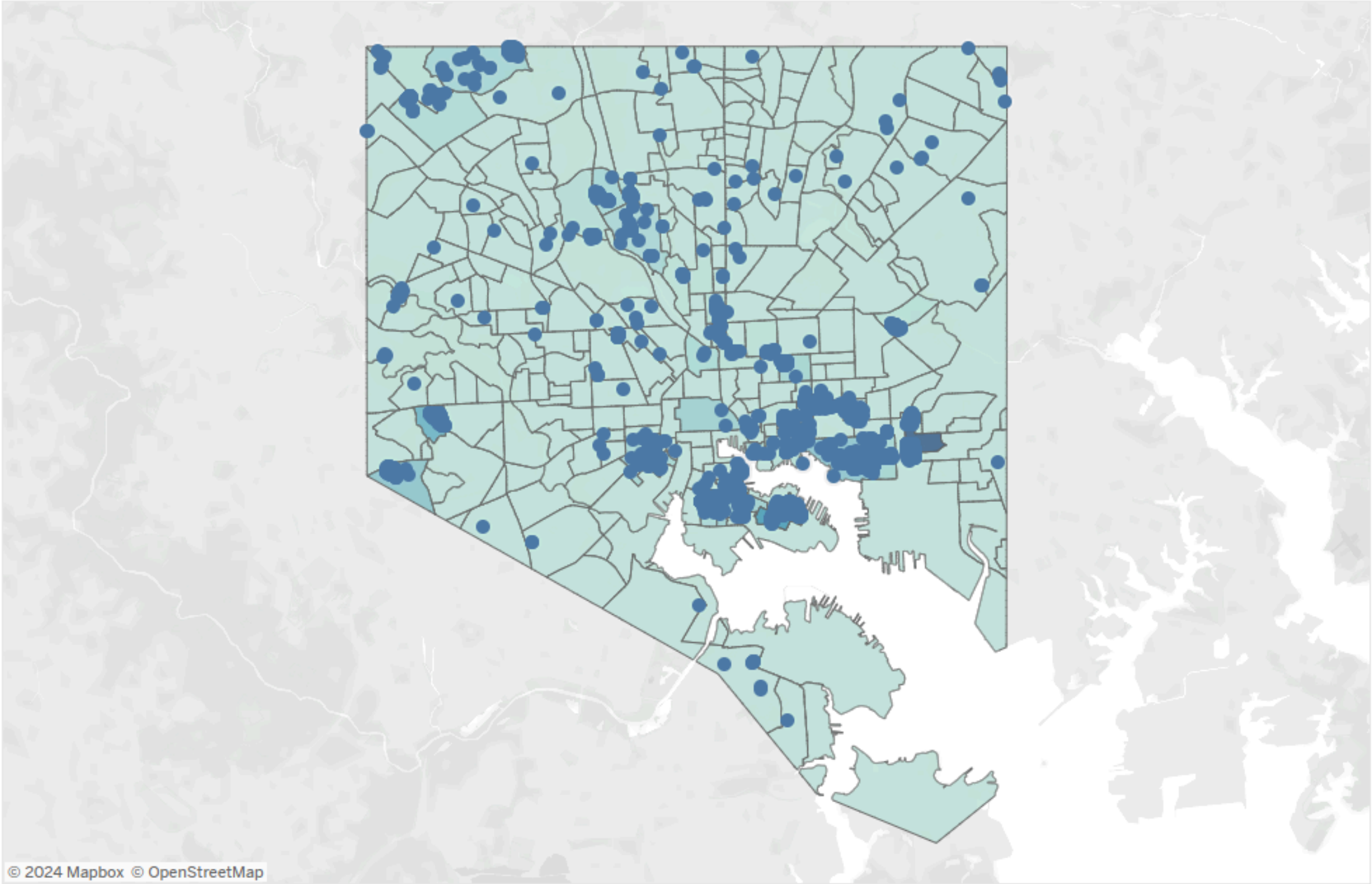




# Newly Constructed Tax Credit

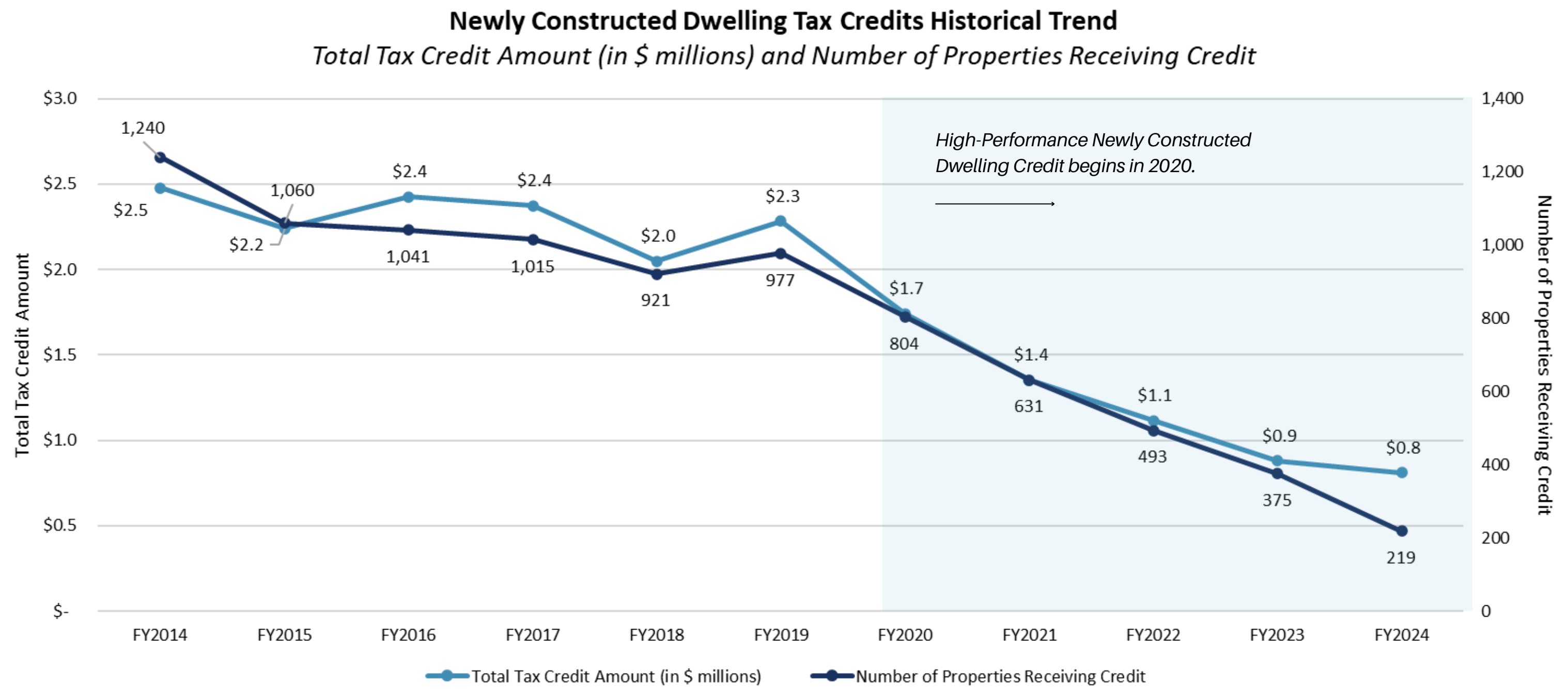
Total Newly Constructed Tax Credit by Neighborhood  
Fiscal 2014 - Fiscal 2025

Neighborhood	Households
Greektown	395
Locust Point	365
Beechfield	147
Uplands	146
Canton	128
Key Highway	125
Riverside	104
Washington Village/Pigtown	88
Downtown	87
Harbor East	71



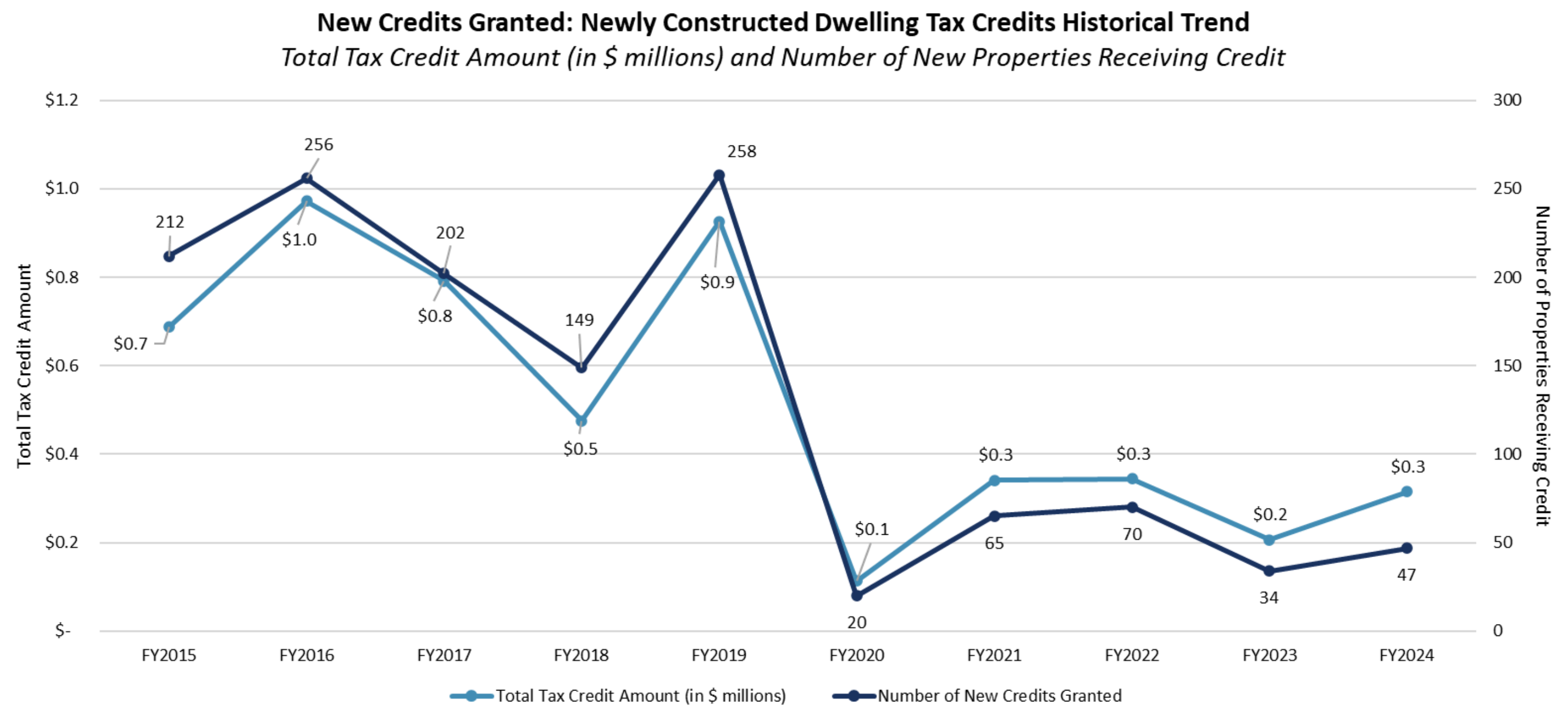
# Newly Constructed Tax Credit History

# Historical Trend: Newly Constructed Tax Credit

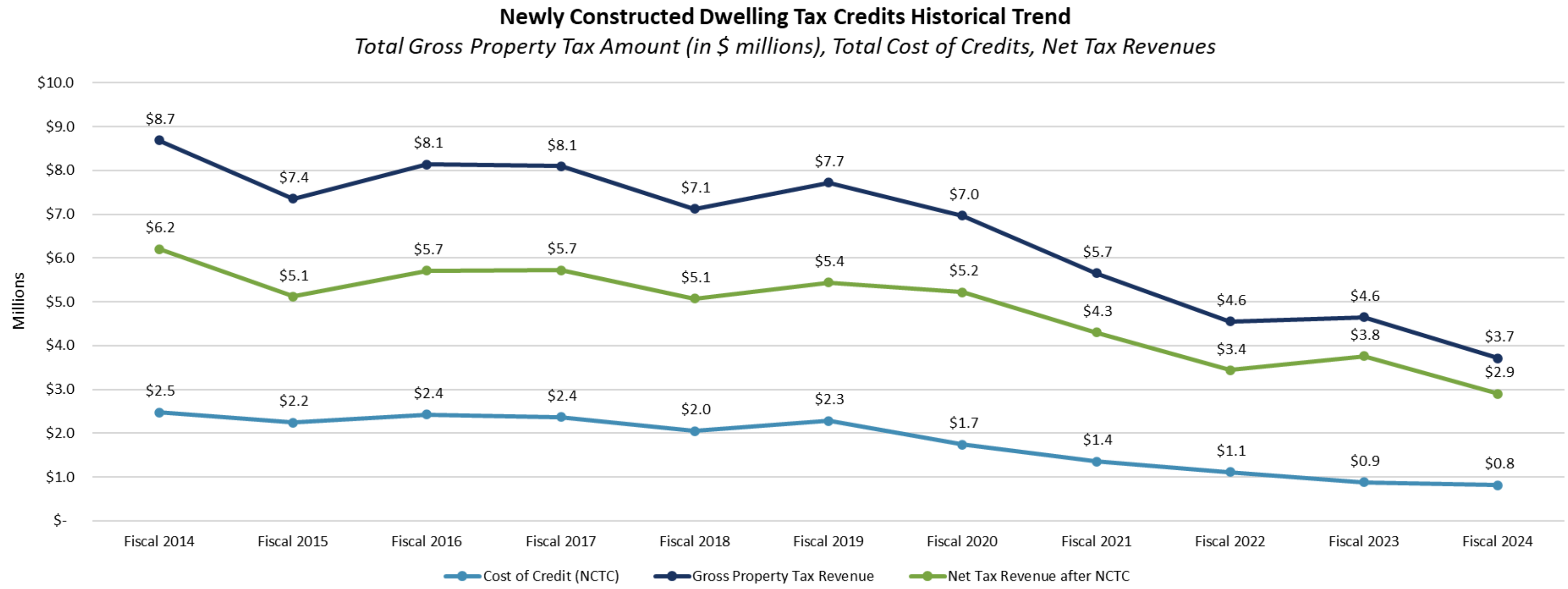




# Historical Trend: Newly Constructed Tax Credit



# Newly Constructed Tax Credit



Newly Constructed Tax Credit

# Impact on Homeowner



# Newly Constructed Tax Credit

## How does the NC tax credit affect a homeowner's tax burden?



We looked at three properties that currently receive the NCTC:

1

**Lowest Assessed Value (\$200,000)**

**Druid Heights**

*585 Baker Street*

2

**Median Assessed Value (\$373,433)**

**Medfield**

*4301 Medfield Avenue*

3

**Highest Assessed Value (\$3.9 million)**

**Harbor East**

*300 International Drive, Unit 2302*



# Newly Constructed Tax Credit: Examples

1

Lowest Assessed Value (\$200,000)

Druid Heights

585 Baker Street

	Year 1	Year 2	Year 3	Year 4	Year 5
Assessed Value	200,000	200,000	200,000	200,000	200,000
Full Tax Rate	2.248%	2.248%	2.248%	2.248%	2.248%
Gross Property Taxes	4,496	4,496	4,496	4,496	4,496
Credit Percentage	50%	40%	30%	20%	10%
Credit Amount	(2,248)	(1,798)	(1,349)	(899)	(450)
Net Taxes Owed	2,248	2,698	3,147	3,597	4,046





# Newly Constructed Tax Credit: Examples

2

Median Assessed Value (\$373,433)

Medfield

4301 Medfield Avenue

	Year 1	Year 2	Year 3	Year 4	Year 5
Assessed Value	373,433	373,433	373,433	373,433	373,433
Full Tax Rate	2.248%	2.248%	2.248%	2.248%	2.248%
Gross Property Taxes	8,395	8,395	8,395	8,395	8,395
Credit Percentage	50%	40%	30%	20%	10%
Credit Amount	(4,197)	(3,358)	(2,518)	(1,679)	(839)
Net Taxes Owed	4,197	5,037	5,876	6,716	7,555





# Newly Constructed Tax Credit: Examples

3

Highest Assessed Value (\$3.9 million)

Harbor East

300 International Drive, Unit 2302

	Year 1	Year 2	Year 3	Year 4	Year 5
Assessed Value	3,972,900	3,972,900	3,972,900	3,972,900	3,972,900
Full Tax Rate	2.248%	2.248%	2.248%	2.248%	2.248%
Gross Property Taxes	89,311	89,311	89,311	89,311	89,311
Credit Percentage	50%	40%	30%	20%	10%
Credit Amount	(44,655)	(35,724)	(26,793)	(17,862)	(8,931)
Net Taxes Owed	44,655	53,586	62,518	71,449	80,380



# Survey Results from Homeowners Receiving Tax Credit

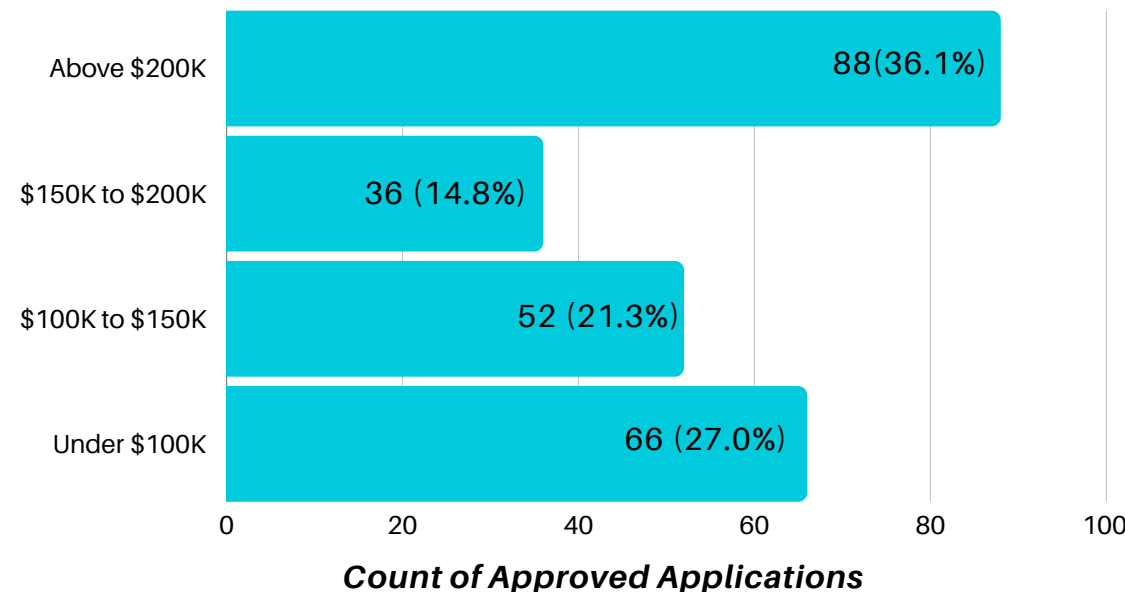
## A Look into Approved Applications (2020 to Present)

### Demographics?

#### Race & Ethnicity?

- White-Not Hispanic (48.0%)
- Black-Not Hispanic (22.5%)
- Asian (14.8%)
- Two or more races (7.4%)
- Hispanic (2.0%)
- Other/Refused (5.3%)

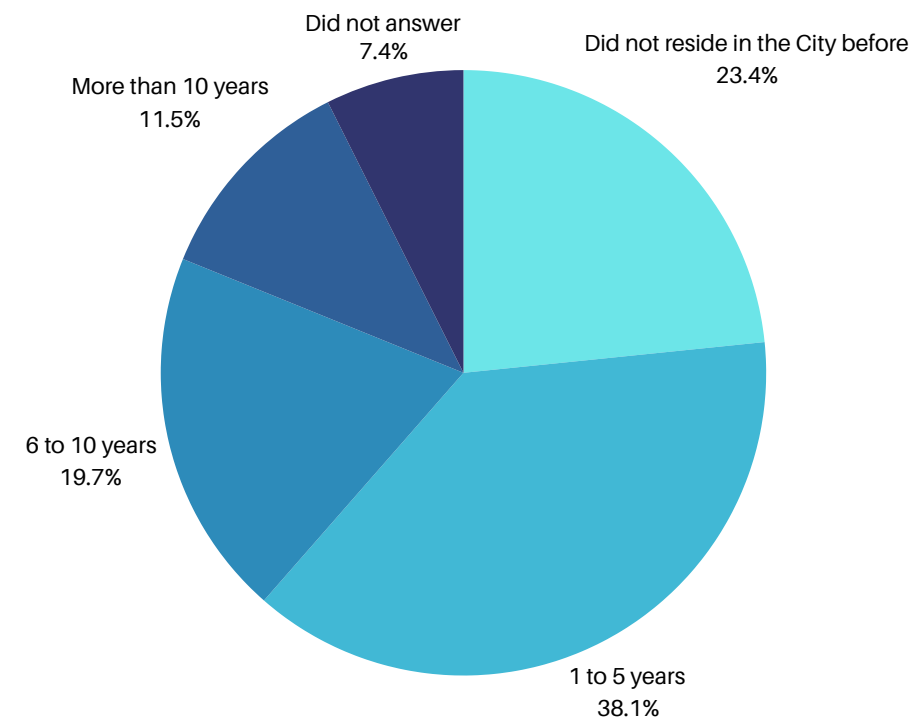
#### Household Income?



### Prior Location?

- Baltimore City (59.4%)
- Other Maryland Counties (22.1%)
- Out of State (18.4%)

#### Years Living in Baltimore City?



#### Living Situation Before?

- Renting (46.7%)
- Owned a property (29.1%)
- Other/No response (24.2%)

#### How did they learn of the Credit?

- Developers (48.8)
- Realtors (29.9%)
- City Agencies, Community Associations, Internet & Others (21.3%)

#### Top reasons for moving?

- Better lot / yard size (36.5%)
- Work (36.5%)
- Closer to family/friends (25.0%)
- Lower crime rate (20.5%)

*Since the inception of the HPNC Tax Credit, there have only been 5 rehabbed vacant buildings out of 244 properties receiving the credit (from 2020 to 2024). All other credits granted have been for new builds.*



# Newly Constructed Tax Credit

## Comparing a Sale Both With and Without the Tax Credit



	No Tax Credit	With Tax Credit
Purchase Price	400,000	454,000
Down Payment	80,000	80,000
Loan Amount	320,000	374,000
Mortgage Payment	1,919	2,242
City Tax	749	850
Tax Credit	0	(425)
Net Tax Liability	749	425
Monthly Payment	2,668	2,667



### From the buyer's perspective:

- Buyers are often focused on what size monthly payment they can afford.
- Tax credits reduce the tax portion of the monthly payment, making it more likely that a buyer will take on more mortgage costs (and thus a higher sales price).

### From the developer's perspective:

- Developers are often focused on the final sale price.
- Tax credits boost sales prices, making it less risky for the developer and more likely that they can turn a profit on a project.



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# Developer Perspective



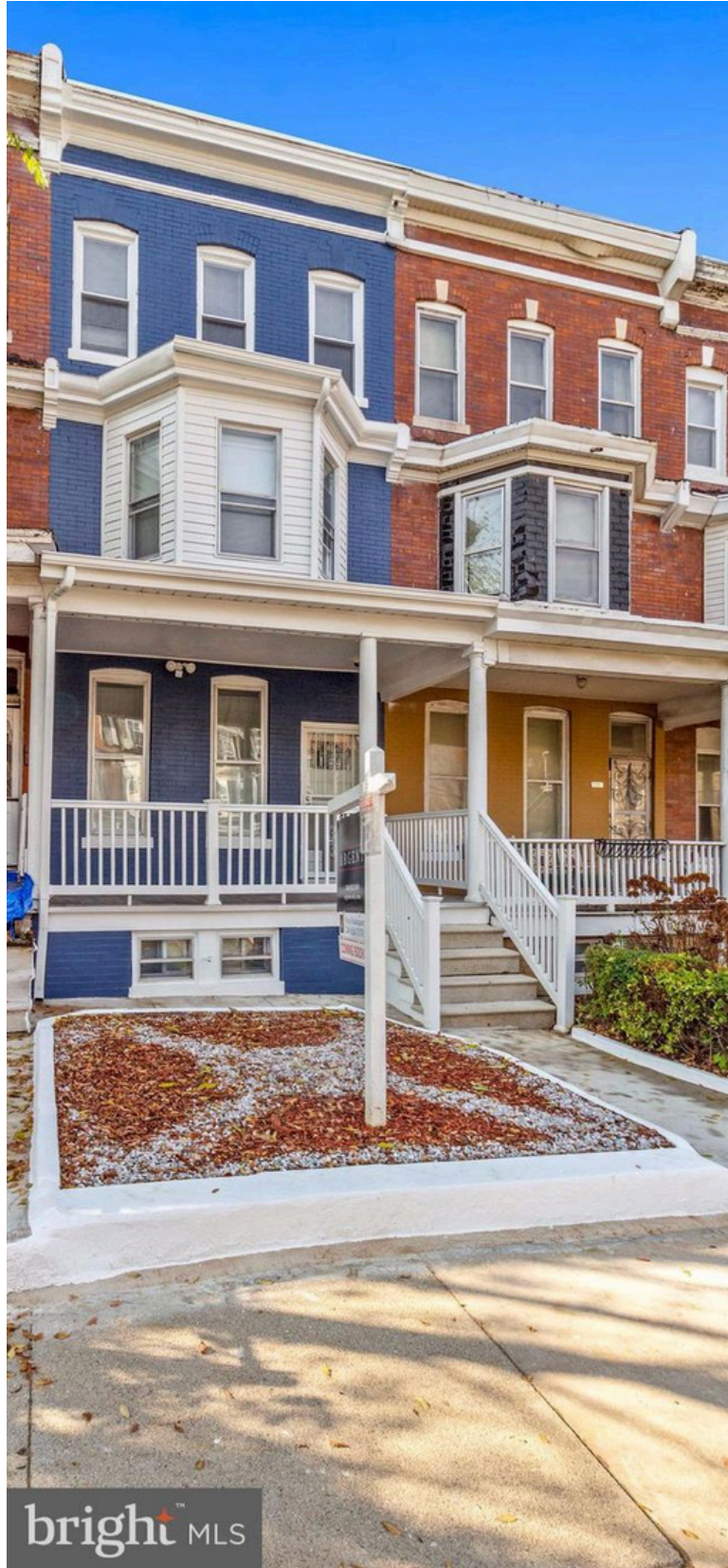
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# Policy Options



# Development Tax Credits: Policy Considerations



- 1 Length and Amounts
- 2 Stacking
- 3 Geographic Boundaries
- 4 Rules and Regulations
- 5 Application / Pre-Authorization

# Policy Consideration #1: Length and Amount

The City's development tax credits have varying lengths and amounts.

<b>Tax Credit</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>Year 8</b>	<b>Year 9</b>	<b>Year 10</b>
<b>Newly Constructed</b>	<b>50%</b>	<b>40%</b>	<b>30%</b>	<b>20%</b>	<b>10%</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
High-Performance Market-Rate Rental	80%	80%	80%	80%	80%	70%	60%	50%	40%	30%
Historic (CHAP) > \$5.0 million	80%	80%	80%	80%	80%	70%	60%	50%	40%	30%
Historic (CHAP) < \$5.0 million	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Enterprise Zone (EZ)	80%	80%	80%	80%	80%	70%	60%	50%	40%	30%
Enterprise Zone (EZ) Focus Areas	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Brownfields	50%	50%	50%	50%	50%	NA	NA	NA	NA	NA
Brownfields > \$250K	70%	70%	70%	70%	70%	NA	NA	NA	NA	NA
Brownfields > \$250K and in EZ	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%

## Note:

Brownfield: City is required to make additional 30% contribution to State BRIF for years 1-5.

Enterprise Zone: City is reimbursed for 50% of the total cost by the State.



# Policy Consideration #2: Stacking

Some tax credits can be “stacked” or combined to create a larger benefit.

## Newly Constructed + Brownfield

<u>Tax Credit</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>
Newly Constructed (primary)	50%	40%	30%	20%	10%	0%	0%	0%	0%	0%
Brownfield (secondary)	<u>35%</u>	<u>42%</u>	<u>49%</u>	<u>56%</u>	<u>63%</u>	<u>70%</u>	<u>70%</u>	<u>70%</u>	<u>70%</u>	<u>70%</u>
<b>Total</b>	<b>85%</b>	<b>82%</b>	<b>79%</b>	<b>76%</b>	<b>73%</b>	<b>70%</b>	<b>70%</b>	<b>70%</b>	<b>70%</b>	<b>70%</b>

## Enterprise Zone + Brownfield

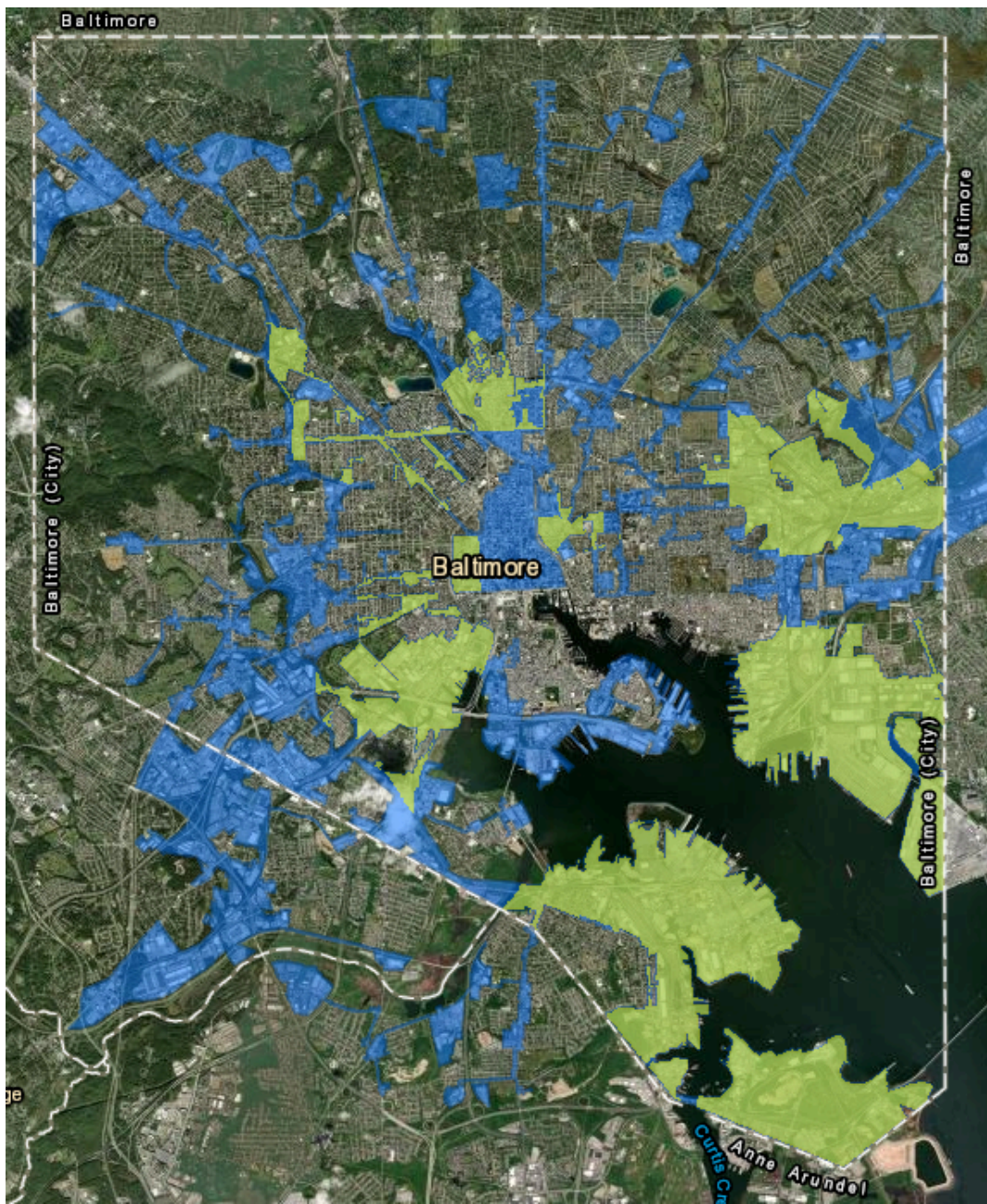
<u>Tax Credit</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>
Enterprise Zone (primary)	80%	80%	80%	80%	80%	70%	60%	50%	40%	30%
Brownfield (secondary)	<u>14%</u>	<u>14%</u>	<u>14%</u>	<u>14%</u>	<u>14%</u>	<u>21%</u>	<u>28%</u>	<u>35%</u>	<u>42%</u>	<u>49%</u>
<b>Total</b>	<b>94%</b>	<b>94%</b>	<b>94%</b>	<b>94%</b>	<b>94%</b>	<b>91%</b>	<b>88%</b>	<b>85%</b>	<b>82%</b>	<b>79%</b>



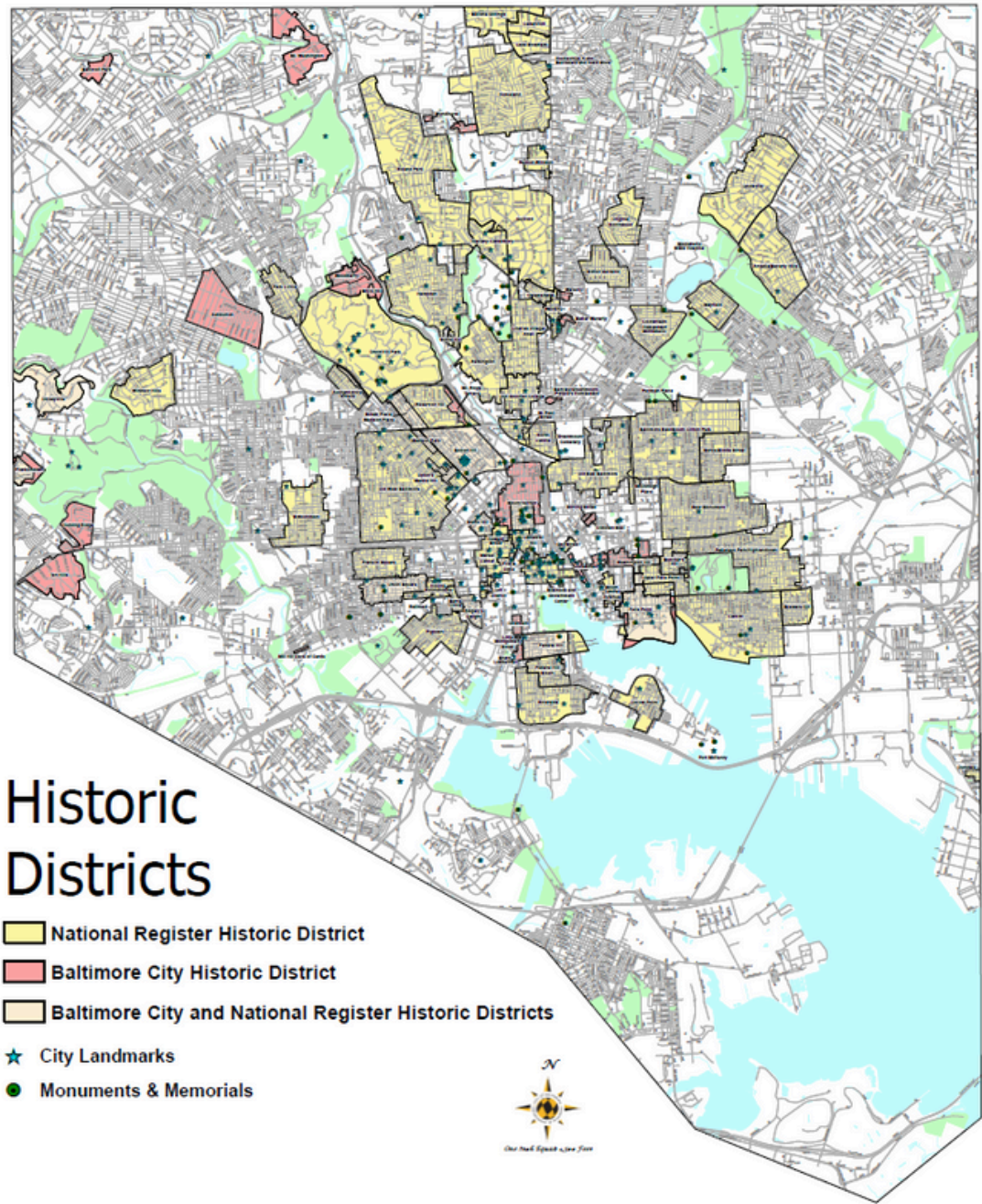
# Policy Considerations #3: Geographic Boundaries

Two of the City's tax credits have geographic boundaries; others are City-wide.

Enterprise Zone



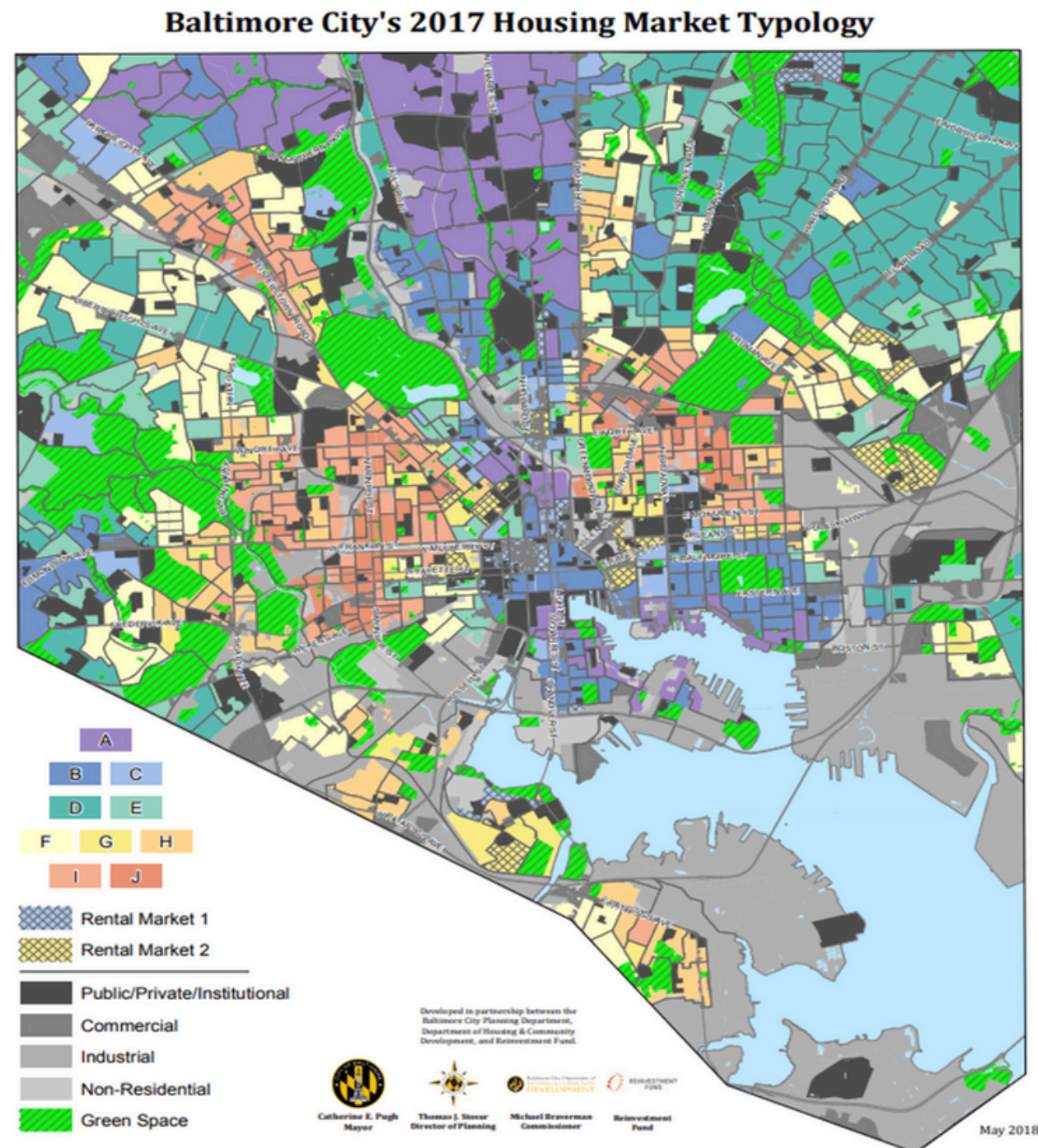
Historic (CHAP)





# Policy Consideration #3: Geographic Boundaries (cont.)

The City has a tool to measure the strength of the City's housing market.



HCD's Housing Market Typology is used to measure the strength of the City's housing market on a block-by-block basis.

It is a data-driven approach that uses a variety of important indicators such as sales prices, foreclosures, vacancies, and permit activity, among others.

This or similar tools could be used to draw boundaries for proposed tax credits or to create "tiers" for tax credits (i.e. lower subsidy in area A & B, higher subsidy in C & D, etc...)



# Policy Consideration #4: Requirements

## Do our requirements create unnecessary barriers to development?

- **NCTC:** Application must be filed within 90 days of settlement.
- **NCTC:** Owner must file a State income tax return each year.
- **NCTC:** Property owner must occupy the dwelling as principal residence.
- **CHAP:** Project must meet a variety of historic renovation criteria for details on both the exterior and interior of the home.
- **HPMRRTC:** Construction costs must exceed \$60,000 per unit.
- **HPMRRTC:** Project must contain no units subject to governmental restrictions on rent charged or the tenant's income level.
- **Various:** Building must meet "high-performance" green building standards.





# Policy Consideration #5: Application Process

## How does the process differ across tax credits?

- The HPMRRTC requires an initial application within 30 days of issuance of the first construction permit, and a final application after the occupancy permit is issued.
- The CHAP (Historic) tax credit requires preliminary certification by CHAP before work begins, and then applicant has two years to receive final certification.
- Other development tax credits require just one final application after work has been completed.
- Would a “pre-authorization” process provide more certainty to builders before work begins?





# Wrap-Up

