City of Baltimore

BBMR Management Research Report

Analyzing the Impact of the 2024 "Renew Baltimore" Charter Amendment Proposal on Property Tax Rates

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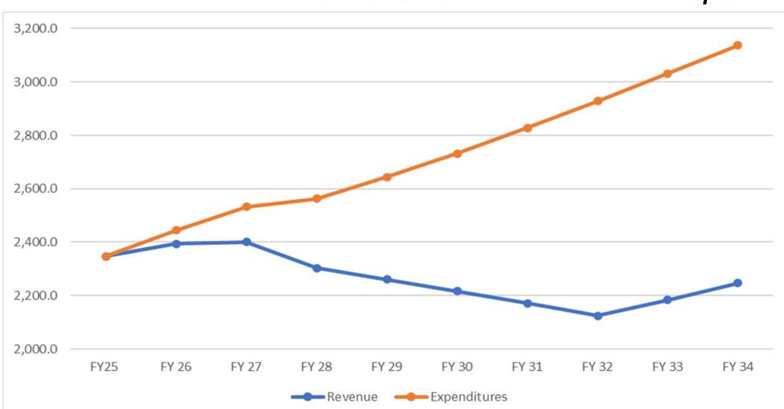
What BBMR Found

Budget Impact

1. Budget Gap: Due to the loss of property tax revenue, the Renew Baltimore proposal would open a massive structural hole in the City's budget which would reach $891 million annually between projected revenues and expenditures by Fiscal 2034.

2. Service Reductions: The City would not be able to balance the budget with small trims, efficiencies, or new revenues. Instead, the City would be forced to make massive service reductions across many agencies that would have crippling effects, especially on residents that most rely on City services.

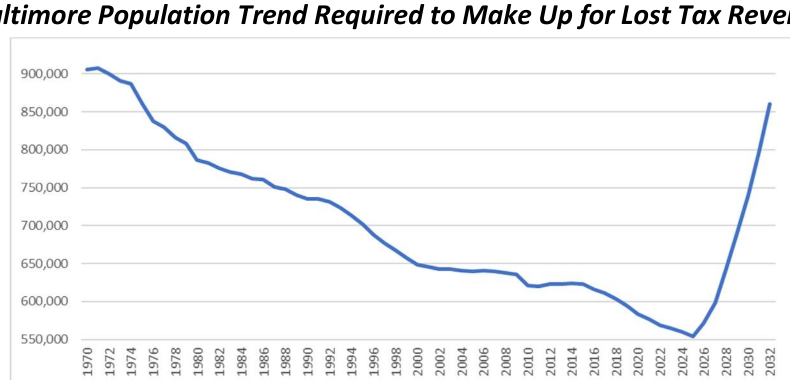
Baltimore General Fund Outlook Under Renew Baltimore Proposal



Testing Renew Baltimore's Claims

Renew Baltimore's claim that new revenues from population growth will make up for the lost tax revenue is wildly optimistic. The City would need to reverse more than fifty years of population decline in just a tiny seven-year window in order to make the proposal revenue-neutral for the City, which calls into doubt the credibility of the proposal:

Baltimore Population Trend Required to Make Up for Lost Tax Revenue



Why BBMR Did This Study

If the Renew Baltimore petition campaign is successful, Baltimore residents will vote on a November ballot initiative that would dramatically reduce the City's real property tax rate over a seven-year period. BBMR aims to educate its citizens and elected leaders on the likely budget impact of this proposal, and to test some of the claims that Renew Baltimore has made about its' proposal.

What BBMR Recommends

Dramatic tax reduction is appealing on its face, but tax reduction is best achieved via an incremental approach. Small but consistent rate reductions send a signal to property owners about the seriousness of the City's efforts, but also protect the budget and City services from drastic reductions.

The City's 10-Year Plan foresees rate relief via the following actions:

1. Establishing a Solid Waste fee and removing those costs from the General Fund, to be more in line with other large Maryland jurisdictions such as Howard, Montgomery, and Prince Georges County.

2. Generating savings via the City's tax credit programs. That work is already underway via the Mayor's Tax Credit Workgroup with recommendations expected in 2024.

3. Expanding the City's tax base by generating more revenue from non-profit entities. The City can pursue this option when the current agreement expires in 2026.

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INTRODUCTION

Background and Purpose

In November 2024 City voters may be faced with a ballot initiative which would alter the City Charter to cap the City's property tax rate. In effect, the rate would be reduced over a seven-year period, declining from the current rate of $2.248 per $100 of assessed value to reach a maximum allowable rate of $1.200 by Fiscal 2032. The coalition organizing this ballot initiative, Renew Baltimore, claims that the property tax reduction will allow Baltimore to "attract more capital, people, and jobs" and will make Baltimore "wealthier, healthier, and more equitable."

The purpose of this report is two-fold. One, educate the public in advance of the November election about the likely impact of this proposal. Tax reduction promises can be inherently appealing to property owners and could be done responsibly, but it is also important to understand the budget and service delivery impacts of such a proposal. Two, provide this same clarity for elected leaders about the likely impact of this proposal. If the ballot initiative passes and goes into law, future City leaders will be constrained by the law and will need to work within its boundaries.

To evaluate the impact of this ballot initiative, the City's Bureau of Budget and Management Research (BBMR) modeled the City's General Fund outlook over the next ten years, including the impact of Renew Baltimore's proposed tax reduction proposal. BBMR also reviewed various Renew Baltimore claims about the impact of the proposal, gathering information from Renew Baltimore's website, from other available literature, and from their interviews with local media. The results of that analysis are summarized in this report.

We believe BBMR is uniquely positioned to conduct a realistic assessment of the Renew Baltimore proposal. BBMR is required to write a fiscal note for most newly introduced City Council legislation, which has given our team extensive experience in analyzing various tax, budget, and policy proposals. And, the Budget Office is often called on to provide advice and to act as neutral arbiter on City budget or policy issues.

ANALYSIS: Impact of Renew Baltimore Proposal

Baseline Forecast

To evaluate the impact of Renew Baltimore's property tax reduction proposal, we must first start with a baseline financial forecast for the City's General Fund. Each year BBMR produces a 10-year "Current Level of Service" (CLS) forecast. The purpose of the CLS forecast is to compare projected revenues and expenditures assuming the maintenance of current service levels and no changes in current law or policy. This gives the City a starting point to evaluate any future changes in policy.

For this exercise, we started from the Fiscal 2025 Preliminary Budget proposal which is now available to the public at: https://bbmr.baltimorecity.gov. The Fiscal 2025 Preliminary Budget is balanced as required by the City Charter. Next, BBMR made a series of assumptions about future revenue and cost growth for Fiscal 2026 through Fiscal 2034 based on market research, economic trends, and other available information. Below, we explain the most important forecast factors for both the revenue and expenditure side of the budget. We also have included a table with the projected year-by-year growth rates for the key assumptions through Fiscal 2034:

Revenues

Property Tax: Property tax revenue is driven by real property assessments performed by the State Department of Assessments (SDAT). Approximately one-third of City properties are reassessed each year, and assessments are phased-in over a three-year period. In Fiscal 2026 Group I properties will be re-assessed which includes the northern portion of the City as well as the central business district (CBD). For the Group I re-assessment we expect some loss in value for commercial properties in the central business district but expect residential property values to grow due to the rapid appreciation in housing prices experienced between 2021 and 2023.

Income Tax: Income tax estimates are modeled after the Maryland Board of Revenue Estimates (BRE) forecast and are adjusted for City-specific factors in employment and income. The City's recent experience is that income tax growth mirrors the growth trends for the State of Maryland as a whole, with some improvement in the make-up of the City's tax base especially in the middle-income levels. We expect both trends to continue during the forecast period.

Key Revenue Growth Rate Assumptions

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Property Tax	6.2%	4.3%	3.7%	2.5%	2.9%	3.7%	4.0%	4.0%	4.0%
Income Tax	4.1%	4.1%	4.0%	3.9%	3.8%	3.8%	3.7%	3.7%	3.8%

Expenditures

Salaries: Salary growth is tied to expected inflation to ensure that employee wages maintain their purchasing power and keep City salaries competitive with other employers. Note that projected salary growth exceeds inflation in Fiscal 2026 through Fiscal 2028 for both ERS (civilian) and F&P (sworn) employees. The higher growth is to account for recent studies showing City salaries lagging other competing jurisdictions in certain classifications, with implementation of “catch-up” salary increases in Fiscal 2026, 2027, and 2028.

Pension: The City makes annual pension contributions on behalf of employees in the ERS (civilian), F&P (sworn), and EOS (elected) pension systems. The forecast is based on 10-year estimates that are included in each of the system’s Fiscal 2023 year-end actuarial report.

Health Care: The forecast includes health care benefits provided to active and retired City employees, which includes coverage for medical expenses, prescription drugs, dental and vision benefits, and life insurance.

Education: Per State law, the City must make a minimum annual required contribution (“Local Share”) to City Schools. The forecast is based on the 2022 State Department of Legislative Services (DLS) report “The Local Fiscal Impact of Implementing the Blueprint for Maryland’s Future.” The numbers have been adjusted to reflect the City’s movement from Tier One to Tier Two of the Education Effort Index in Fiscal 2024. Jurisdictions in Tier Two pick up additional State Aid each year through Fiscal 2030 which offsets some of the cost for implementing the Blueprint legislation.

Inflation: Most other major costs, including contractual services, materials, supplies, and equipment are forecast based on expected inflation.

Key Expenditure Growth Rate Assumptions

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Salaries – ERS	4.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Salaries – F&P	6.0%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Pension – ERS	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Pension – F&P	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Health Care	6.6%	6.5%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%
Education	2.4%	1.7%	2.1%	2.2%	3.6%	4.3%	4.3%	4.3%	4.3%
Inflation	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

Baseline Forecast

Next, BBMR combined the revenue and expenditure projections to build a year-by-year forecast. BBMR projects an annual General Fund shortfall of $27.0 million beginning in Fiscal 2026 and growing to $217.3 million by Fiscal 2034. The year-by-year results are displayed in the table below.

To summarize, even before accounting for any future tax rate reduction, the City’s baseline forecast shows that current service levels cannot be maintained without taking one of three actions: raising additional revenue, making service reductions, or finding efficiencies within the current budget:

Projected General Fund Revenues vs. Expenditures

(in $ millions)

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Revenues	2,417.0	2,476.2	2,477.1	2,535.9	2,600.3	2,672.6	2,751.3	2,833.5	2,920.2
Expenditures	2,334.2	2,425.0	2,521.1	2,605.3	2,696.4	2,796.5	2,900.8	3,006.8	3,114.3
PAYGO Capital	109.8	107.5	42.0	38.8	35.5	31.9	28.3	24.6	23.2
Surplus/Deficit	**(27.0)**	**(56.3)**	**(86.0)**	**(108.2)**	**(131.6)**	**(155.8)**	**(177.8)**	**(197.9)**	**(217.3)**

Renew Baltimore Impact

Next, BBMR added in the impact of the property tax reduction proposed by the Renew Baltimore charter amendment. The current real property tax rate for Baltimore City is $2.248 per $100 of assessed value and the personal property tax rate, per State law, must be set at 2.5 times the real property tax rate. The Renew Baltimore proposal would reduce the real property tax rate over a seven-year period between Fiscal 2026 and Fiscal 2032. Then, the rate would be capped at $1.200 per $100 of assessed value in Fiscal 2033 and beyond.

Projected Real Property Tax Rate Under the Renew Baltimore Proposal

Per each $100 of Assessed Property Value

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Tax Rate	$2.20	$2.10	$1.92	$1.74	$1.56	$1.38	$1.20	$1.20	$1.20

There will be an immediate reduction in both real and personal property tax revenue beginning in the first year of the required rate reduction (Fiscal 2026) with a growing impact through the final year of the seven-year phase-in (Fiscal 2032). Then, property tax revenues will level out in Fiscal 2033 and beyond. The lost revenue is a very simple and straightforward calculation. BBMR simply took the overall projected assessed property valuations for each year and applied the new tax rate versus the existing tax rate. Because the rate reduction is so sharp (46% reduction) and because property taxes make up nearly half of General Fund revenues (49%), the impact on the City's revenues is dramatic**.** By Fiscal 2032, the year that the tax rate levels out at $1.20, the City would be losing nearly a quarter of its current revenues or an equivalent of $627.3 million annually.

Projected Impact of Renew Baltimore Proposal on General Fund

(in $ millions)

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Lost Revenue	**(23.7)**	**(75.9)**	**(174.0)**	**(276.1)**	**(384.4)**	**(501.1)**	**(627.3)**	**(650.4)**	**(673.7)**

The City already faces a structural deficit in its baseline General Fund forecast for Fiscal 2026 through Fiscal 2034. The Renew Baltimore proposal will add to that deficit by reducing the City's ongoing property tax revenue. The following table shows BBMR's estimate of the 10-year forecast inclusive of the Renew Baltimore proposal. The City's General Fund would face a growing deficit over the 10-year period, growing to $891.0 million by Fiscal 2034:

Projected General Fund Revenues vs. Expenditures with Renew Baltimore Proposal

(in $ millions)

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Revenues	$2,393.3	2,400.3	2,303.1	2,259.8	2,215.9	2,171.5	2,124.0	2,183.1	2,246.5
Expenditures	2,334.2	2,425.0	2,521.1	2,605.3	2,696.4	2,796.5	2,900.8	3,006.8	3,114.3
PAYGO Capital	109.8	107.5	42.0	38.8	35.5	31.9	28.3	24.6	23.2
Surplus/Deficit	**($50.7)**	**(132.2)**	**(260.0)**	**(384.3)**	**(516.0)**	**(656.9)**	**(805.1)**	**(848.3)**	**(891.0)**

Other Impacts

Proponents of tax cuts often argue that these cuts lead to savings that get reinvested back into the economy. We reviewed the economic research on this topic, and we found some reason to believe this premise in two ways.

First, economic theory suggests that the cost of the property tax is capitalized into the value of property. Assuming two identical homes, the home in a high tax jurisdiction will have a lower selling price than a home in a low tax jurisdiction, because homebuyers look at the entire cost of purchasing a home including the sales price, taxes, interest, insurance, and other costs. Studies on this effect have shown that there is some modest increase in property values when property taxes are reduced.

Second, a fundamental principle of economics is that as prices fall demand will increase. The degree to which this will occur is referred to as the price elasticity of demand. Studies in the United States of this effect on housing demand have found that there is some modest increase in demand when the price of housing (including taxes) declines. This means that the City could see some in-migration of residents and businesses if the property tax rate were reduced significantly.

It's important to note that predicting the level at which in-migration will occur is complicated by many other factors including the quality of schools, crime levels, commuting costs, distance from family, and the availability of desired amenities, among many other factors. Cutting the tax rate will improve the economics of living in the City but decisions on where to reside are not made on economics alone. Further, given the historical trend of population loss in Baltimore City, it is likely that any positive effects of tax reduction from the studies cited above would have a more muted effect in Baltimore.

Given the difficulty of accurately predicting any in-migration from a property tax cut, in the next section we will instead test Renew Baltimore's claim by building a break-even analysis to show how many new residents and businesses would be required to achieve revenue-neutrality.

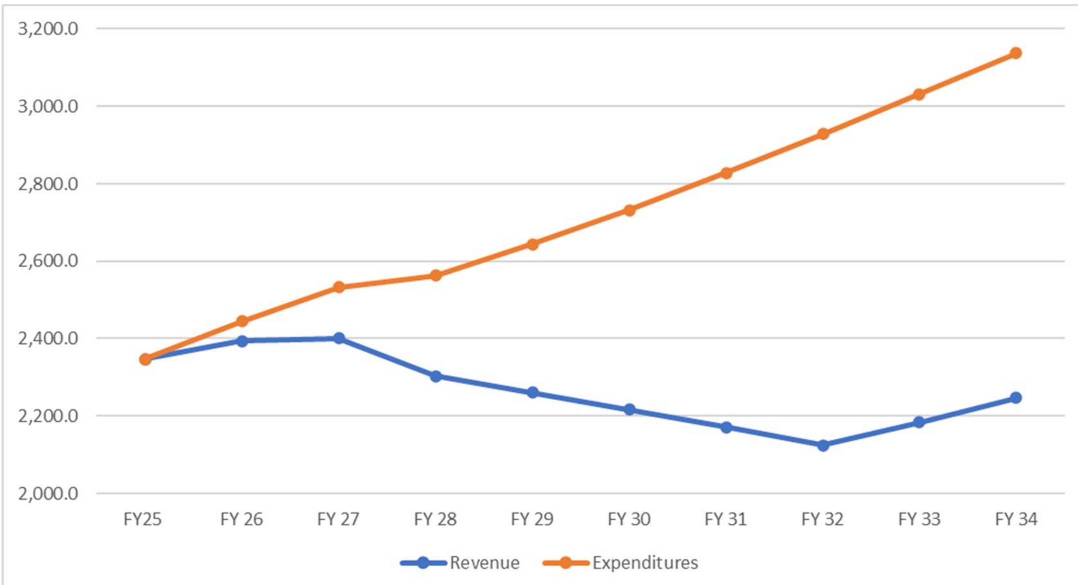
ANALYSIS: Testing Renew Baltimore's Claims

Renew Baltimore Claim #1: *A property tax cut will lead to more revenue for the City.*
BBMR Finding: **Myth**

The claim that a sharp property tax reduction will lead to more revenue for the City is wildly optimistic. BBMR's analysis in the previous section shows that budget shortfalls would grow rapidly during the seven-year phase-in period and reach a gap of $891.0 million by Fiscal 2034 due to the lost property tax revenue:

Baltimore City General Fund Outlook with Proposed Renew Baltimore Tax Reduction

Fiscal 2025 to Fiscal 2034



To test Renew Baltimore's claim that the property tax cut will lead to more revenue, we ran a break-even analysis to determine what must happen to make the proposal revenue-neutral overall. To break even the City must experience some combination of new households and new businesses that adds enough tax revenue to entirely offset the projected budget deficit. BBMR built a model to estimate how much tax revenue each new household and each new business creates.

For each new household, we assumed an average owner-occupied residential property assessment of $179,921 based on the most current assessment data from SDAT. After applying the effective property tax each year per the Renew Baltimore schedule and net of the Targeted Homeowners Tax Credit, we determined that each new household generates $3,820 of property tax revenue for the City. For income tax, the City's current revenues of $468.3 million were divided by the estimated 247,232 City households to determine that each household contributes $1,894 of income tax revenue on average. We also included an estimate of a $221 contribution per household for other nominal City revenues such as energy tax, telecommunications tax, and admissions and amusement tax.

For each new business, we first estimated the amount of personal property tax revenue generated on average for each new business. In Baltimore there are 14,291 businesses that will generate an estimated $142.7 million of personal property tax in Fiscal 2026 for an average of $9,985 per business. We also included an estimated contribution of $2,747 per business for other City revenues such as energy tax and telecommunications tax.

The following tables shows the estimated contribution for each new household and each new business. Note that the contribution per new household or business declines from Fiscal 2026 to 2032 due to the impact of Renew Baltimore's proposed property tax cut:

Estimated New Revenue from One New Household

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Property Tax	$3,820	3,789	3,548	3,247	2,938	2,632	2,315	2,403	2,491
Income Tax	1,894	1,987	2,084	2,186	2,293	2,406	2,524	2,647	2,777
Other Revenue	221	226	230	235	240	244	249	254	259
Total	**5.936**	**6,002**	**5,864**	**5,669**	**5,472**	**5,283**	**5,089**	**5,305**	**5,528**

Estimated New Revenue from One New Business

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Property Tax	9,772	9,679	9,251	8,635	8,012	7,371	6,685	6,970	7,263
Other Revenue	2,747	2,802	2,858	2,915	2,973	3,033	3,093	3,155	3,218
Total	**12,519**	**12,481**	**12,109**	**11,550**	**10,986**	**10,404**	**9,779**	**10,126**	**10,482**

Next, we computed the number of new households and new businesses needed to close the projected budget gap caused by the loss of revenue from the Renew Baltimore proposal, which begins at $50.7 million in Fiscal 2026 and grows to $891.0 million by Fiscal 2034. We assumed that for every 17.3 new households one new business will be created, using the current ratio of households (247,232) to businesses (14,291). We were also able to translate the new households to population, knowing that currently there are 2.28 occupants per household:

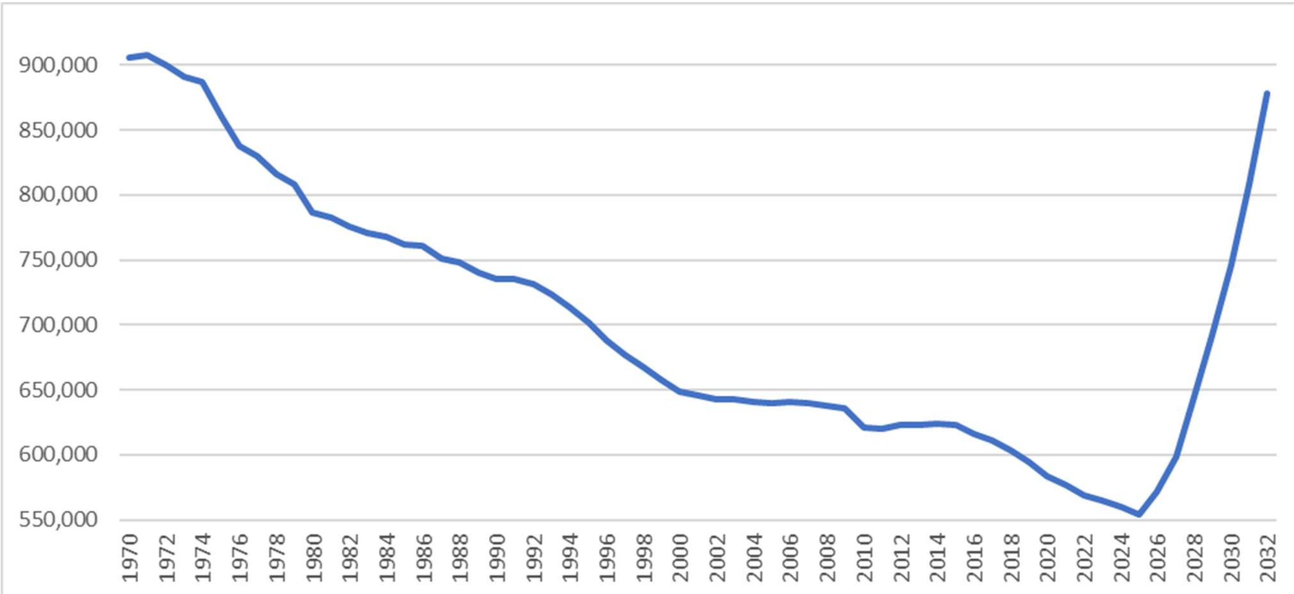
New Households, Businesses, and Residents Required to Close Budget Deficit

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Households	7,612	19,661	39,610	60,647	84,483	111,617	142,378	143,995	145,242
Businesses	440	1,136	2,290	3,506	4,883	6,452	8,230	8,324	8,396
Residents	17,356	44,827	90,312	138,275	192,622	245,487	324,621	328,310	331,152

BBMR's analysis shows that by the last year of the tax cut phase-in, to a property tax rate of $1.20 in Fiscal 2032, the City will need to gain over 300,000 new residents and add over 8,000 new businesses to make the Renew Baltimore proposal revenue neutral. Looking at this in the context of the City's longer-term population trends shows just how unrealistic this task would be. Essentially, the City would need to reverse over fifty years of population growth in just a tiny seven-year window to make the proposal work:

Baltimore City Population Growth Needed to Make Up for Lost Revenues

Actual and Estimated Population 1970 to 2034



Note that our estimate is conservative because we did not attempt to estimate the new expenditures that would be needed to support any growth in population. But, realistically, any substantial growth in population would require the expansion of existing services and add even more cost to the expenditure forecast. This in turn would require even more new residents and/or businesses to make the proposal revenue neutral.

BBMR's conclusion from this break-even analysis is that the number of new residents required to make the Renew Baltimore proposal revenue-neutral is substantially higher than what could reasonably be expected.

Renew Baltimore Claim #2: *City services will not be cut.*
BBMR Finding: **Myth**

The Renew Baltimore proposal will lead to crippling City service reductions, with the impact felt most directly by the poorest Baltimore residents. Renew Baltimore claims that the property tax rate cuts are "small, manageable increments." This statement is wildly inaccurate.

To get a sense of the service reductions required, we must first gain some perspective on the City's General Fund budget. The City's Preliminary General Fund Budget for Fiscal 2025 is $2.237 billion, but approximately $1.0 billion of the budget, or 42.6%, is made up of "fixed costs." Fixed costs are costs that the City must pay either by law or by contractual obligation, such as debt service, pension contributions, mandated contributions to City Schools, retiree health benefits, workers compensation payments, and utilities, among many others. Once those fixed costs are accounted for the City only has a "discretionary" budget of $1.2 billion. And, most of that discretionary budget is tied directly to service delivery – salaries and benefits, equipment, materials, and contract costs.

The Renew Baltimore proposal would eliminate nearly a quarter (23.1%) of the City's General Fund revenue. To simplify this and put it in terms of the Fiscal 2025 budget, the City would need to eliminate $537 million worth of services out of a total discretionary budget of only $1.3 billion, or over 40% of the City's discretionary budget.

BBMR built a realistic proposal for what a reduction of this magnitude would look like. The City would first seek to find efficiencies within the budget that have minimal impact on residents, but there is only so much efficiency to be gained before direct service reductions are required. Seeking other revenue sources is also a possibility but this will yield only minimum results. In addition to the Charter restriction on property tax rates, the City is already at the State maximum income tax rate of 3.2%. Those two sources alone make up over 70% of the City's General Fund revenue. And other tax rates for housing transfers and recordation, parking tax, and hotel tax are already at or tied for the highest rates in Maryland.

BBMR did not assume that new revenues could be generated that require State legislation. As of the time of publication, the State of Maryland was still grappling with its own budget challenges. At the close of the 2024 General Assembly session the legislature raised a variety of taxes and fees to fund the Transportation Trust Fund. But, future unfunded requirements for implementing the Blueprint for Maryland's Future (education) were deferred to later fiscal years. It would be unrealistic to expect the State to provide new taxing authority for the City when they are facing their own budget challenges.

Permanently balancing the City's budget under the Renew Baltimore proposal would require the combination of all the following budget savings and/or cuts totaling $537 million. **The package below is a realistic assessment of how dramatically City government would need to shrink by Fiscal 2032 under the Renew Baltimore proposal:**

Summary of Actions Needed to Balance the Budget by Fiscal 2032 Under Renew Baltimore Proposal

All Services and Amounts in Fiscal 2025 Dollars

Efficiencies and New Revenues **($124.5 million)**: Eliminate 200 long-term vacant positions, find $20 million of other agency efficiencies, eliminate the Targeted Homeowners Tax Credit, reduce Tax Credit offerings by 20%, double the Homestead Cap from 4% to 8%, raise the Taxi Tax from $0.25 to $1.00 per ride, and increase energy tax rates by 10%.

Public Safety **($233.0 million)**: Reduce the Police force by 40% (1,000 officers), eliminate the Police helicopter unit, close 40% of Fire Suppression units (20 units), close 40% of EMS units (10 units), eliminate Sheriff enforcement of child support payments, eliminate SAO's victim and witness protection programs, reduce SAO prosecutors by 1/3 (50 prosecutors), and eliminate all 10 Safe Street sites.

Cleanliness and Beautification **($25.9 million)**: Eliminate street and alley cleaning, return to permanent bi-weekly recycling, eliminate business district cleaning, close the Cylburn Arboretum and Rawlings Conservatory, eliminate mowing and maintenance for 870 median strips, and eliminate the Inner Harbor beautification and safety teams.

Youth and Education **($46.6 million)**: Eliminate all after-school programming, reduce school nurses to only 1 for every 3 schools, eliminate school crossing guards, reduce rec center hours from 6 days to 3 days per week, eliminate 1/3 of Library branch locations (7 libraries), eliminate all pre and post-natal maternal health visits, eliminate 2,000 Youth Works jobs slots, eliminate trauma-informed care training for City employees, and eliminate all Healthy Homes lead exposure visits.

Direct Employee Impacts **($76.1 million)**: Freeze employee pay for three consecutive years, double employee costs for healthcare from 20% to 40% share of premium, eliminate all employee training programs, and eliminate employee wellness, training, and assistance programs.

Miscellaneous **($30.9 million)**: Reduce annual Capital investment from $100M to $80M, eliminate all election early voting sites, eliminate all support for community development entities, eliminate all grants for art and cultural institutions, and eliminate Charm-TV and all public broadcasting.

This combination of budget cuts, totaling $537 in Fiscal 2025 dollars, would be truly devastating. It would be especially difficult for lower-income residents who are more reliant on City services. Renew Baltimore claims that property tax reduction will trigger an influx of new investment, but we think exactly the opposite is more likely. Once property owners, residents, and businesses begin to see the massive and unprecedented reduction in City services the City risks ***losing*** property owners who seek a more stable environment.

Renew Baltimore Claim #3: *Similar tax reduction proposals have triggered a turnaround in other cities.*
BBMR Finding: **Myth**

The claim that a sharp tax cut was the trigger for turnaround in places such as San Francisco does not stand up to scrutiny. A better comparable for the Renew Baltimore proposal is an experimental income tax cut in the state of Kansas that triggered an ongoing fiscal crisis for the better part of the next decade.

San Francisco: Proponents of sharp tax cuts often to point to the implementation of Proposition 13 in California in 1978 as an example of a policy that spurred the turnaround of San Francisco. But that argument does not stand up to scrutiny. First, the explosion in downtown development in San Francisco occurred between 1965 and 1980, beginning well before the implementation of Prop 13. Second, the State of California took actions to cushion the financial blow for local jurisdictions. The State gave block grants and shifted some tax revenue back to local governments and bought out parts of state-mandated health and welfare programs to reduce costs for local governments. Baltimore would not have the luxury of receiving similar support from Annapolis.

The Renew Baltimore coalition also argues that Prop 13 created an economic spark that led to growth in receipts for sales and use taxes, payroll taxes, and business licenses. Here they are mixing up cause and effect. The City of San Francisco had to broaden its tax base to collect more revenue from these sources ***because of*** the loss in property tax revenue. In fact, across California, the financing of city and county services shifted from general taxes to other fees and charges.

Kansas: A better comparison to the Renew Baltimore proposal is Kansas Governor Sam Brownback's income tax cut experiment. In May 2012 the Governor signed a bill that cut the top income tax rates and eliminated pass-through income from businesses to their owners. The Governor argued that the tax cuts would pay for themselves through increased revenues and would serve as a real live experiment of whether tax cuts could create growth. Brownback's tax consultant was Arthur Laffer, a noted "supply-side" economist, and his policies were endorsed by noted anti-tax activist Grover Norquist.

The tax cuts resulted in an almost immediate deterioration of the State's fiscal health. In 2014, after the tax cuts went into effect, State revenues plummeted by nearly $700 million. S&P and Moody's both downgraded the State's bond rating due to the structurally unbalanced budget. Lawmakers were forced to utilize one-time gimmicks to make up for the loss of revenue by drawing on General Fund reserves, diverting money from the State transportation fund, and reducing annual pension payments. And, further budget cuts were needed to balance the State's budget, including sharp reductions in Medicaid and education spending. In 2017 the newly elected Kansas legislature, having tired of the ongoing fiscal crisis, voted to restore the top income tax rate and the pass-through business tax. This action effectively ended the "Kansas experiment" and restored structural balance to the State's budget.

Renew Baltimore Claim #4: *Baltimore taxpayers pay a tax rate that is twice as high as other Maryland residents.*
BBMR Finding: **Needs More Context for a Fair Comparison**

Comparing the City's tax rate versus other county rates alone does not provide a true apples-to-apples comparison of the tax burdens between different jurisdictions. Baltimore's real property tax rate of $2.248 per $100 of assessed value is the highest when compared to other Maryland counties alone. However, there are three adjustments – Solid Waste fees, the Targeted Homeowners Tax Credit, and municipal tax rates - that must be made to make a more accurate comparison about the tax burdens that property owners face in Baltimore compared to other Maryland jurisdictions:

1) Solid Waste Fees: Baltimore City is one of the few large jurisdictions in Maryland that funds Solid Waste collection costs in its General Fund via the property tax. Most other large counties in Maryland - including Prince Georges, Montgomery, Howard, and Anne Arundel - charge a separate Solid Waste collection fee to property owners on top of the property tax rate. In the Fiscal 2024 budget the City spent $92.2 million on Solid Waste services which includes trash and recycling collection, street and alley cleaning, disposal, and landfill costs. Given that each penny of the City's tax rate generates $5.1 million of General Fund revenue, the City's tax rate is overstated by the equivalent of $0.180 when compared to these other large Maryland counties which charge a separate fee for those services.

2) Targeted Homeowners Tax Credit: Any residential owner-occupied property in Baltimore that is Homestead-eligible automatically receives the Targeted Homeowners Tax Credit (THTC). The THTC effectively reduces the rate for those property owners by an additional $0.20 per $100 of assessed value. There is no equivalent tax credit in any other Maryland county.

3) Municipal Tax Rates: Approximately 26% of Maryland residents live in either a town or municipality that charges an additional municipal or town tax rate on top of the county rate. These jurisdictions tend to be denser with higher demands for services and thus serve as a better comparison to Baltimore City. For example, taxpayers in the City of Frederick pay both the Frederick County property tax rate plus the City of Frederick rate for a combined total of $1.687. The same is true of many other large municipalities in the State including Hagerstown, College Park, Bel Air, Havre de Grace, and Annapolis, among many others.

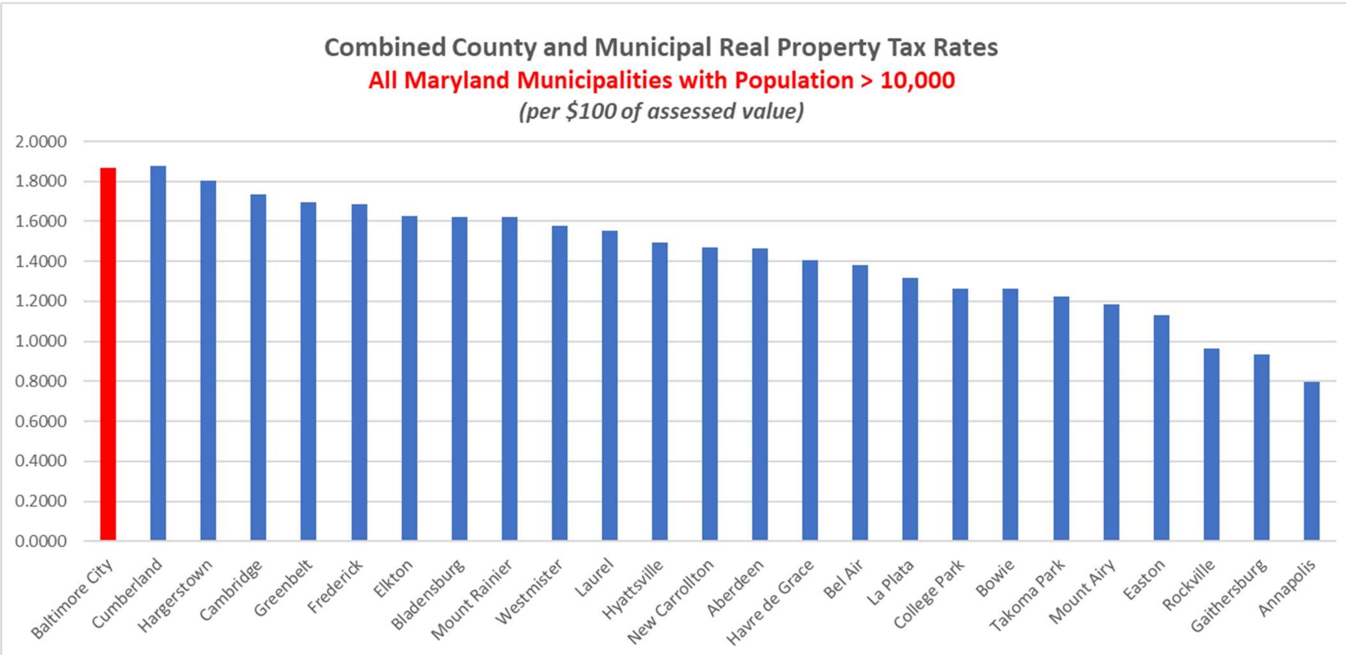
A more accurate comparison is to take Baltimore's tax rate, correct for the impact of Solid Waste fees and the THTC, and then compare versus other municipality's combined county and local rate.:

Comparable Baltimore City Property Tax Rates

Accounting for Solid Waste Costs and the Targeted Homeowners Tax Credit

	Rate
Base Baltimore City Property Tax Rate	$2.248
Less: equivalent Solid Waste Enterprise costs	($0.180)
Equals: **Comparable Tax Rate for Commercial and Residential Non-Owner Occupied Property**	**$2.068**
Less: Targeted Homeowners Tax Credit	($0.200)
Equals: **Comparable Tax Rate for Residential Owner-Occupied Property**	**$1.868**

When comparing the adjusted $1.868 City tax rate for residential owner-occupied properties to other Maryland municipality's combined tax rates, the comparison is more favorable and not nearly as bad as the "double the tax rate" headline that is often used to describe the City's tax rates.



CONCLUSIONS

BBMR aims to provide clarity to the public, elected officials, and other stakeholders about the impact of various City tax, budget, and policy proposals. The Renew Baltimore petition that is currently circulating would represent a dramatic change in tax policy with significant impacts on the City budget and service delivery. As such, we felt it was out duty to perform a good-faith analysis of the proposal and its potential impact on Baltimore residents.

Our conclusion is that the Renew Baltimore proposal would create an enormous structural deficit in the City's General Fund budget, and in turn require massive service reductions that represent more than 40% of the City's discretionary budget. Those service reductions would be most likely to impact the City's most vulnerable residents. Renew Baltimore's claim that new revenues would offset the lost property tax revenue are wildly unrealistic and failed a common-sense break-even analysis. Claims that similar proposals have triggered a turnaround in other cities do not stand up to scrutiny.

Dramatic tax reduction is appealing on its face, but tax reduction is best achieved via an incremental approach. Small but consistent rate increases send a signal to property owners about the seriousness of the City's efforts, but also protect the budget and City services from drastic reductions. The City's 10-Year Financial Plan includes several initiatives – such as establishing a Solid Waste fee, making reforms to tax credit programs, and expanding the City's tax base to include large non-profit entities – that can serve as a roadmap for generating tax relief via a more manageable and realistic approach.

APPENDIX I: CONTACT INFORMATION

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BBMR Mission

The Bureau of the Budget and Management Research is an essential fiscal steward for the City of Baltimore. Our mission is to promote economy and efficiency in the use of City resources and help the Mayor and City agencies achieve positive outcomes for the citizens of Baltimore. We do this by planning for sustainability, exercising fiscal oversight, and performing analysis of resource management and service performance. We value integrity, learning and innovating, excellent customer service, and team spirit.

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Contacting BBMR

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