

Kickoff Meeting

Mayor's Tax Credit Workgroup

February 2024



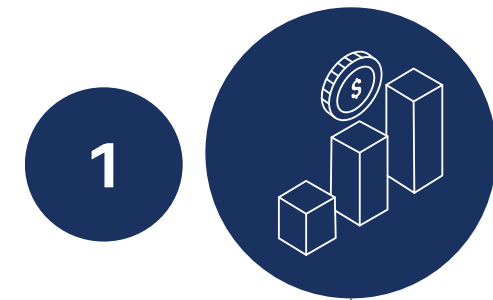
Tax Credit Workgroup

Mayor's Comments & Introductions



Brandon M. Scott
Mayor

Agenda



1

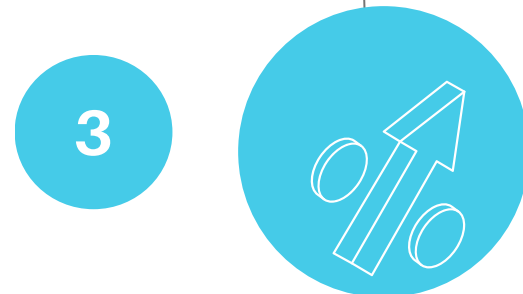
Mayor's Comments & Introductions



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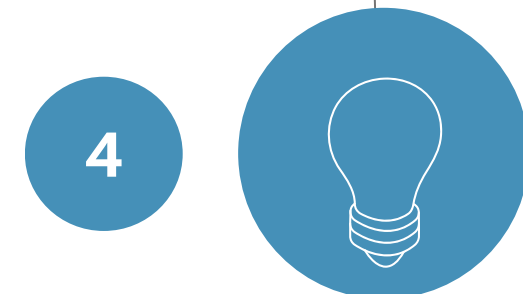
Workgroup Mission

Goals, Considerations, Values, Outcome, Parameters



3

Background & Scope



4

Wrap-Up

Tax Credit Workgroup

Workgroup Mission



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Overall Goals



The Workgroup's mission is to recommend the right mix of tax credits that accomplishes the following three goals:

1

Attracts additional investment to Baltimore City

Which in turn:

2

Creates sustainable growth in General Fund revenues

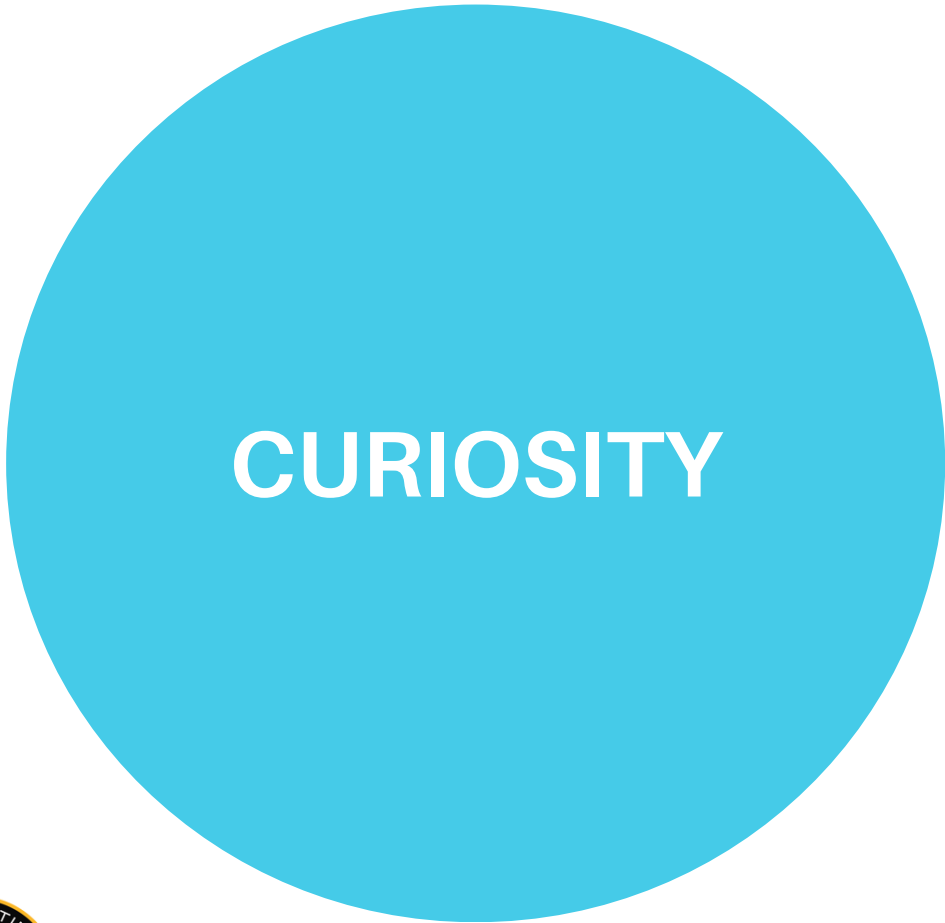
In a manner that:

3

Minimizes the City's cost by providing only the subsidy required to make projects feasible

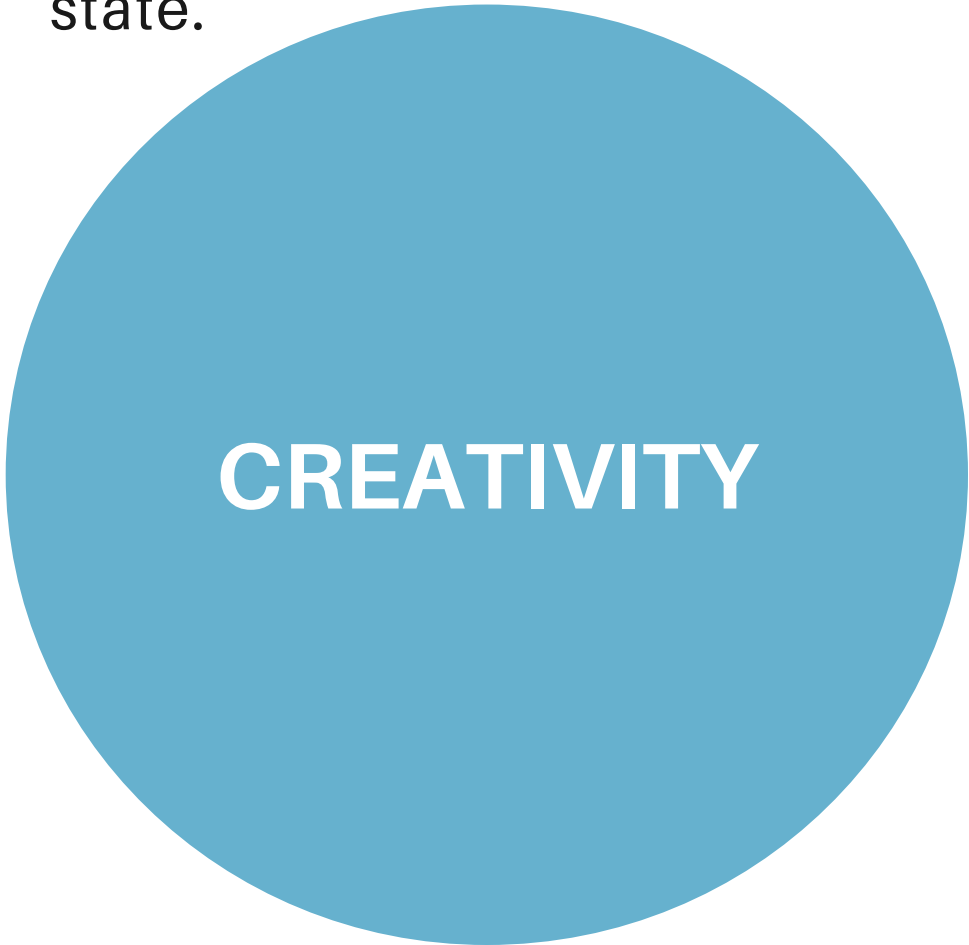
Values

We must remain *curious* about how other parts of the development ecosystem work.



We must be *transparent* with the information we each have, in order to build trust among the Workgroup.

We can be *creative* as we develop recommendations. We don't have to assume that the future program will look exactly like the current state.



Questions for Consideration

1

What were the policy goals behind the City's current Tax Credit programs? Have those goals been realized?

2

Which of the City's current Tax Credit programs are working and should be kept as is? Which ones are not working and should be considered for reform or phase out?

3

What is the right mix between commercial and residential incentives?

4

How does the post-COVID development landscape affect the City's approach to tax credits?



5

How should the City think about equity in this program? Are there opportunities to shift investment from strong neighborhoods with high demand to neighborhoods with higher growth potential?

6

How do we best ensure that new investment is "incremental" and does not simply cannibalize resources (and tax revenue) from one neighborhood to another?

7

Do our Tax Credit programs align with other stated City policies such as HCD's "Impact Investment Areas" or Planning's "Middle Neighborhoods" strategy? Should they?



Outcome

Final recommendation should include the following four components:

1

Overall Outline

- A broad discussion of the rationale for targeting various segments of the development market.
- A discussion of any other provisions that will apply to all tax credits uniformly such as term, length, and geographic boundaries.

2

Individual Tax Credits

- A clear description of each proposed tax credit, the term, and the criteria for eligibility.
- A projected 10-year cost, using assumptions developed with Finance staff.
- A discussion and examples of why projects would not be feasible “but for” the credit.

3

Sunset and Review Timeline

- A proposal for an appropriate timeline or trigger point for review.

4

Administrative Structure

- A description of any other administrative resource or other resources needed to effectively manage the tax credit program.



Budget Parameters

The Workgroup can create recommendations within three different budget scenarios:

Smaller Program	Baseline	Larger Program
<p>Build a program at a level below the current program cost.</p> <p>This scenario focuses on identifying inefficiencies in current programs without jeopardizing investment.</p> <p>Savings could be redirected to general budget relief, tax rate reduction, or other economic development investments.</p>	<p>Build a program at the current cost level.</p> <p>Workgroup has full freedom to recommend phase-out or reform of existing tax credits or entirely new tax credits, as long as it fits within the cost parameters.</p>	<p>Build a program at a level above the current program cost.</p> <p>This scenario will give the Workgroup some creative freedom to propose new tax credits, but those new programs must generate additional tax revenue to justify the additional cost.</p>
Estimated Cost: \$81.4M annual	Estimated Cost: \$111.4M annual	Estimated Cost: \$141.0M annual

Note: Finance staff to the committee can provide revenue and cost estimates based on historical tax credit applications and real estate assessment data.

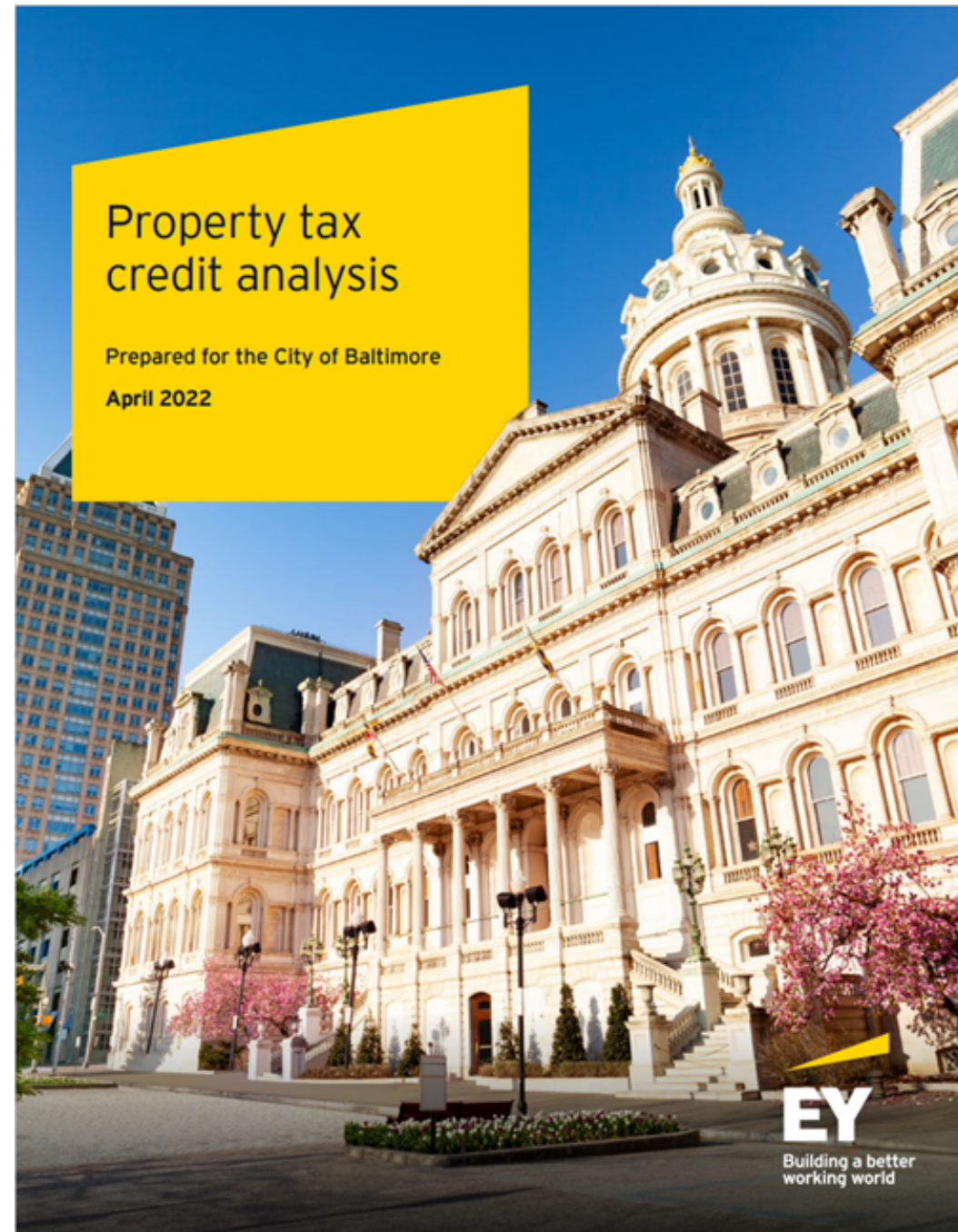
Tax Credit Workgroup

Background & Scope



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Background & History



The idea for a deeper analysis on Tax Credits was borne out of the City's 10-Year Financial Plan.

Tax credits were viewed as the “last frontier” of the City budget, with a significant cost but a limited understanding of their effectiveness.

The final report was a joint effort between BBMR, Fiscal Integrity Office (FIO) and Ernst & Young (EY).

Preliminary findings were available as early as 2020, with final written report published in 2022.

Tax Credit Categories

The City has three broad categories of tax credit programs:

Homeowner Protection: Intent is to protect or reduce the tax burden on residential homeowners.

Development Incentive: Intent is to encourage either residential or commercial development.

City Workforce Incentive: Intent is to incent certain populations of the City workforce to reside in the City.

List of Real Property Tax Credit Programs
By Intended Benefit

Homeowner Protection	Development Incentive	City Workforce Incentive
Homestead Targeted Homeowners Supplemental Homeowners Resident Retention	Newly Constructed High Performance Historic Restoration High Performance Market Rate Rental Brownfields Enterprise Zone Home Improvement Vacant Structure Cemetery	Public Safety Officers Low Income City Workers 911 Specialists



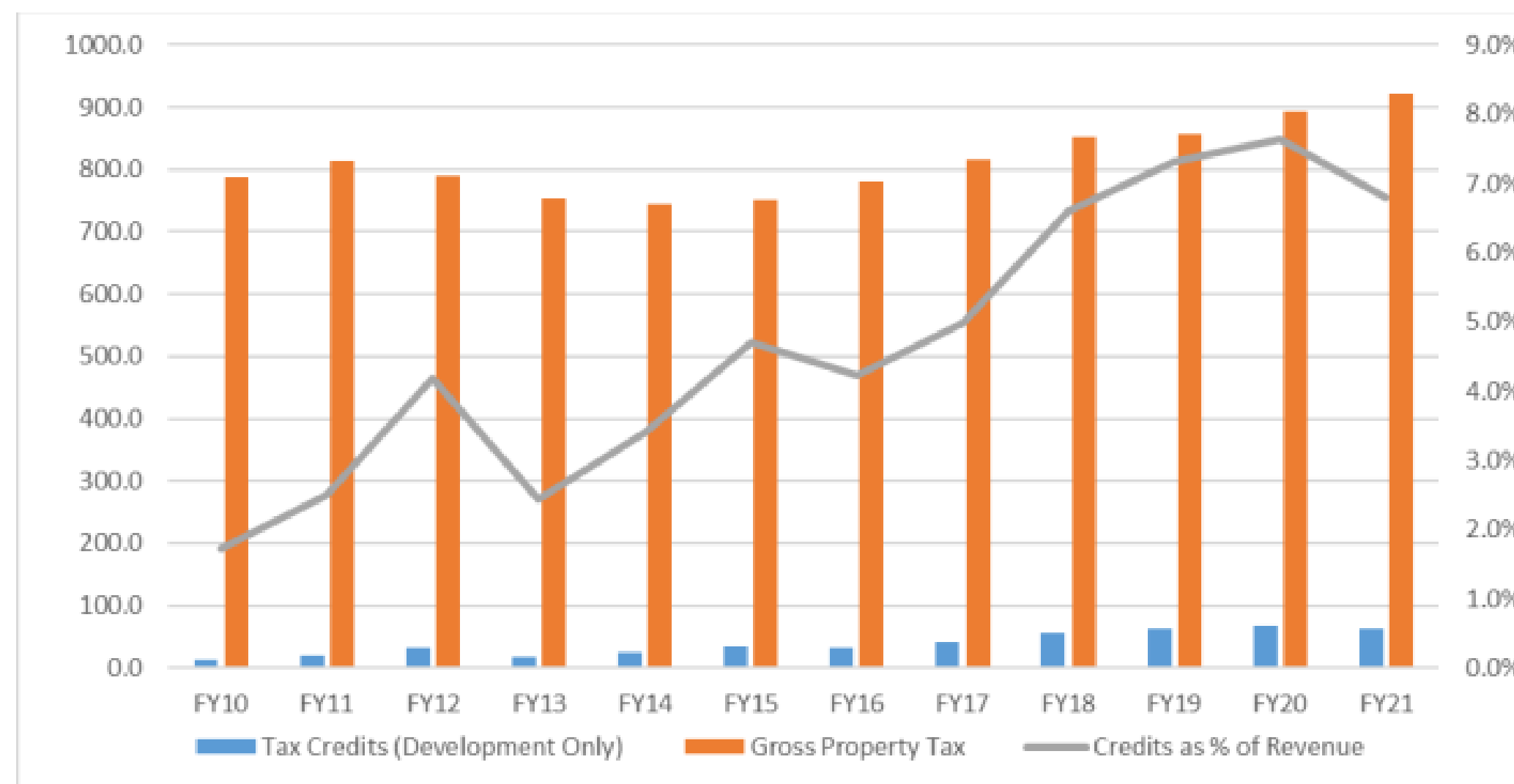
Tax Credits as a Part of the City's Budget

In the City's most recently completed Fiscal Year 2023:

Total Tax Credits (\$111.4 million) consume 10.5% of our real property tax revenue.

Development Tax Credits (\$63.2M) consume 6.9% of our property tax revenue, a trend that has grown over the last decade and a half.

Development Real Property Tax Credits as a % of Gross Property Tax Revenue
excludes Targeted Homeowners Tax Credit and Homestead Tax Credit
(in \$ millions)



Homestead Tax Credit

Limits annual increase in property tax liability for residential owner-occupied properties to 4%.

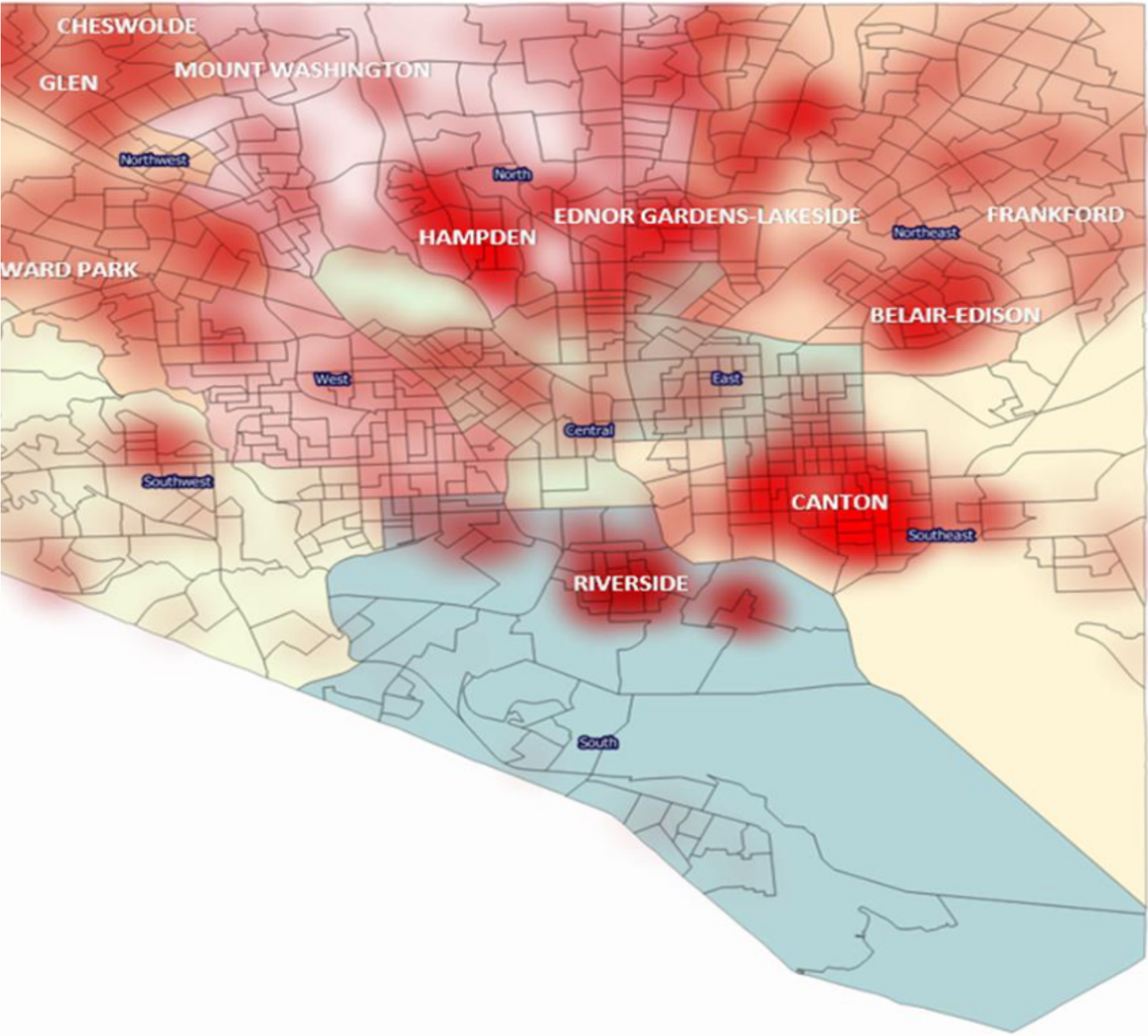
Fiscal 2023 Cost:
\$20.6 million

Top Five Neighborhoods

- Canton
- Riverside
- Hampden
- Reservoir Hill
- Cheswolde

Other County Caps

- Prince Georges 2%
- Baltimore 4%
- Harford 5%
- Howard 5%
- Carroll 5%
- Frederick 5%
- Montgomery 10%



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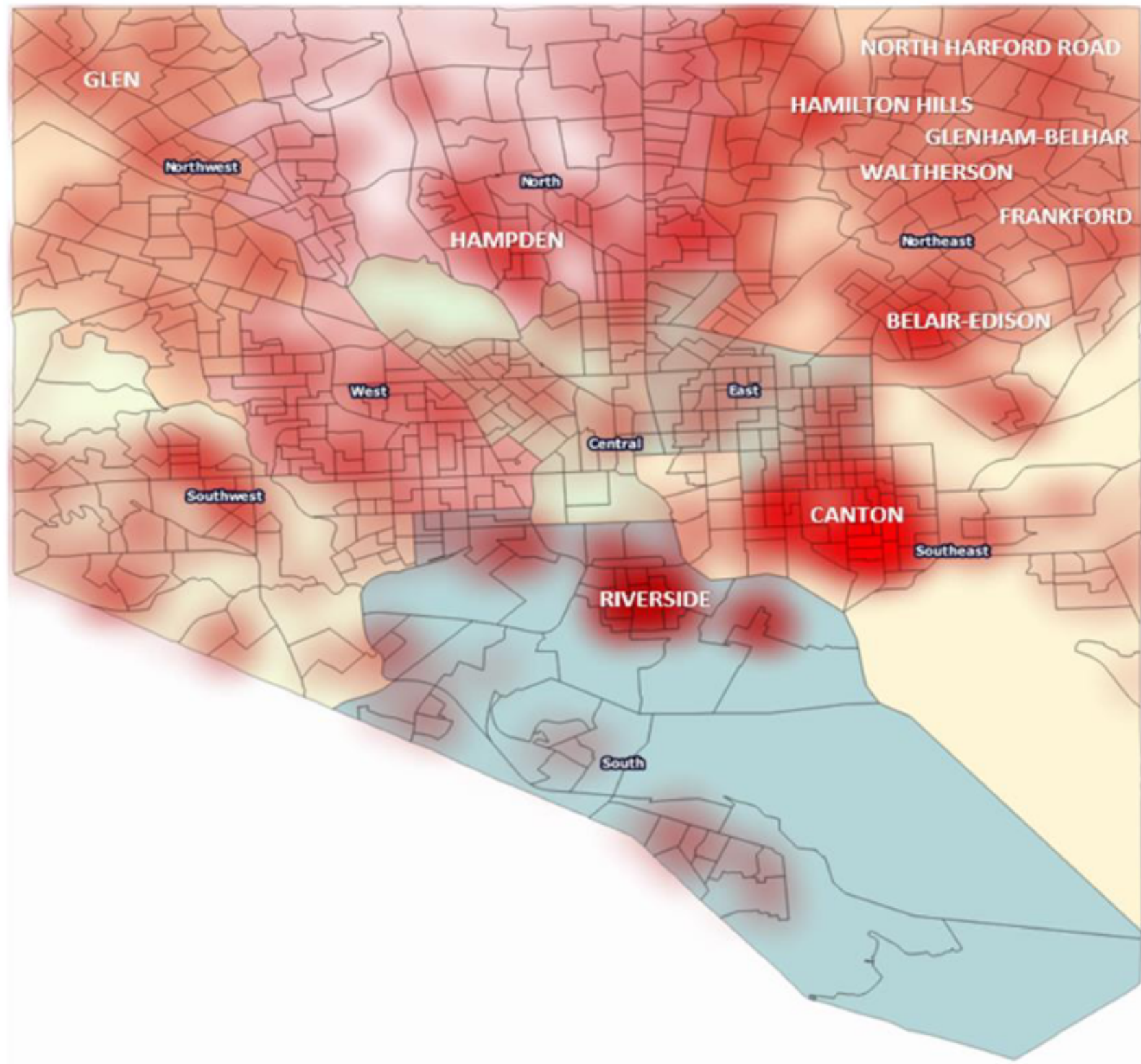
Targeted Homeowners Tax Credit (THTC)

Reduces the effective property tax by 20 cents for residential owner-occupied properties, from \$2.24 to \$2.04.

Fiscal 2023 Cost:
\$25.5 million

Top Five Neighborhoods

- Canton
- Riverside
- Roland Park
- Guilford
- Mount Washington



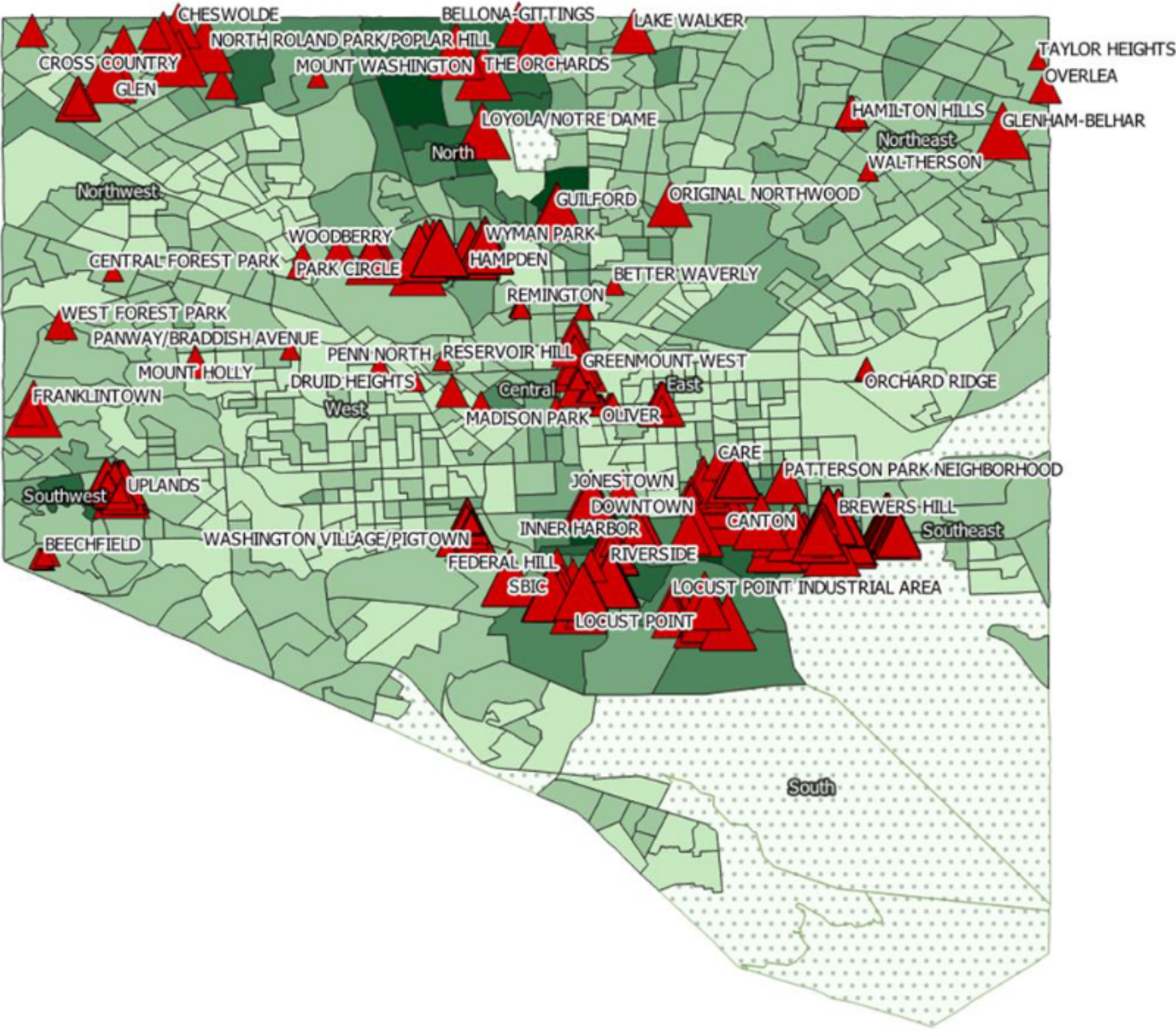
Newly Constructed High Performance Tax Credit

A five-year tax credit, beginning at 50% and declining to 10%, for newly constructed properties or substantial rehabs.

Fiscal 2023 Cost:
\$0.9 million

Top Five Neighborhoods

- Inner Harbor
- Canton
- Greektown
- Uplands
- Brewers Hill



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Historic Restoration & Rehabilitation Tax Credit (CHAP)

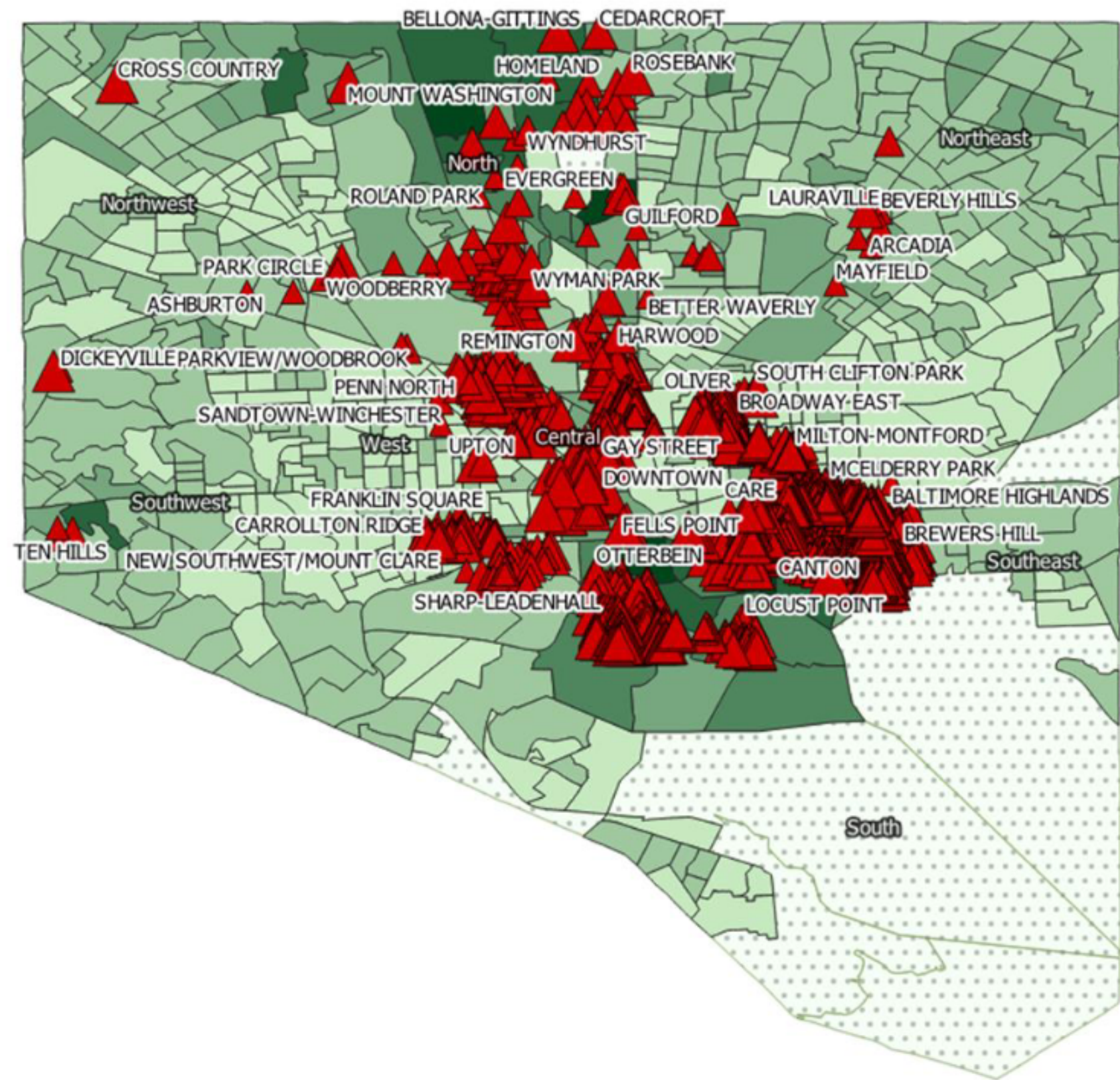
A 10-year 100% credit on the improved value of CHAP-certified projects located in a designated historic district.

Note: For projects > \$5.0M, credit is reduced to ten years beginning at 80% and declining to 30%.

Fiscal 2023 Cost:
\$12.0 million

Top Five Neighborhoods

- Canton
- Patterson Park
- South Baltimore
- Riverside
- Upper Fells Point



High-Performance Market-Rate Rental Tax Credit

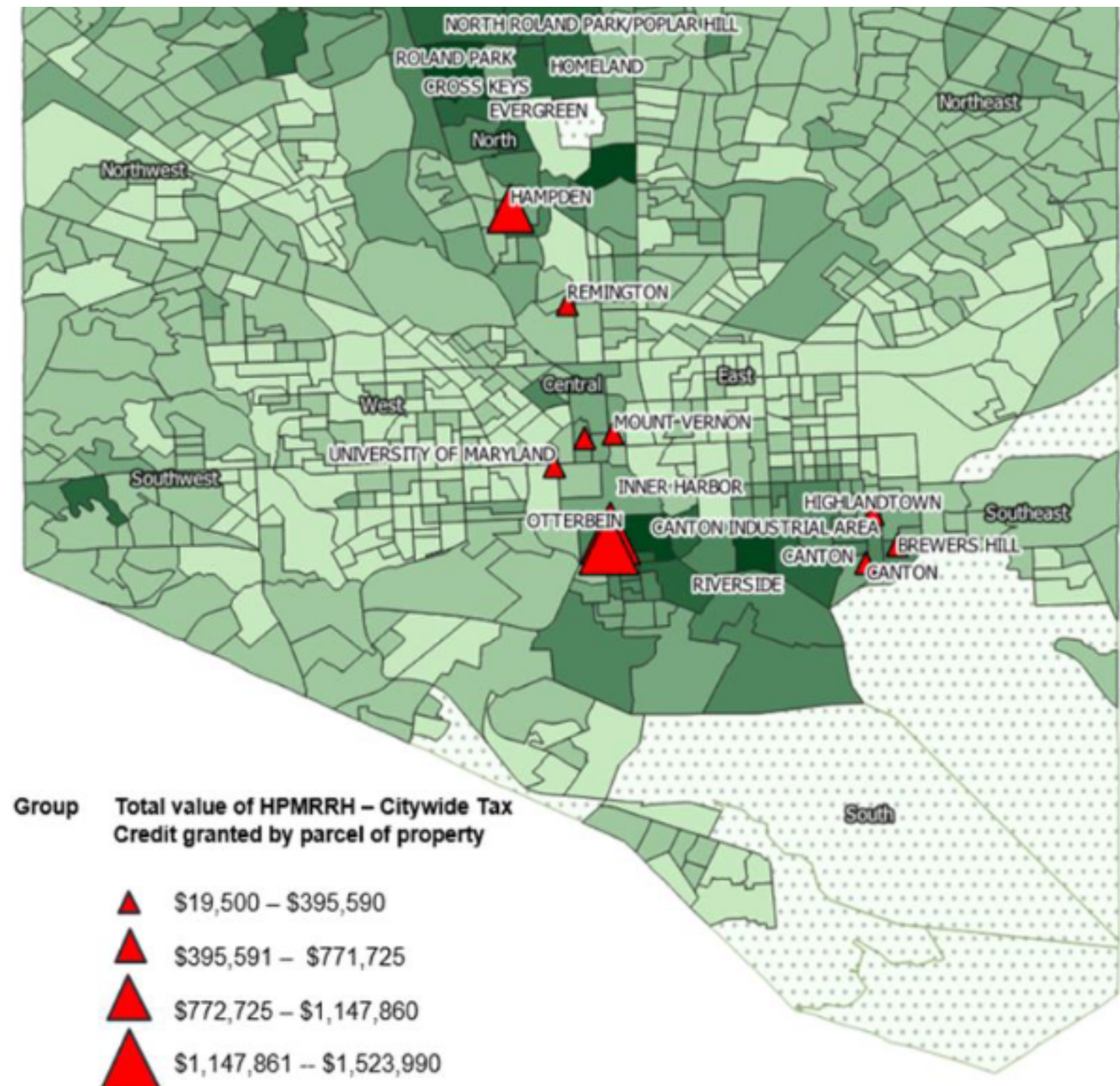
A 10-year credit, beginning at 80% and declining to 30%, on construction or conversion of new apartment buildings.

Note: Buildings must meet “high performance” construction standard and be for buildings with 10+ units.

Fiscal 2023 Cost:
\$16.9 million

Top Five Neighborhoods

- Downtown
- Otterbein
- Mount Vernon
- Hampden
- Brewers Hill



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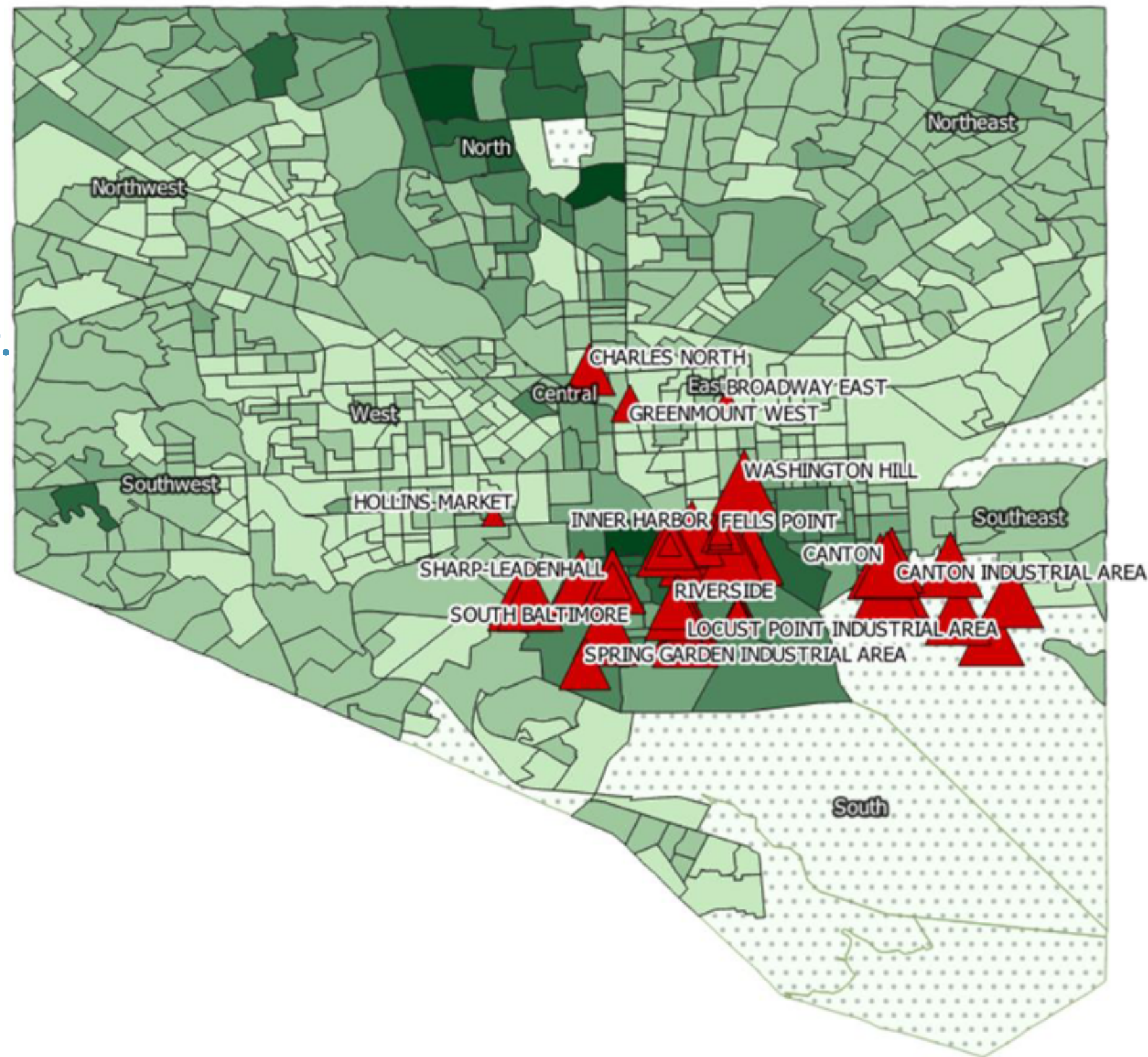
Brownfields Tax Credit

A 5-year credit at 50% for properties that have a voluntary corrective plan approved by MDE.

Note: Credit extends from 5 to 10 years for properties in EZ.
Note: Credit increase from 50% to 70% for projects > \$250k.
Note: City must make a State Fund contribution at 30% of cost.

Fiscal 2023 Cost:
\$18.5 million

- Top Five Neighborhoods**
- Fells Point
 - Canton Industrial Area
 - Inner Harbor
 - Riverside
 - Carroll Camden Industrial Area



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Enterprise Zone (EZ) Tax Credit

A 10-year credit, beginning at 80% and declining to 30%, for commercial properties within a State-designated Enterprise Zone.

Note: For Focus Areas, credit is 80% for all 10 years.

Note: State reimburses City for 50% of the credit cost.

Fiscal 2023 Cost:

\$14.9 million

Top Five Neighborhoods

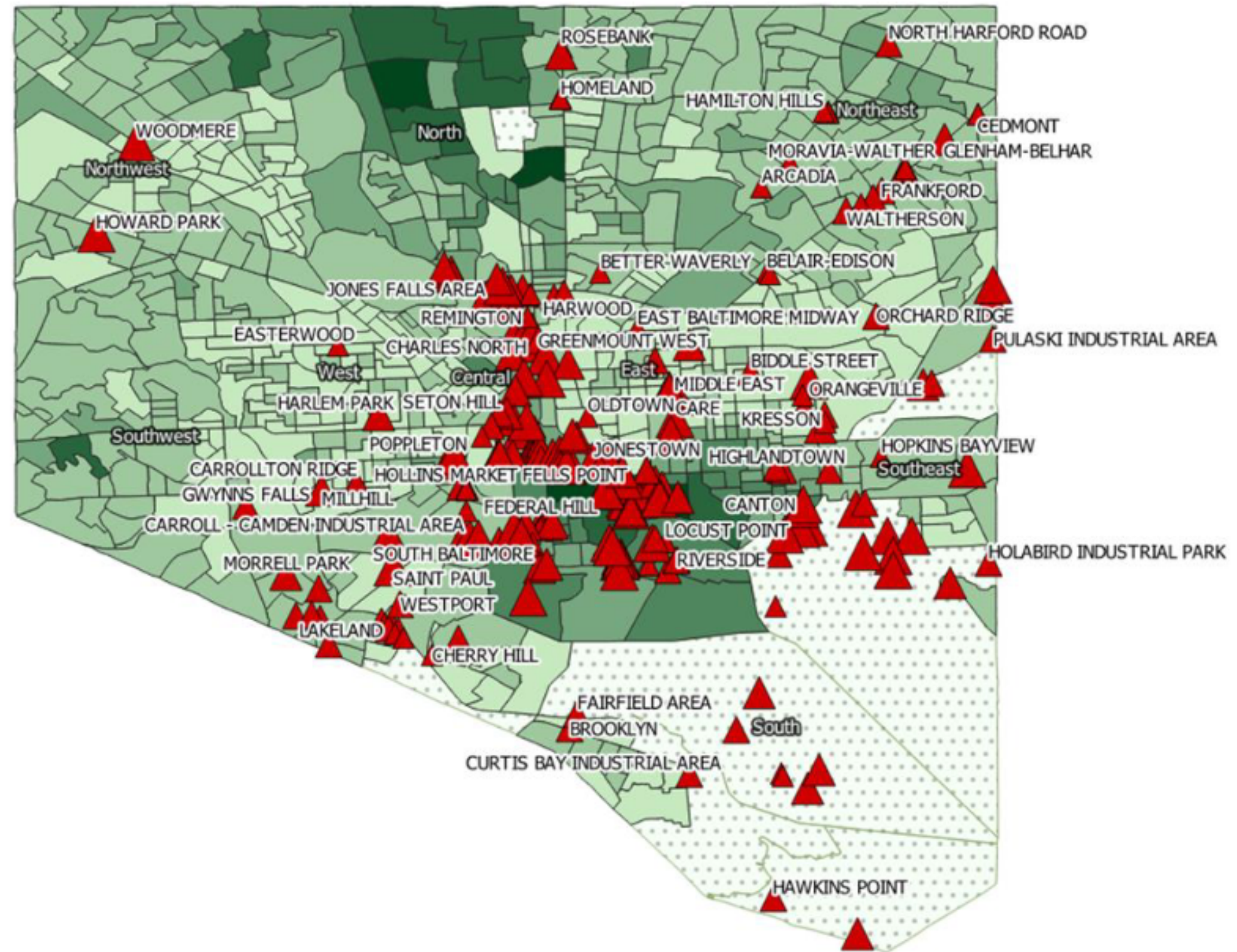
Carroll Camden Industrial Area

Canton Industrial Area

Fells Point

Inner Harbor

Middle East



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Should the Workgroup Deliberate on Other Development-Specific Tools?

- **Economic Development PILOTS**

- City only has 12 active economic development PILOTS remaining, and no new PILOTS have been authorized since 2014.
- PILOTS could be part of a strategy for reducing the City's subsidy cost on projects that reach a certain threshold or "trigger"
- ***Workgroup can recommend changes***



- **Affordable Housing Development PILOTS**

- City has a process in place to evaluate requests for PILOTS.
- City HCD, Finance, and Real Estate experts review PILOTS to ensure some tax is paid
- ***Out of Scope***



Should the Workgroup Deliberate on Other Development-Specific Tools?

- **Tax Increment Financing (TIF) Policies**
 - City believes it has a strong policy in place.
 - Projects requesting a TIF need a City agency sponsor, Board of Finance review, a “but for” test, and City Council approval.
 - TIF bonds are structured so that TIF district property owners can be billed if projected revenues fall short.
 - ***Workgroup can recommend changes***



- **Other City Legislative or Regulatory Issues**
 - There could be other rules or limitations that cause undue burden on new projects and limit the City’s attainment of additional tax revenue.
 - ***Workgroup can recommend changes***



Tax Credit Workgroup

Wrap-Up



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