

# Property tax credit analysis

Prepared for the City of Baltimore

April 2022



Building a better  
working world



# Contents

1 Study Purpose and Summary .....	1
2 Data and Methodology .....	4
3 Homestead Tax Credit .....	5
4 Targeted Homeowners Tax Credit .....	10
5 Newly Constructed Tax Credit .....	14
6 Historic Restoration and Rehabilitation Tax Credit .....	18
7 High-Performance Market-Rate Rental Housing Tax Credit (HPMRRH).....	22
8 Brownfields Tax Credit .....	26
9 Enterprise Zone Tax Credit (EZ) .....	30

## Limitations and restrictions

The services performed by Ernst & Young LLP (EY US) in preparing this report for the City of Baltimore were advisory in nature. Neither the report nor any of our work constitutes a legal opinion or advice. No representation is made relating to matters of a legal nature.

Our scope of work was determined by the City and agreed to by EY US pursuant to the terms of our engagement agreement. Certain analyses and findings in this report are based on estimates and/or assumptions about tax credits that were provided by the City. The findings and analyses contained in the report are based on data and information made available to EY US through the date hereof. Should additional relevant data or information become available after the date of the report, such data or information may have a material impact on the findings in the report. EY US has no future obligation to update the report.

The report is intended solely for use by the City. While we believe the work performed is responsive to the City's request pursuant to the scope of work in the SOW, we make no representation as to the sufficiency of the report and our work for any other purposes. Any third parties reading the report should be aware that the report is subject to limitations, and the scope of the report was not designed for use or reliance by third parties for investment purposes or any other purpose. We assume no duty, obligation, or responsibility whatsoever to any third parties that may obtain access to the report.

# 1 Study Purpose and Summary

Ernst & Young (EY) was commissioned by the City of Baltimore to analyze the City's property tax credit policy to assess its alignment with the City's policy objectives. This study examines seven tax credit programs – Homestead, Targeted Homeowners, Newly Constructed, Historic Restoration and Rehabilitation, High-Performance Market-Rate Rental Housing, Brownfields, and Enterprise Zone. EY worked closely with the Bureau of the Budget and Management Research (BBMR) on the analysis. During the analysis, BBMR provided EY with raw data for all City tax credits granted since 2007. In addition, BBMR also provided its insight into the history and purpose of the tax credits, along with its existing internal analyses on the tax credits.

EY found that the value of total property tax credits for the City has been steadily growing during the previous five years. From FY16 to FY20, total property tax credits grew by 36% or approximately \$34 million. Homestead, Targeted Homeowners, Brownfields, and Enterprise Zone Tax Credits are the largest programs in dollar magnitude. In FY20 only, total property tax credits resulted in a \$128 million of foregone tax revenue. Among all property tax credits, Brownfields, Targeted Homeowners, and Enterprise Zone Tax Credits have the highest five year (FY16-FY20) growth rates of 154%, 46%, and 37%, respectively. In terms of the increases in dollar amounts, High-Performance Market-Rate Rental Housing (HPMRRH), Brownfields, and Targeted Homeowners Tax Credits grew the most in the last five years, each with at least an \$11 million increase.

Based on the intended benefit, each property tax credit can be classified into three categories – Homeowner Protection, Development Incentive, and City Workforce Incentive. Among these three categories, Development Incentive has the highest growth (107%) in total tax credits from FY16 to FY20, surpassing the magnitude of Homeowner Protection, the previous largest category in terms of the total tax credit amount.

**Table 1. City of Baltimore: Property Tax Credit Overview, FY16-FY20**

Tax Credits (in million \$)	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Actual	FY20 Actual	Growth Rate FY16-FY20
Homeowner Protection	\$61	\$61	\$61	\$60	\$59	-4%
Homestead	\$38	\$35	\$33	\$28	\$24	-37%
Targeted Homeowners	\$23	\$26	\$26	\$30	\$34	46%
Supplemental Homeowners	\$0	\$0	\$1	\$2	\$1	--
Development Incentive	\$33	\$41	\$56	\$54	\$68	107%
Newly Constructed Dwellings	\$2	\$2	\$2	\$2	\$2	-15%
Historic Restoration and Rehabilitation	\$8	\$9	\$10	\$11	\$11	31%
High-Performance Market-Rate Rental Housing	\$0	\$3	\$5	\$4	\$15	--
Brownfields	\$8	\$9	\$16	\$13	\$20	154%
Enterprise Zone	\$15	\$17	\$24	\$23	\$21	37%
City Workforce Incentive	\$0	\$0	\$0	\$1	\$1	--
Public Safety Officer	\$0	\$0	\$0	\$1	\$1	--
<b>Total</b>	<b>\$94</b>	<b>\$102</b>	<b>\$117</b>	<b>\$116</b>	<b>\$128</b>	<b>36%</b>

Source: The City of Baltimore Budget Publications FY2016-FY2022



Sections 3-9 of this report provide a detailed analysis for Homestead, Targeted Homeowners, Newly Constructed, Historic Restoration and Rehabilitation, High-Performance Market-Rate Rental Housing, Brownfields, and Enterprise Zone Tax Credits. EY did not have enough data to evaluate Supplemental Homeowners and Public Safety Officer Tax Credits. Therefore, these two tax credits are excluded from the detailed analysis.

Below is a summary of key findings in the detailed analysis:

► **Homestead Tax Credit:**

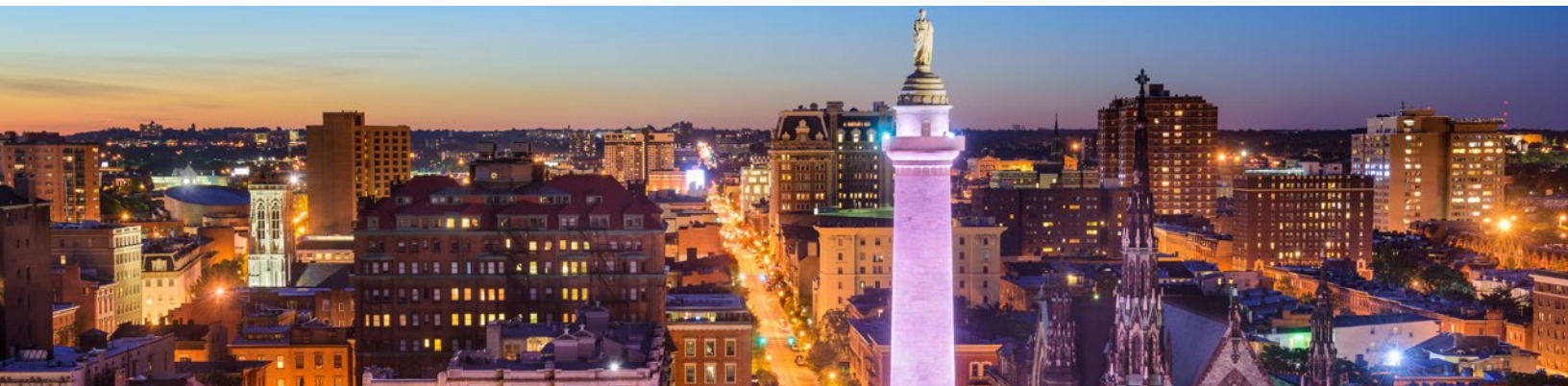
The Homestead Tax Credit was created to limit the annual increase in property tax liability for owner-occupied housing. Following the real estate price trend, the tax credit grew rapidly to its peak in FY2010 and declined after FY2010. Due to its percentage-based structure and relatively low cap rate (4%), the tax credit tends to benefit higher-valued properties, which generally experience greater absolute and proportionate value growth, promoting vertical inequity within the owner-occupied category of residential properties with different housing values. Local jurisdictions can choose a Homestead cap between 0% and 10% per State law. The City set its cap at 4% in 1990, one of the lowest among neighboring counties. Should the City decide to raise the cap, it will yield more property tax revenue for the local jurisdiction and reduce disparities in effective tax rates across housing value categories.

► **Targeted Homeowners Tax Credit (THTC):**

Every owner-occupied residence eligible for the Homestead Tax Credit can apply for this credit which is based on the improved structural value of the property. The THTC was conceived as part of the City's 10-Year Financial Plan and was considered a crucial first step in reducing the City's tax burden for residential owner-occupied properties. The cost of the credit has grown each year as planned, per the intention to phase in the program between FY2013 and FY2020. According to the City, the program achieved its goal of a 20-cent reduction in FY2020 and has remained at that effective level in FY2021 and FY2022. The THTC is considered an efficient tax credit since it delivers a lower effective tax rate for all owner-occupied residential properties. Nevertheless, for owner-occupied residential properties with low improvement values, the THTC does not significantly reduce the property tax burdens for homeowners who may find property tax to be burdensome. This makes the THTC vertically regressive.

► **Newly Constructed Tax Credit (NCTC):**

The Statewide NCTC expired at the end of FY2019. As a stop-gap measure, the City Council created a new credit under the High-Performance law. This credit, the High-Performance Newly Constructed Tax Credit, is intended to serve as a replacement for the NCTC, while re-authorization of the original NCTC is considered by the General Assembly. Historically, the NCTC application and grants tracked directly with neighborhoods that have seen significant new construction activities. This includes some traditionally stable neighborhoods such as Canton and the Inner Harbor, but also has extended to other neighborhoods such as Uplands, Greektown, Hampden, and Greenmount West. Nearly 50% of the value of all 2019 NCTCs were granted to the top five neighborhoods, which were generally considered to be affluent neighborhoods. The Newly Constructed Tax Credit incentivizes new construction of owner-occupied properties. Due to a construction surge before the Great Recession, the NCTC reached its peak in FY2010. The NCTC is likely to be vertically regressive if the developers and purchasers of newly built homes, who benefit from the program, are of higher income compared to average residents. In the NCTC recipients survey, 66.4% of home buyers reported that they knew about the credit prior to purchasing a home while the remaining 33.6% of homebuyers did not know about the credit, and in turn did not influence their homebuying decision.



► **Historic Restoration and Rehabilitation Tax Credit (CHAP):**

The Historic Restoration and Rehabilitation Tax Credit (CHAP) is a Statewide optional credit that was first established in Baltimore City in 1996 to incent the restoration of historic properties. The CHAP has grown steadily over the last twelve years due to the continuous addition of new historic designations. The cost of the credit somewhat declined beginning in 2017 due to tighter restrictions that were placed on projects greater than \$5 million. From a housing and redevelopment perspective, it is not clear that historic designation is synonymous with areas in need of the greatest development. Historical data shows that the credit has generally concentrated in neighborhoods with high average per-capita incomes. Although the credit is available to all neighborhoods with a historic designation, market incentive for new development is generally higher in already-established neighborhoods, where potential for investment returns is strong, than in low-income neighborhoods.

► **High-Performance Market-Rate Rental Housing Tax Credit (HPMRRTC):**

This tax credit primarily had two components: the “Targeted” HPMRRTC and the “City-wide” HPMRRTC. The Targeted HPMRRTC, which expired in 2019, was designed to encourage construction and rehabilitation in the City’s downtown neighborhoods, whereas the City-wide HPMRRTC, which is set to expire in December of 2022, is not restricted to any geographic area. As of FY2020, there were thirteen properties built that utilized the Targeted HPMRRTC and ten properties built that utilized the City-wide HPMRRTC. This credit is likely to increase the upper-scale housing development and decrease the smaller-scale housing development. As a result, this credit can cause the lowest-valued rental properties to be forced out of the market and may not contribute much to the net housing supply.

► **Brownfields Tax Credit:**

The Brownfields Tax Credit is a Statewide optional<sup>1</sup> tax credit, established as a part of Maryland’s Smart Growth policy in order to promote economic development by encouraging the redevelopment of contaminated sites. Between FY2017 and FY2019, the credit grew significantly for residential use. The distribution of this credit tracks closely with the City’s Enterprise Zones, due to the extended benefit granted for properties located in these zones. The top five neighborhoods (Fells Point, Canton IA, Inner Harbor, Riverside, and Carrol Camden IA) account for 73% of the tax credit cost in 2019. Most of these areas are considered to be among the most affluent neighborhoods in the City. Brownfield redevelopment can promote vertical equity if redeveloped properties receiving mitigations are concentrated in low-income neighborhoods; however, the tax benefit receivers usually have market incentive to develop in more affluent areas, where the potential for return on investment is high. According to the City, the Brownfields Tax Credit is now being used in place of other tax credits that provide a better net return to the City. The Brownfields credit is duplicative of other residential tax credits and does not appear to be urgently needed for commercial development. Additionally, due to the requirement that the City must make a contribution to the State when the credit is used, the Brownfields credit is not cost-effective from the City’s perspective.

► **Enterprise Zone (EZ) Tax Credit:**

The EZ Tax Credit is a Statewide mandatory<sup>2</sup> credit established in 1982 to encourage targeted investment in economically distressed areas as measured by unemployment, poverty status, population decline, or property abandonment. The Enterprise Zone Tax Credit provides benefits to properties in the industrial zone and has experienced a significant increase in credit volume (\$) from FY2007 to FY2019. This credit can transfer economic activity from other areas to the Enterprise Zones. EZs could be equity-enhancing if the zoning targets areas with low-income residents and the need for redevelopment. However, the equity benefit would ultimately erode if the benefits accrue to landowners who are not City residents and if the construction activities benefit non-local contractors and construction workers. On the other hand, the Enterprise Zone Tax Credit is the only City tax credit that receives partial reimbursement from the State. By law, the State must reimburse the City for 50% of the cost. Since the City’s foregone taxes are only half of the credit that its taxpayers benefit from, the EZ Tax Credit, regardless of the inefficiencies in its distribution, is considered more cost-effective to the City than other credits.

1. “Statewide optional” means that the City can choose whether to provide the tax credit to taxpayers.

2. “Statewide mandatory” means that the State requires the City to provide the tax credit to taxpayers.

# 2 Data and Methodology

---

EY reviewed the historical trend in the total cost of City tax credits to identify tax credits with a significant impact on the total cost, and then provided a detailed analysis of those specific tax credits. This resulted in a review of seven primary tax credits – Homestead, Targeted Homeowners, Newly Constructed, Historic Restoration and Rehabilitation, High-Performance Market-Rate Rental Housing, Brownfields, and Enterprise Zone.

In the analysis of specific tax credits, EY primarily focused on questions related to key policy and design choices and outcomes.

1. What is the stated purpose of the tax credit and what behavior or goal is it trying to incent?
2. What are the eligibility criteria for the credit?
3. Is there a sunset date for the credit or a review process to evaluate the results?
4. Are there any legal restrictions? What flexibility does the City have in modifying the credit?
5. What is the historical trend for total number of credits granted and the total cost of those credits?
6. What is the geographic distribution of properties that have received the credit? What does the spatial distribution of these incentives reveal?
7. Which neighborhoods benefit most from the credit, and why?
8. Is the tax credit efficient in economic terms? Is the credit optimally allocating resources based on the stated intent, and does it distort economic behavior?
9. Is the tax credit equitable in economic terms? Are resources distributed fairly vertically, i.e., up and down the income and wealth spectrum? Are resources distributed fairly horizontally, i.e., are similar people or properties treated the same?
10. Are there other considerations or contexts that are important in understanding the tax credit?

In the specific tax credit analysis, EY used Baltimore City's Real Property Assessment (RPA) data by property and publicly available parcel-level data from the State Department of Assessments (SDAT). The aggregated data by tax credit from these sources may not match the annual total reported in the City's published budget files. In the detailed analysis, EY only had partial data available for FY19, which may not be comparable to the FY19 data from the City's FY2022 budget. Over the course of the study, EY also interviewed the City officials to understand the mechanics of each tax credit and how each tax credit operates in practice.

EY relied on the Bureau of the Census' American Community Survey data for demographic and spatial analysis. EY matched socio-economic variables such as per-capita income to Baltimore City's block groups. Using these socio-economic variables from Census and the tax credit data from RPA and SDAT, EY then created maps to analyze the distribution of tax credit grants and compared to neighborhood socio-economic indicators.





# 3 Homestead Tax Credit

Background	Type:	Residential Protection
	Sub-Market	Owner-Occupied
Credit Mechanics	Eligibility	Homeowners must file a one-time application certifying that the property is their primary residence.
	Credit	Limits the annual increase in property tax liability. Baltimore City's cap is 4%. Allowable range is 0% to 10%.
Financials	FY22 Estimated Total Cost	\$23 million
Legal	Sunset Date	No Sunset
	Legal	Statewide Mandatory

Note: Estimated total cost is based on the City of Baltimore's Budget Publications FY2016-FY2022.

## Background

The Homestead Tax Credit is a Statewide credit created in the late 1970s. The intent of the credit is to protect residential owner-occupied properties from higher tax bills during times of growing real estate assessments. Local jurisdictions can cap tax increases anywhere from 0% to 10% annually. Baltimore City's cap is set at 4%.

The Homestead Tax Credit is only available for owner-occupied residential properties that are the owners' primary residences. However, based on the analysis of the past credit claims, the City stated finding program integrity issues related to the credit, where some homeowners had falsely claimed a second home or rental property as their primary residence. Due to these concerns, in 2007, the General Assembly enacted legislation requiring a one-time application process for homeowners to certify that the property is their primary residence. The State Department of Assessments (SDAT) now also requires a property claimed to match the address on file with the Motor Vehicle Administration. Locally, the City's Billing Integrity Unit regularly checks Homestead-eligible properties versus the Housing and Community Development (HCD) rental registration system. Any anomalies are reported to SDAT for further review.

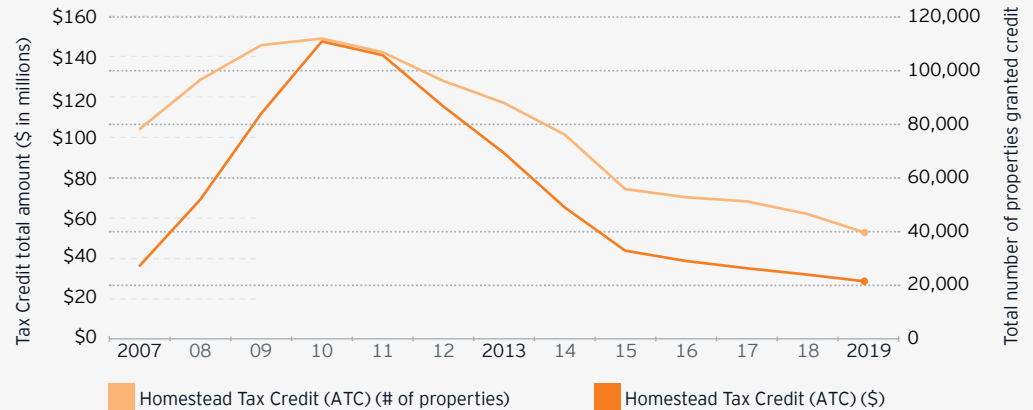
## Historical Trend

Use of the Homestead Tax Credit peaked in 2010, with 111,960 properties claiming the credit for a total cost to the City of \$147.8M. The rapid growth in real estate prices in the prior decade had often exceeded the 4% cap, which led to many new credit eligible properties. Property values declined between FY2011 and FY2014. From FY2015 forward, growth has returned to more modest levels that rarely exceeded the 4% cap, averaging 2.4% annually. Subsequently, the number of properties eligible for the credit and the cost of the credit have slowly declined. This could change with increasing US and Baltimore home values associated with the global pandemic.



**Figure 3.1 Historical trend of Homestead Tax Credit (ATC), fiscal year**

Note: Tax Credit data available to EY can be validated only going back to 2007. All properties receiving the tax credit in 2007 are assumed to have received the tax credit for the first time in 2007; FY2019 includes data through April.



Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City's published budget.

## Geographical Distribution

The following table shows the top five neighborhoods by Homestead Tax Credit amount granted in FY2019:

**Table 3.1 Top Five Neighborhoods by Homestead Tax Credit Amount Granted (FY2019)**

Neighborhood	Credit Cost	# of Properties	Avg. Credit
Canton	\$2.1M	1,653	\$1,281
Riverside	\$1.3M	813	\$1,609
Hampden	\$1.2M	1,371	\$874
Reservoir Hill	\$0.9M	424	\$2,229
Cheswolde	\$0.8M	737	\$1,095
<b>Baltimore City-wide</b>	<b>\$28.6M</b>	<b>39,259</b>	<b>\$725</b>

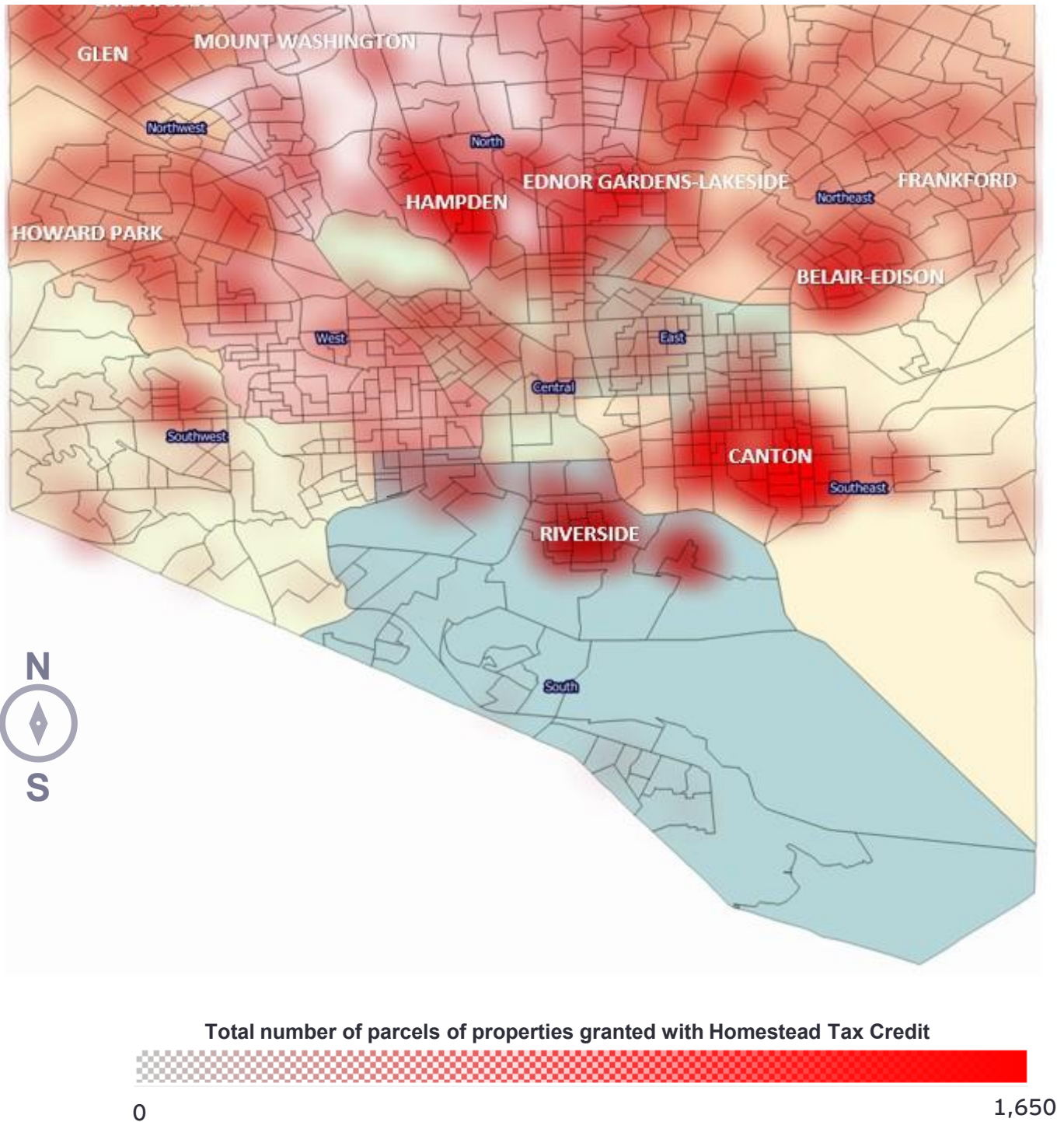
Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City's published budget.

The distribution of the Homestead Tax Credit tracks closely with neighborhoods that have experienced both high rates of residential ownership and rapidly appreciating assessed values. This includes traditionally strong neighborhoods such as Canton and Riverside, as well as neighborhoods that have seen rapid growth in recent years such as Hampden and Reservoir Hill. Although Homestead Tax Credits are widely distributed among many neighborhoods, 22% of the value of ATCs alone were granted in 2019 to the top five neighborhoods listed above. The value of Homestead Tax Credits in these neighborhoods also far exceeds the City-wide average. The average credit granted in Reservoir Hill for example is approximately three times that of the City-wide average.



The following is a heat map showing the neighborhoods with the highest number of parcels granted the Homestead Tax Credit in FY2019:

**Figure 3.2 Heat map showing the neighborhoods with the highest number of parcels granted Homestead Tax Credit in FY2019**



Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City's published budget.

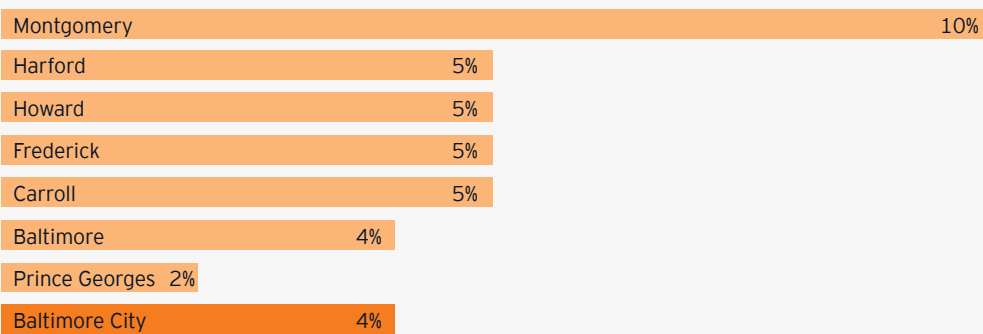
## Efficiency Considerations

For properties that have appreciated beyond the 4% annual cap, the homeowner has a strong incentive to stay in the property to avoid an increase in relative taxes. This can limit housing turnover and can especially create a shortage of housing for younger adults as they form households. The portability of the Homestead Tax Credit is often suggested as a solution to this problem, and in 2014, the Resident Retention Tax Credit was created for this exact purpose. However, the eligibility requirements for that credit have a high threshold, and take-up has been limited. In 2019, the City issued the credit to only 17 properties. This credit expired on July 1, 2020.

## Equity Considerations

The Homestead Tax Credit can be vertically regressive within the owner-occupied category of residential homeowners. Higher-valued properties generally experience greater absolute and proportionate value growth and receive the majority of the program’s benefit. Also, horizontal equity is violated as homeowners with shorter residency face a higher effective tax burden. Per State law, local jurisdictions can choose a Homestead cap between 0% and 10%. Higher caps yield more property tax revenue for the local jurisdiction and less disparities in effective tax rates across housing value categories. The City set its cap at 4% in 1990, and it has not been changed since. The chart below shows Baltimore City’s cap versus other neighboring jurisdictions and large Maryland counties:

**Figure 3.2 Homestead Tax Cap (Neighboring Counties and Large Maryland Counties)**



Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City’s published budget.

The City’s relatively low 4% cap magnifies the equity issues discussed above, as a larger percentage of assessed value in Baltimore City is shielded from taxation. Consequently, EY ran scenarios on the potential revenue impact of changing from a 4% cap to either a 6% or 8% cap:

**Table 3.2 Homestead Tax Credit Cost Under Different Cap Scenarios (Dollars in Millions)**

	FY2017	FY2018	FY2019	Total
Total Homestead Tax				
With 4% Cap (current)	\$35.2	\$32.0	\$28.5	95.7
With 6% Cap	29.5	22.7	17.7	69.9
With 8% Cap	24.6	15.8	10.8	51.2
Additional Tax Revenue (Deviation from 4% Cap)				
With 6% Cap	5.7	9.4	10.7	25.8
With 8% Cap	10.6	16.3	17.7	44.6

Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City’s published budget.

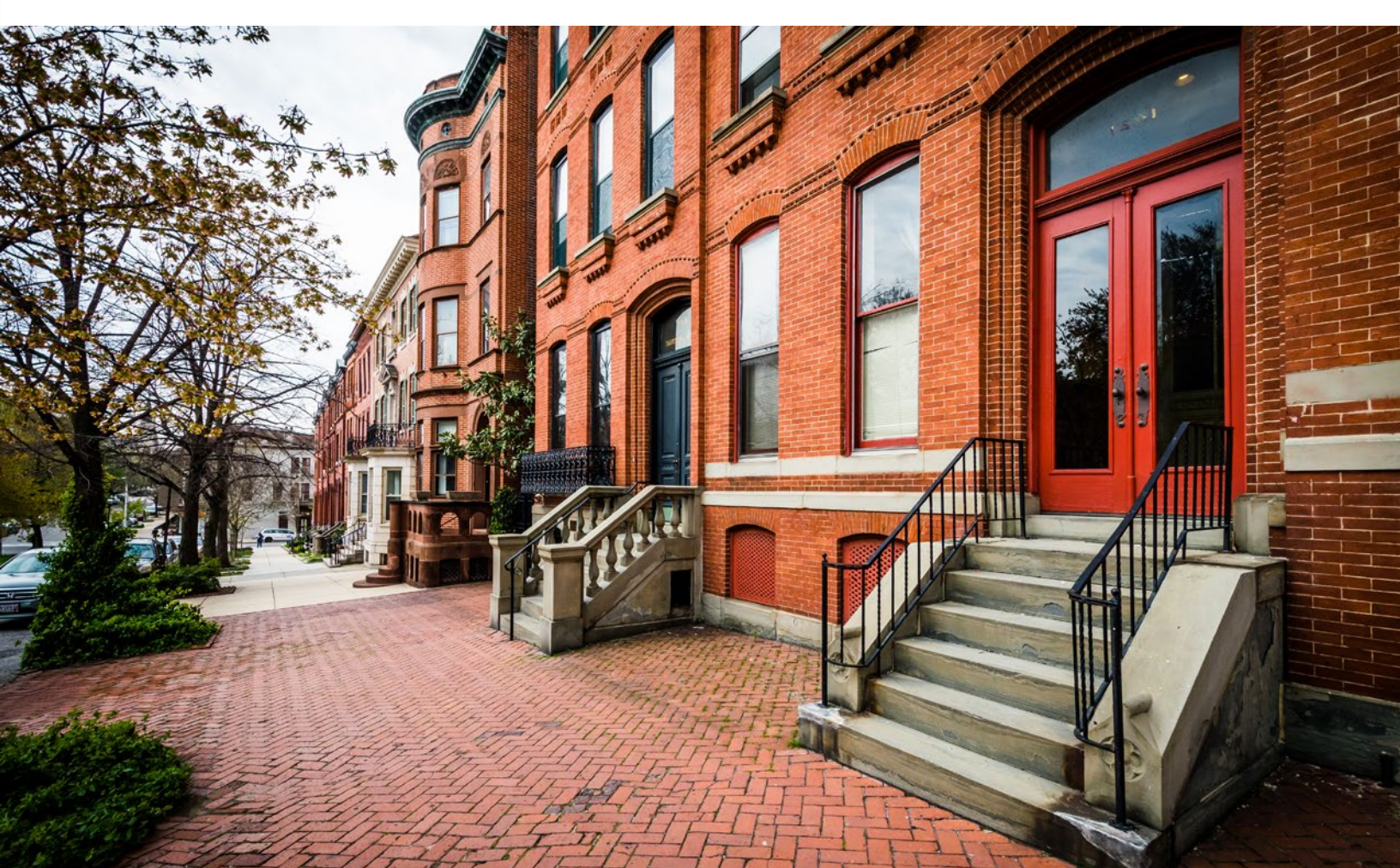


One option for reducing the inequity inherent in a percentage-based Homestead Tax Credit is to introduce a fixed-dollar homestead credit, which would provide some of the equity benefits of fixed homestead exemptions used in many other states. The fixed-dollar credit would provide a set dollar increase in the value of the tax credit on rising property values and would be generally more equitable, as it would provide a similar exemption value for lower-valued property and higher-valued properties. An increase in the cap to the maximum 10% level coupled with a fixed-dollar tax credit for any liability due to appreciation in excess of 4% could increase equity at the same cost. As an example, the cost of providing the fixed-dollar credit could be offset by increased revenue from a higher appreciation cap.

## Other Considerations

It is important to note that the Homestead Tax Credit helped to create an automatic budget stabilizer for local jurisdictions, including Baltimore City, in the aftermath of the Great Recession. Many homeowners residing in appreciating properties, who were shielded from higher taxes during the run-up in housing prices, faced higher annual tax bills between FY2011 and FY2014 even as their property assessments declined. This is because the savings on property tax bill increases forestalled by the Homestead Tax Credit were phased in as increased property taxes as taxable values (net tax due) realigned with higher market values, despite the recession. As a result, the City's property tax revenues increased from FY2011 to FY2014 during a time of declining assessments. The City only experienced declining property tax revenues in FY2015, after the full impact of three assessment declines over all three assessment groups had been phased in. This effect helped stabilize the City's budget during a time of fiscal stress. In effect, it provided modest property tax increases while many other City revenue sources were declining, such as income tax, transfer and recordation taxes, and State aid.

Looking ahead, the City is likely to experience some growth in the cost of the Homestead Tax Credit again (and, thus, lost property tax revenue) as an effect of COVID-19. Residential housing prices have grown rapidly after the onset of the COVID-19 pandemic, as many buyers are seeking new homes or larger properties. Strong residential property value growth for Group I properties is expected in the FY2023 reassessment cycle.





# 4 Targeted Homeowners Tax Credit

Background	Type:	Residential Protection
	Sub-Market	Owner-Occupied
Credit Mechanics	Eligibility	All owner-occupied properties that are eligible for the Homestead Tax Credit
	Credit	Reduces the property tax by an amount equal to 20 cents per \$100 of assessed value, from the base rate of \$2.248 per \$100 of assessed value, to an effective rate of \$2.048
Financials	FY22 Estimated Total Cost	\$31 million
Legal	Sunset Date	N/A
	Legal	Statewide Optional

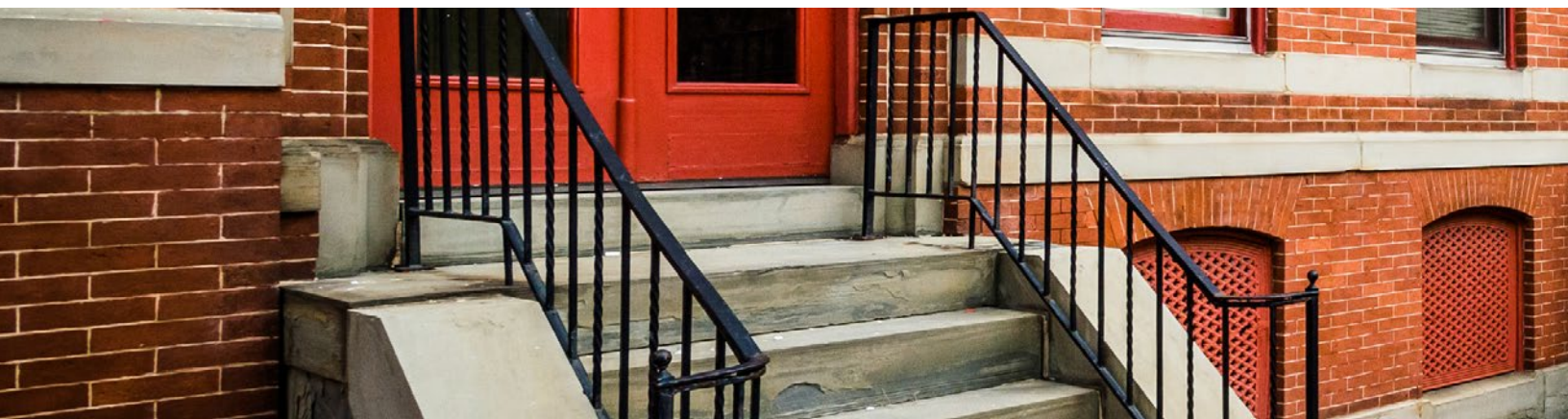
Note: Estimated total cost is based on the City of Baltimore's Budget Publications FY2016-FY2022.

## Background

The Targeted Homeowners Tax Credit (THTC) is a local tax credit that was created in 2013 and is provided to every owner-occupied residence eligible for the Homestead Tax Credit as a credit on the residential property tax on improved value (not on the value of the residential land). This program was initiated by Mayor Stephanie-Rawlings Blake and was continued by subsequent Administrations. It is commonly referred to as the “20 Cents by 2020” program. The goal was to reduce, by 2020, the effective property tax rate for residential owner-occupied properties by 20 cents, reducing the rate from \$2.248 per \$100 of assessed value to \$2.048. At the program's inception, the THTC was expected to be fully funded by Horseshoe Casino revenues. The City's agreement with the casino operator requires the operator to pay the City either a minimum payment or 2.99% of gross profits. However, the casino has underperformed versus expectations, and annual payments have never exceeded the minimum payment. This means that the cost of the THTC tax reduction program has been partially borne by the General Fund. In FY2021, the cost of the THTC totaled \$34.2M, with only \$14.0M coming from casino revenues, and the remaining \$20.2M from the General Fund.

## Historical Trend

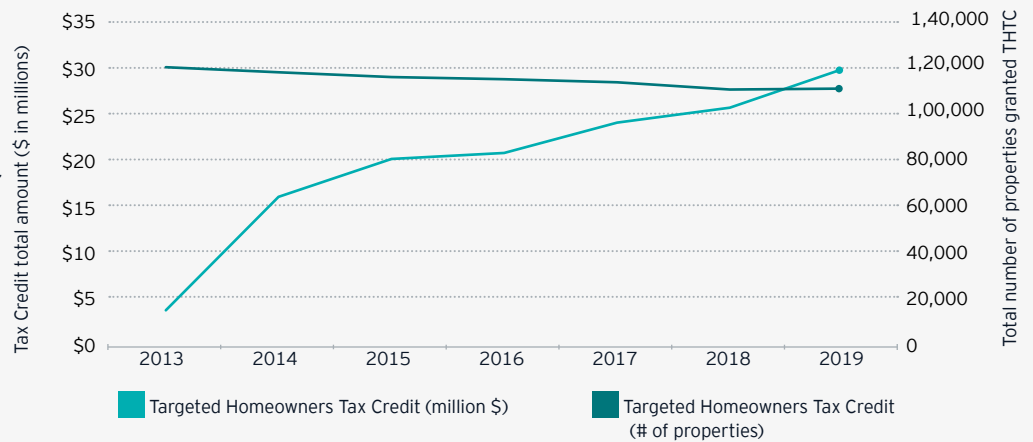
In FY2013, 120,271 properties were granted the THTC. This number declined slightly to 110,914 properties in FY2019, as the City aligned its eligibility with the Homestead Tax Credit, which requires an application. The cost of the credit has grown each year as planned, per the intention to phase in the program between FY2013 and FY 2020. The program achieved its goal of a 20-cent reduction in FY2020 and has remained at that effective level in FY2021 and FY2022.





**Figure 4.1 Historical trend of Targeted Homeowners Tax Credit, fiscal year**

Note: Tax Credit data available to EY can be validated only going back to 2007. All properties receiving the tax credit in 2007 are assumed to have received the tax credit for the first time in 2007; FY2019 includes data through April.



Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City's published budget.

## Geographical Distribution

The following table shows the top five neighborhoods by Targeted Homeowners Tax Credit amount granted in FY2019.

**Table 4.1 Top Five Neighborhoods by Targeted Homeowners Tax Credit Amount Granted (FY2019)**

Neighborhood	Credit Cost	# of Properties	Avg. Credit
Canton	\$1.9M	4,152	\$478
Riverside	\$1.0M	2,064	\$526
Roland Park	\$0.8M	1,117	\$724
Guilford	\$0.7M	693	\$961
Mount Washington	\$0.6M	1,279	\$475
<b>Baltimore City-wide</b>	<b>\$29.8M</b>	<b>110,914</b>	<b>\$269</b>

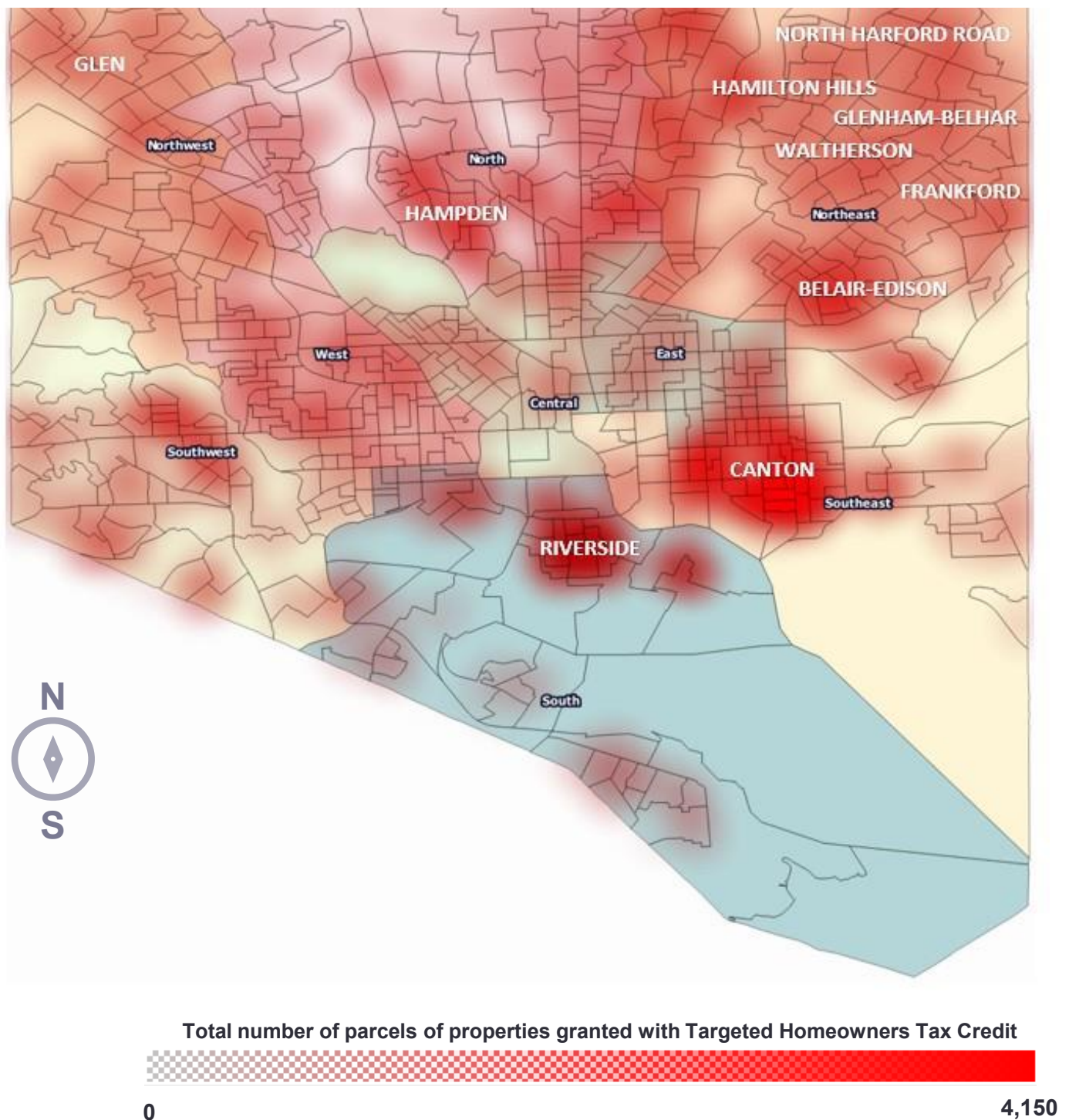
Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City's published budget.

The distribution of the relief provided by THTC tracks directly to neighborhoods with both high property values and high rates of owner-occupied properties. The top five neighborhoods listed above account for nearly 17% of the total amount of THTC granted.



The following heat map shows the neighborhoods with the highest number of parcels granted the THTC in FY2019:

**Figure 4.2 Properties granted with Targeted Homeowners Tax Credit in Baltimore City in FY2019**



Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City's published budget.



## Efficiency Considerations

The THTC is efficient in that it delivers a lower effective tax rate for all owner-occupied residential properties. This makes those properties more competitive versus neighboring counties with lower property tax rates. However, the base tax rate of \$2.248 is still levied on commercial, industrial, and non-owner-occupied housing, which increases the distortionary effect on those properties and increases their relative tax burden if program costs ultimately are financed by overall property tax increases.

## Equity Considerations

The THTC is vertically regressive since it is not targeted to residential property owners for which the property tax is most burdensome. Tax relief that is granted in proportion to the improvement value of a home is naturally regressive in the distribution of its benefits. The average tax credit granted City-wide is \$330. For homeowners in Guilford and Roland Park the average credit granted is \$961 and \$724, respectively, both more than double the average City-wide credit amount.

## Other Considerations

The THTC was conceived as part of the City's 10-Year Financial Plan and was considered a crucial first step in reducing the City's tax burden for residential owner-occupied properties. The City's property tax rate is double the rate of some neighboring jurisdictions and is perceived as a significant competitive disadvantage to attracting new residents or retaining existing ones. In addition, due to the nature of income taxation in Maryland, with residents being taxed based on where they live rather than where they work, the tax burden on Baltimore City taxpayers is especially high.

According to the City, there have been some internal discussions about extending tax relief beyond the 20 cents by 2020 goal which was achieved in FY2020. But further rate reductions were paused due to the negative economic consequences of COVID-19, plus the expectation for new State-mandated education costs, which begin in FY2023.





# 5 Newly Constructed Tax Credit

Background	Type:	Development
	Sub-Market	New Construction, Substantial Rehab
Credit Mechanics	Eligibility	Must be newly constructed or substantial rehab and meet “high performance” building criteria
	Credit	Five-year credit, 50% of the total tax liability in year one, phasing out by 10% per year to 10% of the tax liability in year five
Financials	FY22 Estimated Total Cost	\$2 million
Legal	Sunset Date	June 30, 2022
	Legal	Statewide Optional

Note: Estimated total cost is based on the City of Baltimore's Budget Publications FY2016-FY2022.

## Background

The Newly Constructed Tax Credit (NCTC) is a Statewide optional credit; the City began its program in 1996. The intent of the program is to encourage development of new residential units or “substantial” rehabs, which are defined as properties that were declared vacant by the City’s Department of Housing and Community Development for more than one year, or had been owned by the Mayor and City Council for one year and needed substantial repair to comply with applicable City codes. The credit is a five-year credit, starting at 50% of the total tax liability in year one and then declining by 10% per year to 10% in year five.

The Statewide NCTC expired at the end of FY2019, which meant that the City’s program lapsed and no new applications were accepted. As a stop-gap measure, the City Council created a new credit under the auspices of the High-Performance law. This credit, the High-Performance Newly Constructed Tax Credit, is intended to serve as a replacement for the NCTC, while re-authorization of the original NCTC is considered by the General Assembly. The structure of the new credit is exactly the same as the NCTC but includes some additional green-building standards as part of the “high-performance” requirements.

## Historical Trend

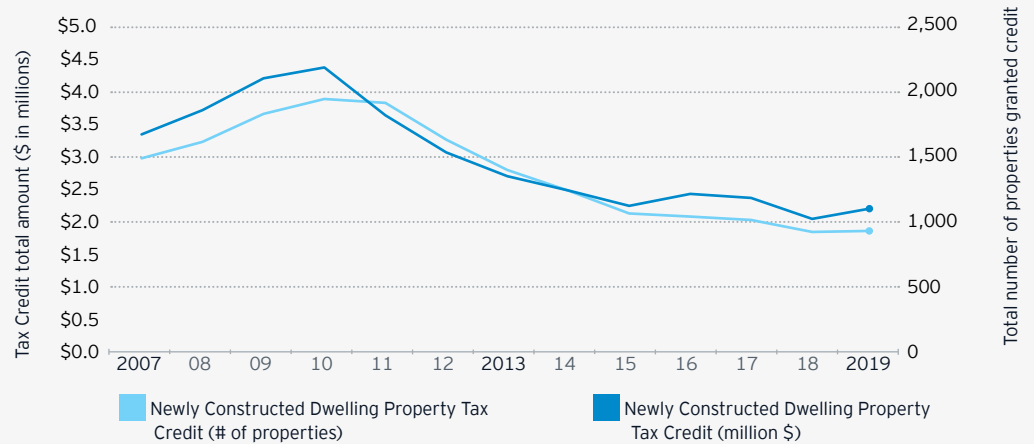
The NCTC reached its peak in FY2010, due to a construction surge during the run-up of housing prices in the years before the Great Recession. In FY2010, 1,947 properties received the NCTC, which declined to 932 properties in FY2019.





**Figure 5.1 Historical trend of NCTC, fiscal year**

Note: Tax Credit data available to EY can be validated only going back to 2007. All properties receiving the tax credit in 2007 are assumed to have received the tax credit for the first time in 2007; FY2019 includes data through April.



Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City's published budget.

## Geographical Distribution

The following table shows the top five neighborhoods by Newly Constructed Tax Credit amount granted in FY2019.

**Table 5.1 Top Five Neighborhoods by Newly Constructed Tax Credit Amount Granted (FY2019)**

Neighborhood	Credit Cost	# of Properties	Avg. Credit
Greektown	\$0.38M	218	\$1,756
Uplands	\$0.21M	121	\$1,750
Inner Harbor	\$0.18M	39	\$4,498
Canton	\$0.16M	47	\$3,437
Brewers Hill	\$0.16M	33	\$4,730
<b>Baltimore City-Wide</b>	<b>\$2.2M</b>	<b>932</b>	<b>\$2,378</b>

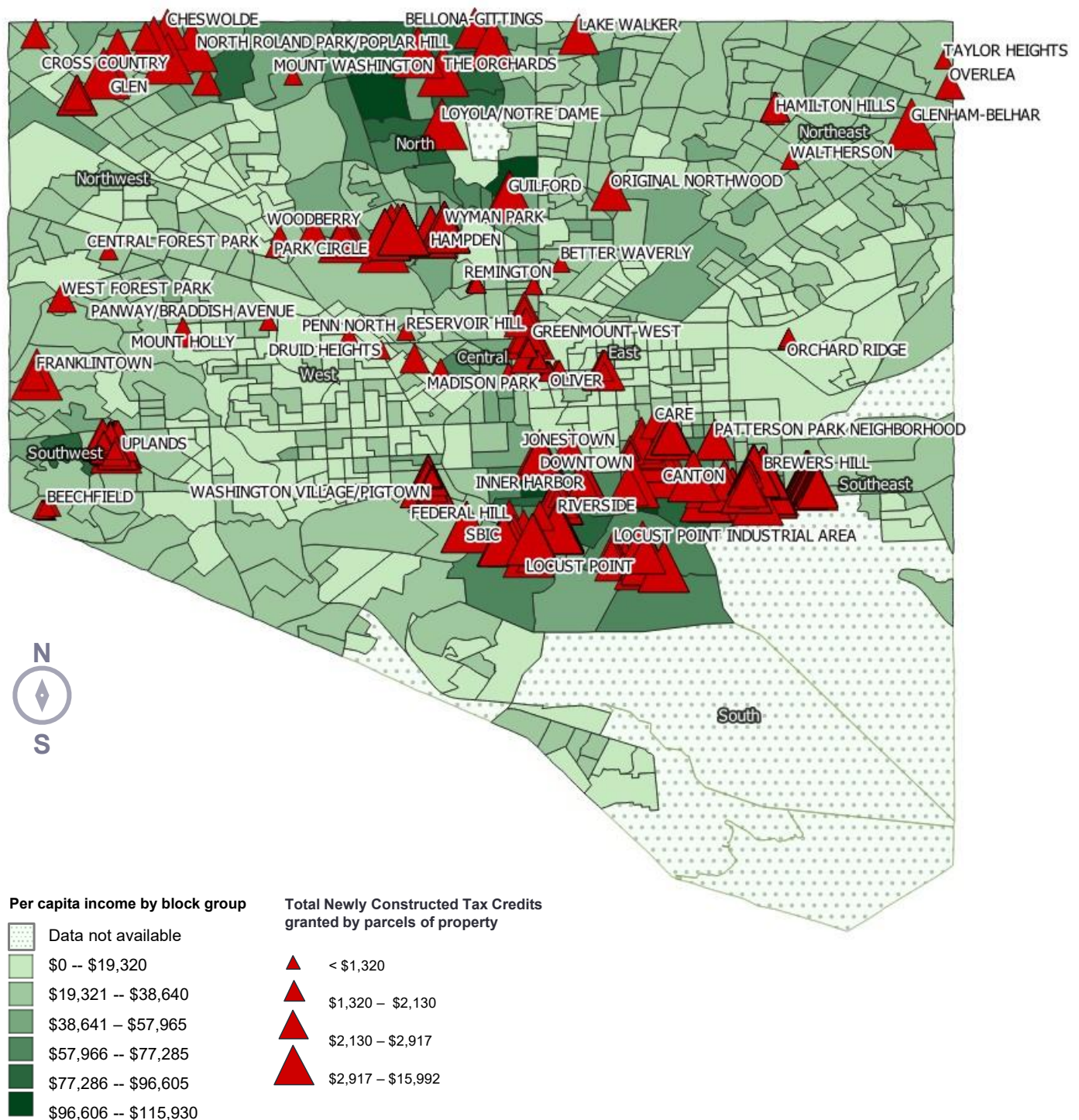
Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City's published budget.

The NCTC tracks directly with neighborhoods that have seen significant new construction activity. This includes some traditionally stable neighborhoods, such as Canton and the Inner Harbor, but also has extended to other neighborhoods, such as Uplands, Greektown, Hampden, and Greenmount West. 49% of the value of all NCTCs for 2019 were granted in the top five neighborhoods listed above.



The following map shows the block groups that have been granted the Newly Constructed Tax Credit:

**Figure 5.2 Map of City of Baltimore by block group showing the most affluent neighborhoods and parcels with NCTC**



Note: The heat map is generated using the block group level “per capita income in the past 12 months (in 2017 inflation-adjusted dollars)” from the American Community Survey 2017. The labeled neighborhoods represent some of the affluent neighborhoods with the highest per capita income and the neighborhoods where most of the properties with the credit are located. The neighborhood per capita income is derived by taking the weighted average of block group level per capita income (weighted by population).

Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City’s published budget.



## Efficiency Considerations

The NCTC should be expected to encourage the market towards new construction of owner-occupied properties. However, the one-year vacancy requirement may incentivize saleable properties to be held off of the market for a period to qualify. In addition, the simultaneous existence of this credit along with the High-Performance (rental units) and the Historic Tax Credits (rehab) may diminish the overall effectiveness of the credit. Similarly, suppose the effect of the credit is capitalized into the home price. In that case, the ultimate benefit of this credit will likely accrue substantially to developers rather than homebuyers.

## Equity Considerations

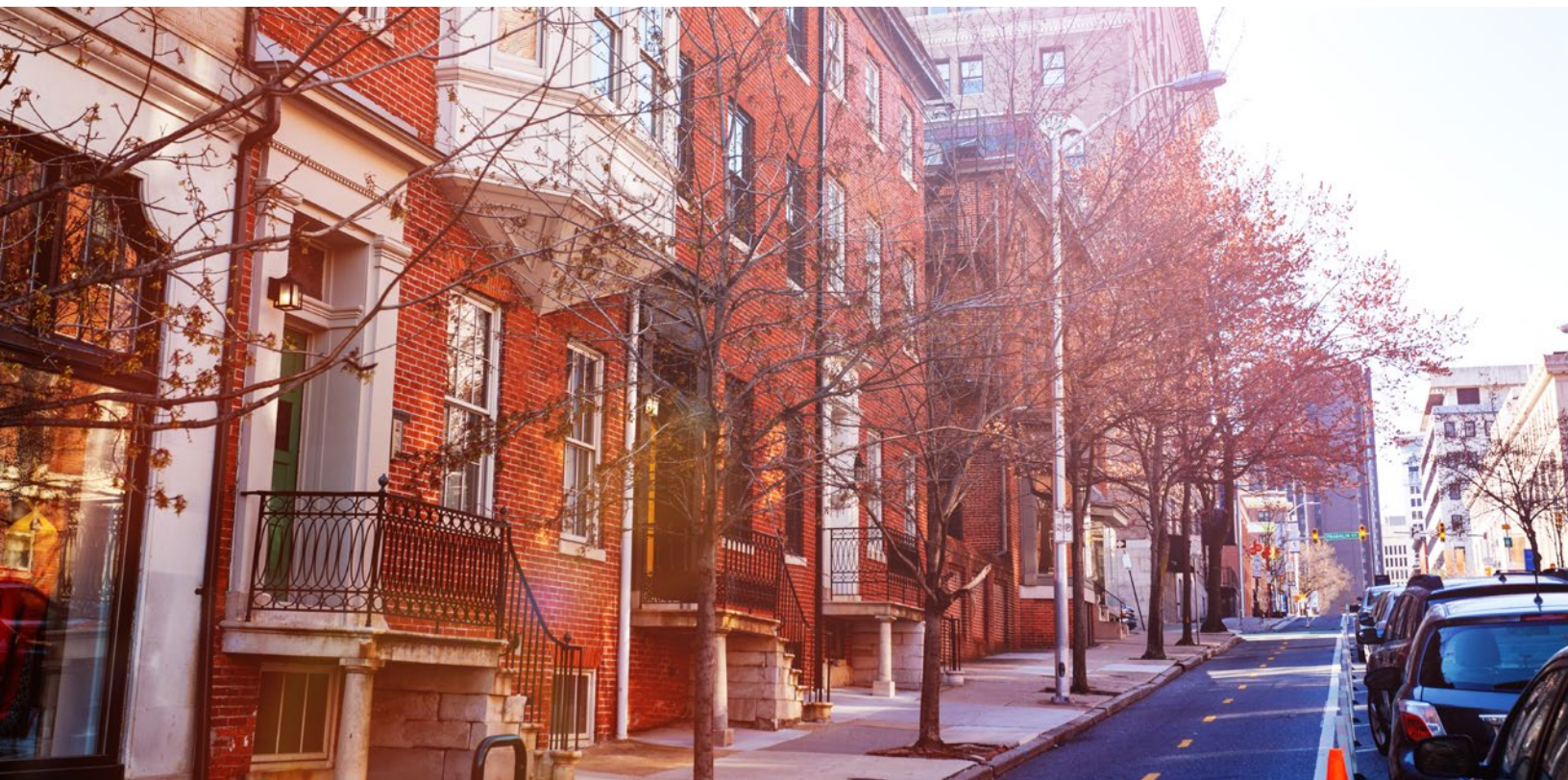
The NCTC is likely to be vertically regressive if the developers and purchasers of newly built homes in the area are of higher income compared to average residents.

## Other Considerations

The NCTC legislation requires the Director of Finance to report on the public costs and benefits of the tax credit each year. The results are published annually in BBMR's Executive Summary budget publication. One of the tools for this analysis is a survey of NCTC recipients that is completed during the application process. Two of the results from the FY2015 to 2019 survey raise some questions about the efficacy of the NCTC.

First, the NCTC could be effective in driving population growth if it attracts new residents to the City, which could potentially slow down its population decline and expand the City's tax base. But, in the survey, 57.3% of recipients already lived in Baltimore prior to purchasing the new home, and 73.6% reported that they were only looking in the City for a new home. This suggests that in practice, the credit might simply be assisting City residents in moving from one location to another rather than encouraging new residents to move to the City.

Second, the NCTC could be effective if it can influence the decision of the buyer as they are considering the purchase of a home. However, only 66.4% of recipients reported that they knew about the NCTC prior to purchasing a home. This means that and estimated 33.6% of buyers did not know about the credit and, in turn, did not influence their homebuying decision.





# 6 Historic Restoration and Rehabilitation Tax Credit

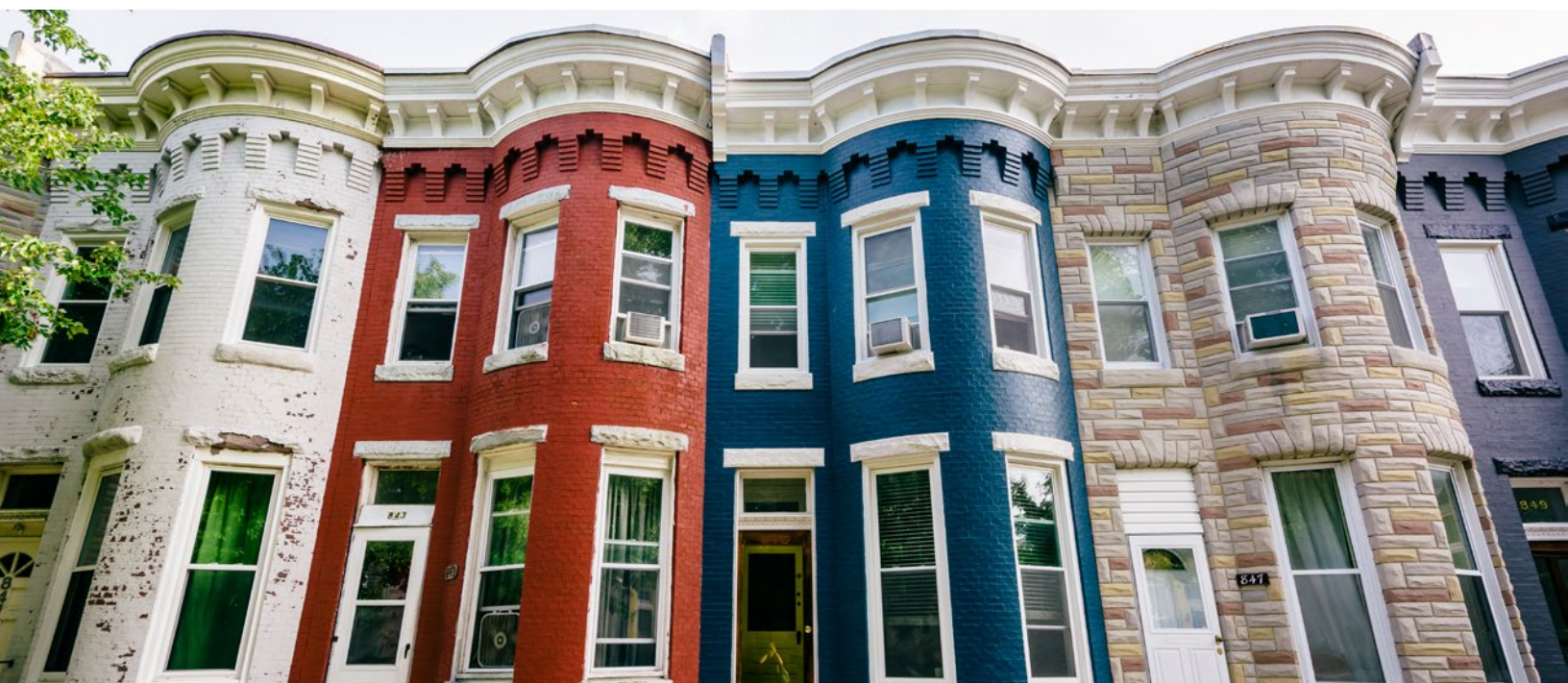
Background	Type:	Development
	Sub-Market	Renovation of Existing Real Property
Credit Mechanics	Eligibility	Must be located in a historic district, and must be CHAP certified
	Credit	For properties < \$5M: 10-year credit, 100% of tax due on the improved value for all years For properties > \$5M: 10-year credit, 80% of the tax due on the improved value in year one phasing out to 10% in year 10
Financials	FY22 Estimated Total Cost	\$12 million
Legal	Sunset Date	February 28, 2022
	Legal	Statewide Optional

Note: Estimated total cost is based on the City of Baltimore's Budget Publications FY2016-FY2022.

## Background

The Historic Restoration and Rehabilitation Tax Credit (CHAP) is a Statewide optional credit that was first established in Baltimore City in 1996. The intent of the credit was to incent the restoration of historic properties. For properties under \$5 million, it is a 10-year credit on 100% of the tax due on the improved value (i.e., differences in full cash values before and after improvement). For properties exceeding \$5 million, the credit is 10-years, declining from 80% in Year One to 10% in Year Ten.

For a property to be eligible, it must be within either a City Historic District or a National Register Historic District. All projects must be pre-approved by CHAP and meet design specifications. Additionally, the project cost must exceed at least 25% of the property's cash value. As part of the review process, the property undergoes a pre-rehabilitation work and post-rehabilitation work appraisal to determine the full value of the property. The difference in the pre-rehabilitation work and post-rehabilitation work appraisal is the "improved value" which is used to calculate the tax credit.



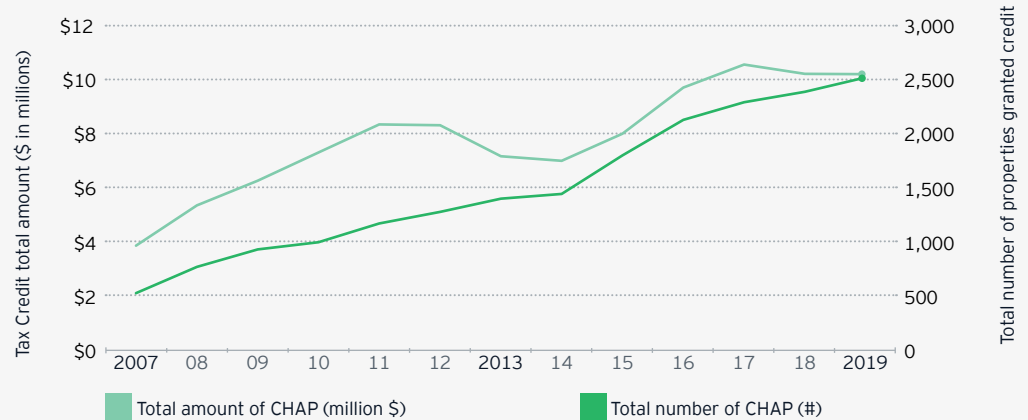


## Historical Trend

There has been relatively steady growth in this credit over the last 12 years, with its dollar value peaking in FY2019. A reason for the growth is the continual addition of new historic designations, which broadens the number of neighborhoods and parcels that are eligible for the credit. The cost of the credit declined beginning in 2017 due to tighter restrictions that were placed on projects greater than \$5 million.

**Figure 6.1 Historical trend of CHAP, fiscal year**

Note: Tax Credit data available to EY can be validated only going back to 2007. All properties receiving the tax credit in 2007 are assumed to have received the tax credit for the first time in 2007; FY2019 includes data through April.



Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City's published budget.

## Geographical Distribution

The following table shows the top five neighborhoods by CHAP Tax Credit amount granted in FY2019.

**Table 6.1 Top Five Neighborhoods by CHAP Tax Credit Amount Granted (FY2019)**

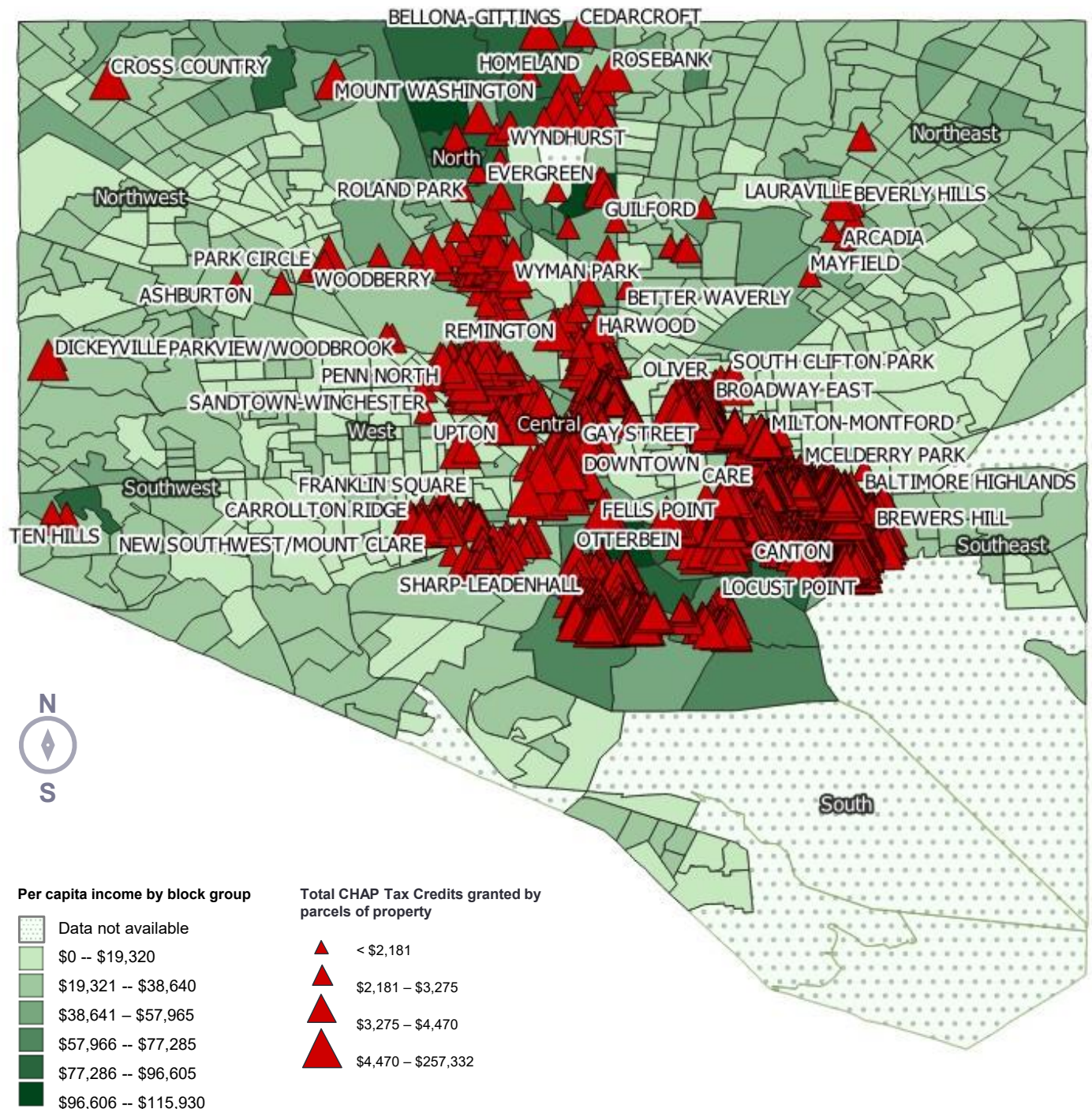
Neighborhood	Credit Cost	# of Properties	Avg. Credit	Per Capita Income
Canton	\$2.2M	578	\$3,904	\$65,492
Patterson Park	\$0.9M	228	\$3,724	\$33,859
South Baltimore	\$0.6M	100	\$5,557	\$53,165
Riverside	\$0.5M	134	\$4,028	\$70,139
Upper Fells Point	\$0.5M	136	\$3,666	\$49,705
<b>Baltimore City-Wide</b>	<b>\$10.9M</b>	<b>2,520</b>	<b>\$4,047</b>	<b>\$28,475</b>

Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City's published budget.

The distribution of this credit tracks directly to neighborhoods that have either a local or federal historic designation, which tend to be relatively more affluent. There are currently 87 historic districts in Baltimore that include approximately one-third of the properties in the City. Although the credit has been granted in 81 different neighborhoods in Baltimore since its inception, it does not reach all neighborhoods equally. The neighborhoods with the greatest count and dollar value of tax credit granted are among the highest per capita income areas of the City.

The following map shows the block groups that are granted the CHAP with their per-capita income:

**Figure 6.2 Map of City of Baltimore by block group showing the most affluent neighborhoods and parcels with CHAP**



Note: The heat map is generated using the block group level "per capita income in the past 12 months (in 2017 inflation-adjusted dollars)" from the American Community Survey 2017. The labeled neighborhoods represent some of the affluent neighborhoods with the highest per capita income and the neighborhoods where most of the properties with the credit are located. The neighborhood per capita income is derived by taking the weighted average of block group level per capita income (weighted by population).

Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City's published budget.



## Efficiency Considerations

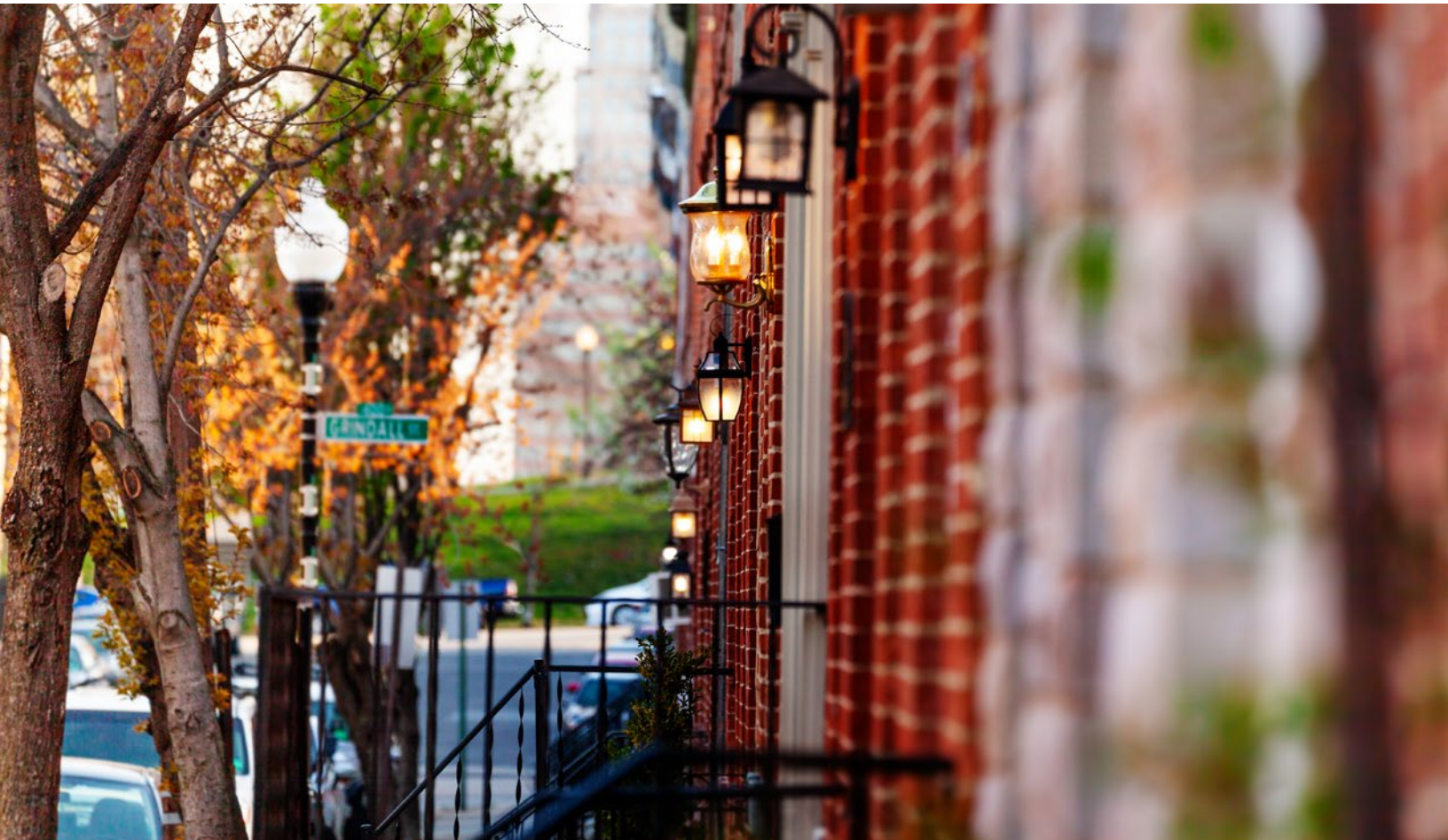
From a housing and redevelopment perspective, it is not clear that historic designation is synonymous with providing benefits to areas in need of greatest development. As suggested in Figure 6.2 and Table 6.1 above, the top five neighborhoods receiving the most tax credit amount have relatively higher per-capita income and are unlikely in need of great development. The CHAP credit permits non-historic buildings to receive credits simply because they fall within a historic district. CHAP does require renovation projects to maintain certain small historic details in homes, such as windows, doors, and staircases, but according to the City, in practice, very few applications are rejected. If the historic districts continue to correspond to the wealthier areas of the City, the program will serve as a method for renovation projects in these more affluent neighborhoods, which defeats the purpose of the credit. In addition, if the value of the credit is partially or fully capitalized into the price of the rehabilitated property, then the credit will deliver benefits to the rehabilitation developers rather than the new homeowners.

## Equity Considerations

The CHAP credit can also be considered vertically regressive in nature. The program reduces taxes on properties in historic districts only. Table 6.1 (which includes per-capita income data for the top five neighborhoods receiving the tax credit) shows that residents of these historical neighborhoods have high average per-capita incomes and potentially the ability to pay for improvements. Although the credit is available to all neighborhoods with a historic designation, market incentive for new development is generally higher in already-established neighborhoods, where potential for investment returns is strong, than in low-income neighborhoods.

## Other Considerations

The CHAP Tax Credit is the only City tax credit program that provides a full 100% tax credit. For projects that are less than \$5.0 million, the City grants a 10-year 100% credit on the improved value. According to the City, a vast majority of CHAP applications are granted with 100% credit, generating \$0 of net new tax revenue on these properties for 10 years.



# 7 High-Performance Market-Rate Rental Housing Tax Credit (HPMRRH)

Background	Type:	Development
	Sub-Market	New Apartment Buildings
Credit Mechanics	Eligibility	Must construct or convert 10+ or more units to a “high performance <sup>3</sup> ” construction standard. The construction cost must be greater than \$60,000 per unit
	Credit	10-year credit. 80% in years one through five, phasing out to 30% in year ten
Financials	FY22 Estimated Total Cost	\$20 million
Legal	Sunset Date	December 31, 2022
	Legal	Statewide Optional

Note: Estimated total cost is based on the City of Baltimore’s Budget Publications FY2016-FY2022

## Background

The HPMRRTC is a Statewide optional credit created in 2013. The intent was to incent the conversion of real estate into market-rate rental apartment buildings. At the time of its inception, the City believed that it had an opportunity to grow Baltimore’s residential population by encouraging the construction of these types of developments in an environmentally sensitive manner. The credit discussed here is a summary of two components: the “Targeted” HPMRRTC, and the “City-wide” HPMRRTC.

The **Targeted** HPMRRTC, adopted in FY2013 with the passage of City Council Bill 13-0176, was designed to encourage construction and rehabilitation of apartment structures in the City’s downtown neighborhoods. The target area, defined in Article 28, § 10-17 (e), includes selected Census Tracts for the Downtown, Reservoir Hill, Jonestown, West Cold Spring Lane, Poppleton, York Road, Bel Air Road, and Station North areas. Eligible projects must meet green building standards, have 50 or more rental units, and have a total project cost that exceeds \$60,000 per unit. The credit’s value is based on a percentage of the increase in tax liability on the first assessment after an occupancy permit is issued. The credit length is 15 years and phases out over time, from 100% in Year One and Year Two to 20% in Years 13 through 15. With the intent of limiting over-supply of credits, the original legislation required that no new credits could be granted after FY2019. This credit expired in 2019.

The **City-Wide** HPMRRTC, adopted in FY2014 with the passage of City Council Bill 14-0359, was not restricted to any geographic area. The credit was designed to encourage construction and rehabilitation of apartment structures throughout the City. Eligible projects are required to have 20 or more rental units and total project cost must exceed \$60,000 per unit. The credit’s value is based on a percentage of the increase in tax liability on the first assessment after an occupancy permit is issued. The credit length is 10 years and phases out over time, from 80% in Year One to Year Five, to 30% in Year 10. This credit is still active; the original deadline of December 31, 2017 was extended five years to December 31, 2022.

3. “High performance” is defined by State Tax-Property Article § 9-242. It means that the property is a green building and has high performance in energy sustainability.



## Historical Trend

As of FY2020, there were 13 properties built that utilized the Targeted HPMRRTC and 10 properties built that utilized the Citywide HPMRRTC, listed below:

**Table 7.1 Targeted HPMRRTC Properties**

Address	Neighborhood	FY 2020 Assessment	Dwelling Units	Year Built	FY 2020 HPMRRH Tax Credit
10 Light St	Downtown	\$89,915,767	420	2017	\$1,149,264
12 N Calvert St	Downtown	\$23,858,367	188	2016	\$326,736
20 E Lanvale St	Station North	\$10,365,100	103	2018	\$177,148
26 S Calvert St	Downtown	\$13,693,600	85	2017	\$232,887
30 S Calvert St	Downtown	\$13,095,700	85	2017	\$232,683
103 S Gay St	Downtown	\$23,019,500	136	2018	\$217,130
111 W Baltimore St	Downtown	\$46,283,833	183	2018	\$798,330
207 N Calvert St	Downtown	\$52,849,667	346	2019	\$977,218
300 Saint Paul Pl	Downtown	\$41,914,533	173	2019	\$498,568
301 N Charles St	Downtown	\$12,902,533	92	2015	\$141,725
500 Park Ave	Downtown	\$23,339,800	153	2019	\$482,212
520 Park Ave	Downtown	\$19,160,100	171	2016	\$293,744
521 Saint Paul St	Downtown	\$7,652,000	69	2014	\$85,465

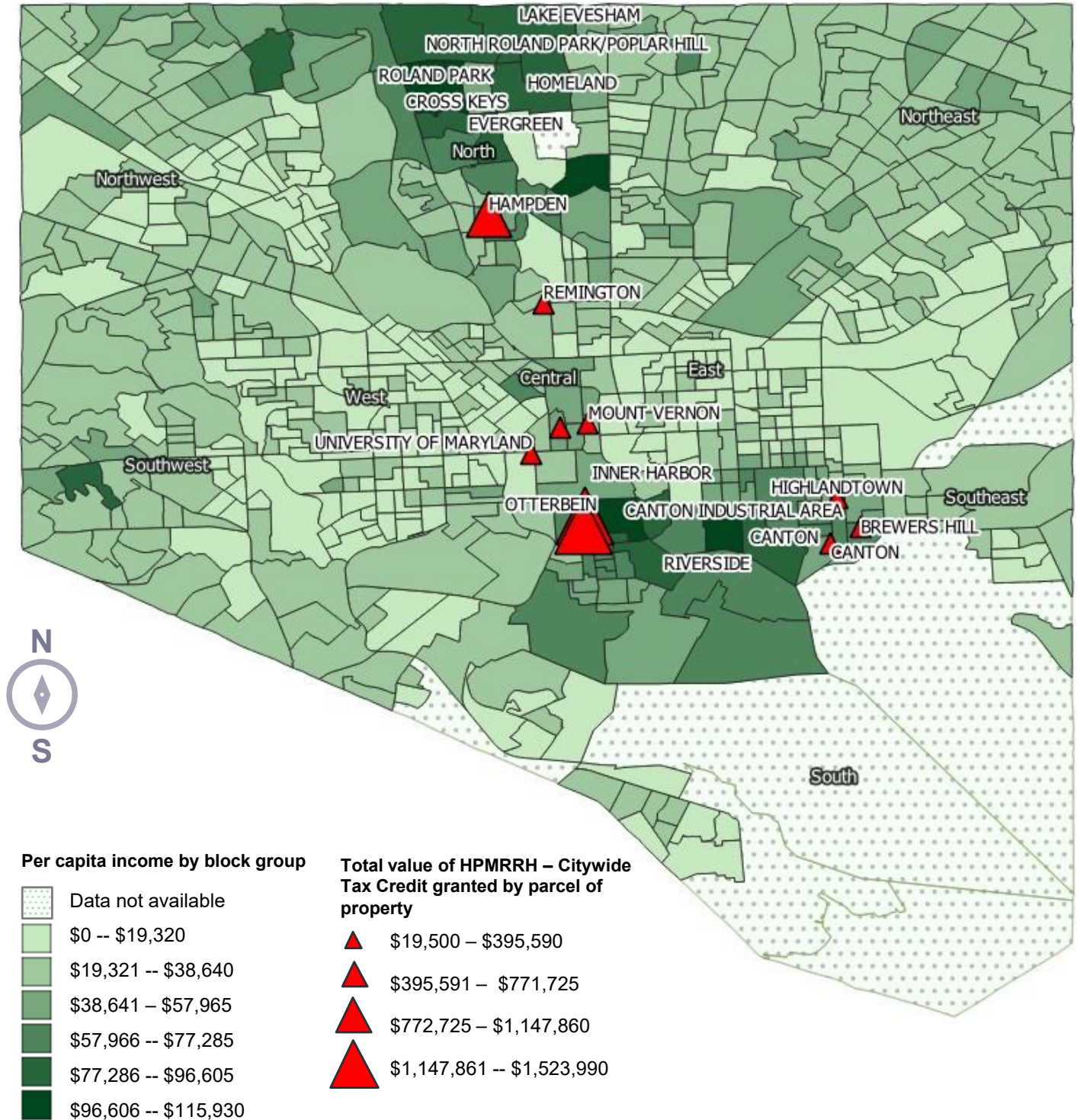
**Table 7.2 City-wide HPMRRTC Properties**

Address	Neighborhood	FY 2020 Assessment	Dwelling Units	Year Built	FY 2020 HPMRRH Tax Credit
1212 S East Ave	Canton	\$10,654,933	57	2015	\$170,967
2700 Remington Ave	Remington	\$20,063,300	86	2017	\$216,739
3232 Eastern Ave	Highlandtown	\$11,255,600	65	2017	\$190,117
3610 Dillon St	Brewers Hill	\$15,000,000	60	2016	\$266,611
414 Light St	Otterbein	\$141,934,300	394	2018	\$3,159,184
501 W Franklin St	University of MD	\$13,396,700	139	1962	\$167,780
611 S Charles St	Otterbein	\$82,184,833	349	2017	\$1,237,769
711 W 40th St	Hampden	\$91,908,600	379	2016	\$729,858
815 Park Ave	Mount Vernon	\$2,319,300	25	2018	\$27,210
824 N Calvert St	Mount Vernon	\$5,340,000	49	2017	\$71,343

## Geographical Distribution

The “Targeted” HPMRRTC was intended to be restrictive in geographic scope. Eleven of the twelve properties that received the credit are in the Downtown neighborhood, with the other built in Station North. The “Citywide” HPMRRTC was intended to be broad in geographic scope, but, in practice, only eight neighborhoods have a property receiving this credit: Otterbein (two properties), Mount Vernon (two properties), and one each for Hampden, Brewers Hill, Remington, Highlandtown, Canton, and University of Maryland. The credit tracks directly with affluent neighborhoods where demand for upper-end housing may already exist, and external incentives may not be as important.

Figure 7.1 Map of City of Baltimore by block group showing the most affluent neighborhoods and parcels with HPMRRH – City-wide Tax Credit, FY2019



Note: The heat map is generated using the block group level “per capita income in the past 12 months (in 2017 inflation-adjusted dollars)” from the American Community Survey 2017. The labeled neighborhoods represent some of the affluent neighborhoods with the highest per capita income and the neighborhoods where most of the properties with the credit are located. The neighborhood per capita income is derived by taking the weighted average of block group level per capita income (weighted by population).

Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City’s published budget.



## Efficiency Considerations

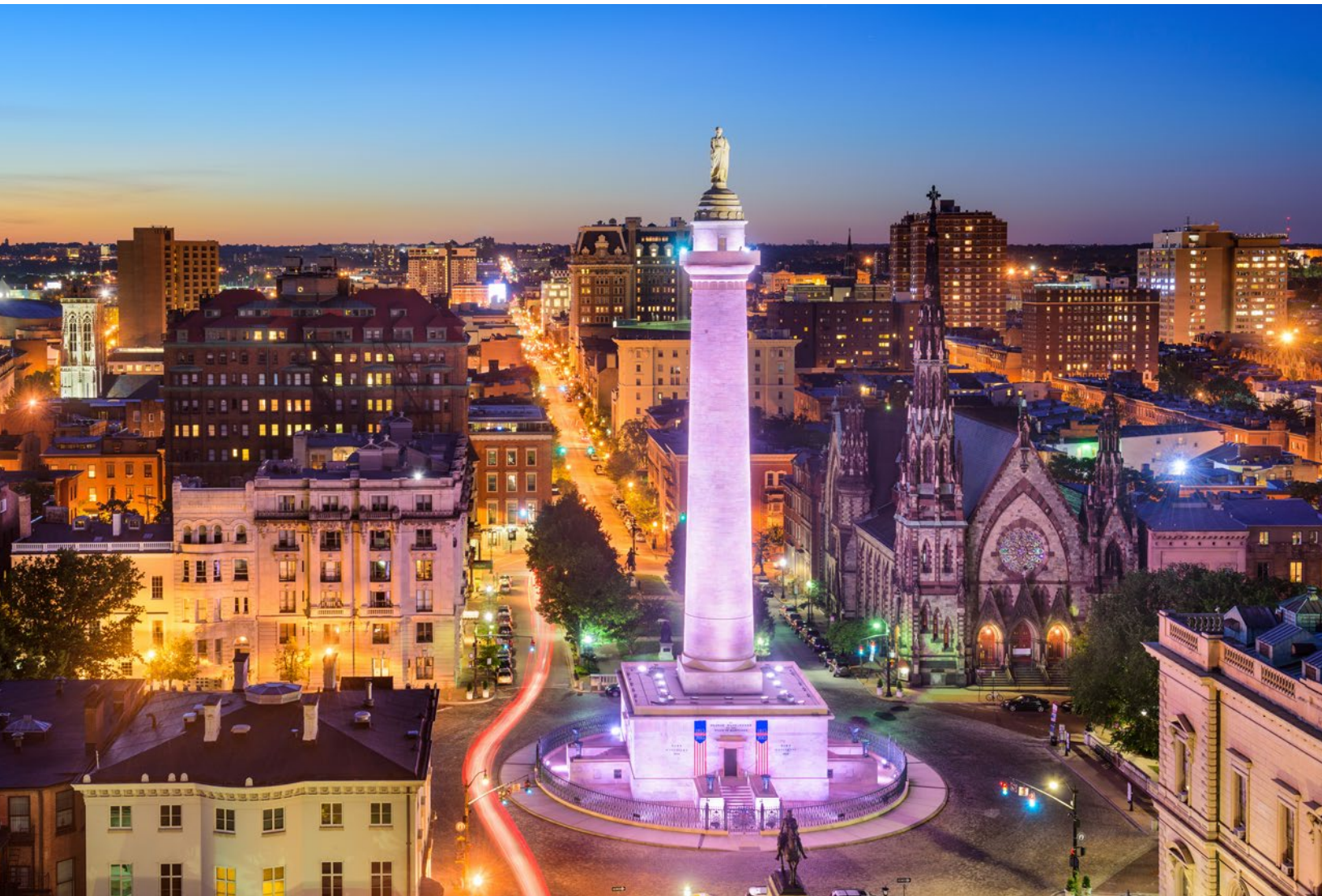
Under normal market conditions in a stable rental market, the rental housing most likely to be developed is upper-scale market-rate and above housing, which is the stated target of the HPMRRTC. However, new supply at the upper end of the market depresses rents in other properties with similar amenity levels. This can cause the lowest-valued rental properties to be forced out of the market and may not contribute much to the net housing supply. As a result, the potential outcomes may include an increase in the scale specified housing developments and a decrease in smaller-scale housing and commercial development.

In a market where an inflow of new and wealthier renters is expected, there would be an especially strong market incentive to build upper-scale market-rate housing to meet this demand. Without market demand, a tax credit alone would not be expected to support this type of housing. In other words, if there is an increasing demand for upper-scale housing, the market will generally respond to this demand on its own without any external interventions.

## Equity Considerations

Benefits of this program generally flow to existing owners of undeveloped blocks of properties, developers of the housing complexes, and potentially to tenants. A credit available anywhere in the city is less likely to produce a windfall to existing landowners. If housing demand is fixed, some of the gains will flow to market-rate renters at the expense of owners of existing market-rate housing, but the benefit to existing tenants may not be sustainable.

The vertical equity results depend on the income of current owners of land and convertible properties, owners and laborers in the multifamily construction or development industry, project tenants, and owners of existing rental housing and their tenants. More importantly, if lower-income housing gets displaced, the credit will fail to advance equity objectives.



# 8 Brownfields Tax Credit

Background	Type:	Development
	Sub-Market	Environmentally-Contaminated Parcels
Credit Mechanics	Eligibility	Applicant must provide evidence of a voluntary cleanup or corrective action plan approved by the Maryland Department of the Environment (MDE).
	Credit	Cost of clean-up < \$250,000 – five year credit at 50% each year.
		Cost of clean-up > \$250,000 – five year credit at 70% each year.
		Projects within Enterprise Zones – 10-year credit.
		Plus, the City must contribute into the State Brownfield Fund at 30% of the cost of the credit.
Financials	FY22 Estimated Total Cost	\$19 million
Legal	Sunset Date	Voluntary
	Legal	Statewide Optional

Note: Estimated total cost is based on the City of Baltimore's Budget Publications FY2016-FY2022.

## Background

The Brownfields Tax Credit is a Statewide optional tax credit that was established by State law in 1997 as part of Maryland's Smart Growth policy. The program's stated intent was to promote economic development in distressed urban areas by incenting the redevelopment of contaminated abandoned sites and/or under-utilized commercial or industrial sites. The City opted into the program in 1998 via Ordinance No. 98-248, allowing for a five-year 50% credit on the increased taxable value after cleanup. Baltimore also chose to add two additional optional sub-provisions to encourage development within Enterprise Zones. Properties within Enterprise Zones receive an extended credit, to 10-years; projects with costs greater than \$250,000 receive an extended benefit, to 70%. Due to the wide map for Enterprise Zones and the low-cost threshold, 97% of Brownfields projects qualify for both additional sub-provisions.

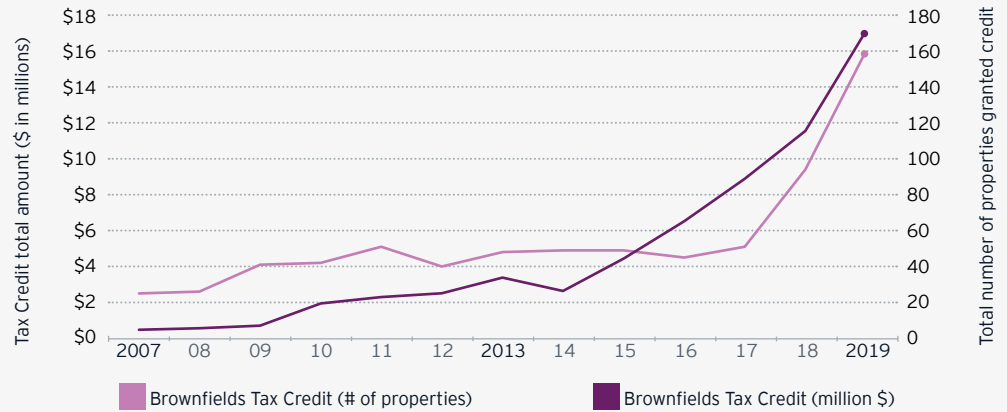
## Historical Trend

The use of this credit has grown significantly in recent years. Over the 10-year period between FY2008 and FY2017, a total of only 97 unique properties were granted this credit. Over the three-year period between 2017 and 2019, an additional 120 properties were granted the credit. Much of the growth in the program is due to its growing use as a residential development incentive. Although the stated goal of the program is for commercial development, new residential developments that fall within City Enterprise Zones have qualified, including new townhome developments in Locust Point and the Four Seasons condominiums in Harbor East.



**Figure 8.1 Historical trend of Brownfields Property Tax Credit, fiscal year**

Note: Tax Credit data available to EY can be validated only going back to 2007. All properties receiving the tax credit in 2007 are assumed to have received the tax credit for the first time in 2007; FY2019 includes data through April.



Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City's published budget.

## Geographical Distribution

The following table shows the top five neighborhoods by Brownfields Tax Credit amount granted in FY2019.

**Table 8.1 Top Five Neighborhoods by Brownfields Tax Credit Amount Granted (FY2019)**

Neighborhood	Credit Cost	# of Properties	Avg. Credit
Fells Point	\$3.7M	11	\$337,121
Canton IA	\$3.3M	8	\$413,682
Inner Harbor	\$2.5M	63	\$40,551
Riverside	\$1.7M	3	\$568,090
Carroll Camden IA	\$1.3M	2	\$657,294
<b>Baltimore City-Wide</b>	<b>\$17.1M</b>	<b>160</b>	<b>\$107,029</b>

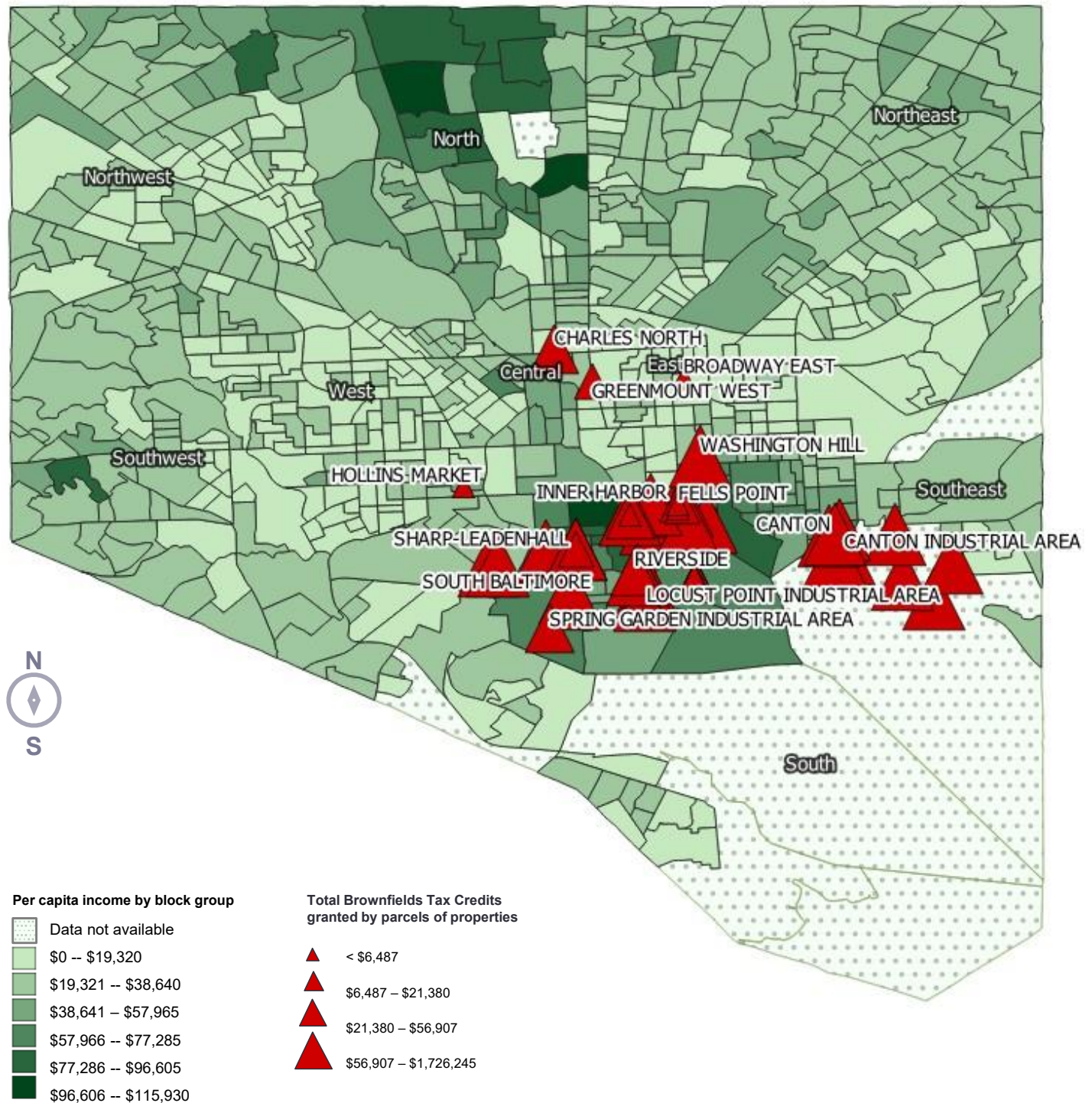
Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City's published budget.

The distribution of this credit tracks closely with the City's Enterprise Zones due to the extended benefit granted for properties located in these zones. The top five neighborhoods listed above account for 73% of the tax credit cost in 2019. These neighborhoods are often among the most affluent. This may be surprising, given expectations that Brownfields are concentrated lower-income neighborhoods. However, private redevelopment resources follow market incentives, which results in investment concentrated in areas of higher potential return post rehabilitation.



The following map shows the block groups that have been granted the Brownfields Tax Credit:

**Figure 8.2 Map of City of Baltimore by block group showing the most affluent neighborhoods and parcels with Brownfields Tax Credit in FY2019**



Note: The heat map is generated using the block group level “per capita income in the past 12 months (in 2017 inflation-adjusted dollars)” from the American Community Survey 2017. The labeled neighborhoods represent some of the affluent neighborhoods with the highest per capita income and the neighborhoods where most of the properties with the credit are located. The neighborhood per capita income is derived by taking the weighted average of block group level per capita income (weighted by population).

Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City’s published budget.



## Efficiency Considerations

The intent of this credit is to provide an incentive to redevelop certain classes of “brownfield” property that have presumably been removed from the market due to contamination. However, according to the City, most of the City can technically qualify as a brownfield due to small traces of toxic material that can be found in soils from prior industrial uses, even if the industrial use wasn’t on the site itself. Due to the generous size of the credit, builders are likely to be incentivized to develop parcels in neighborhoods with strong market value that have minimal cleanup costs.

## Equity Considerations

The Brownfields Tax Credit can promote vertical equity if redeveloped properties receiving mitigations are concentrated in low-income neighborhoods. However, the economic choice to redevelop and mitigate environmental hazards is ultimately based on the completed project’s marketability and the net return while considering the financial costs of mitigations. The most desirable properties would be those that are eligible for tax credits, require minimal cleanup and renovation cost, and bring the greatest return on investment. Properties that can easily meet these criteria are normally concentrated in relatively affluent areas.

## Other Considerations

Due to the wide map for Enterprise Zones and the low-cost threshold of only \$250,000 to qualify for the Brownfield extended benefit, 97% of the Brownfields Tax Credits granted by the City qualify for the more generous sub-provisions. In practice, this means that for the vast majority of Brownfield projects, the City provides a 70% tax credit and then makes a required 30% of the credit contribution to the State BRIF, resulting in \$0 of net new City tax revenues for a 10-year period.

Additionally, the Brownfields Tax Credit is now being used in place of other tax credits that provide a better net return to the City while also providing a reasonable incentive for developers. This is true on both the residential and commercial development side.

FY2020 data reveals that 67.1% of Brownfields Tax Credit projects are for residential development. Residential Brownfields Tax Credit projects would have otherwise qualified for the Newly Constructed Tax Credit. The result is that the City bears an additional 50% cost in year one (100% Brownfield vs. 50% NCTC) and an additional 90% cost in year five as the NCTC phases out (100% Brownfield vs. 10% NCTC).

On the commercial side, the City has the Enterprise Zone (EZ) Tax Credit, which covers most of the City’s commercial development needs. The EZ Tax Credit is a 10-year credit that begins at 80% in the first year. For projects in EZ Focus Areas, the credit remains at 80% for the entire 10-year period. From a cost-effectiveness standpoint, the EZ Tax Credit is the incentive of choice because the State reimburses the City for 50% of the cost. The Brownfields Tax Credit, even if used in tandem with the EZ credit, requires a 30% City payment into the State BRIF. In addition, the City and BDC play a role in drawing the boundaries for Enterprise Zones, which provides some expectation that incentives are targeted to the districts most in need of assistance.

The Brownfields credit is duplicative of other residential tax credits, and does not appear to be urgently needed for commercial development. Additionally, due to the requirement that the City must make a contribution to the State when the credit is used, from the City’s perspective it is not cost-effective. In FY2021, as a savings option in response to COVID-19, the Young Administration submitted a bill to the City Council to opt the City out of the State Brownfield Tax Credit program. If the bill had materialized, the City would have \$2.1M of related savings in the FY2021 budget.

# 9 Enterprise Zone Tax Credit (EZ)

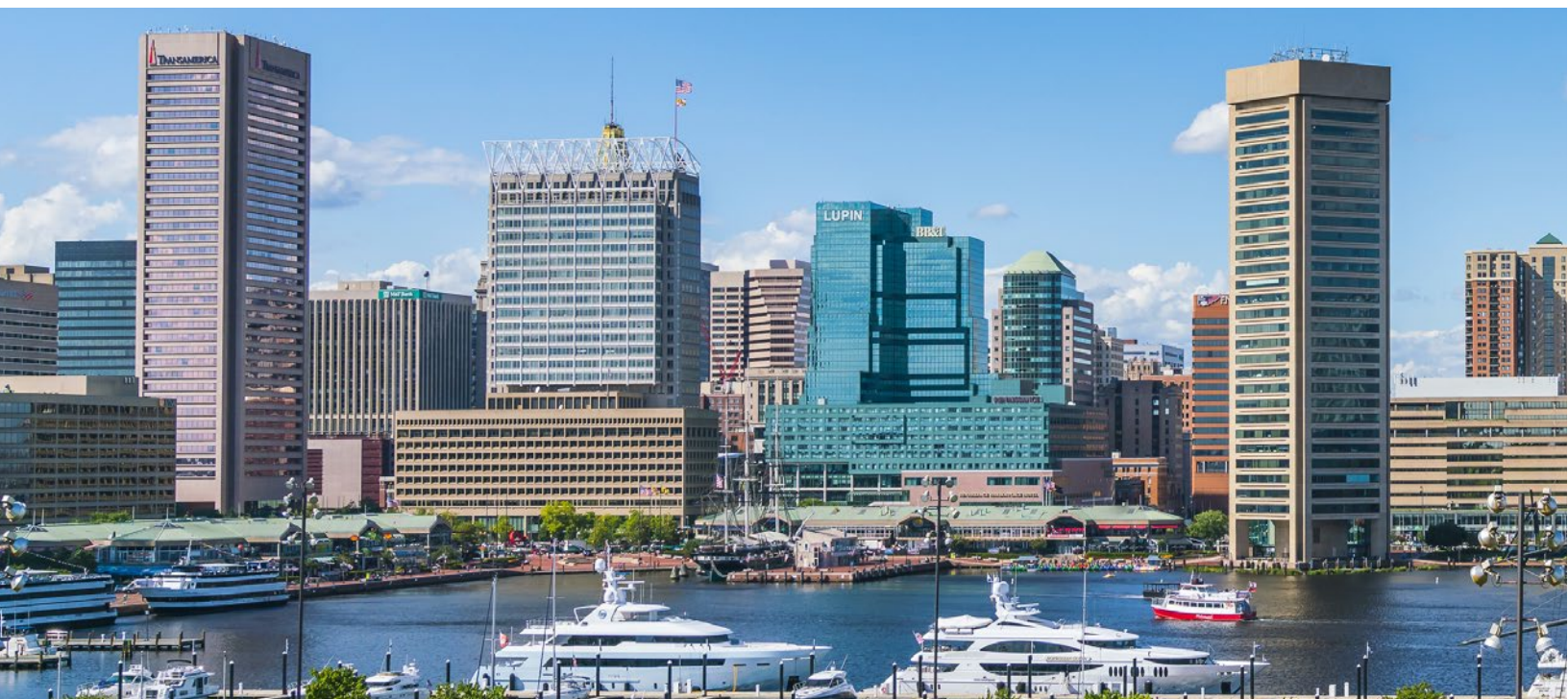
Background	Type:	Commercial Development
	Sub-Market	Economically Distressed Areas
Credit Mechanics	Eligibility	Property must be located within an Enterprise Zone. Property must not be used for residential purposes.
	Credit	10-year credit. 80% of property tax liability in years one through five, phasing out to 30% in year 10. For Focus Areas, the credit is 80% for all 10 years. State reimburses City for 50% of the credit cost.
Financials	FY22 Estimated Total Cost	\$21 million
Legal	Sunset Date	June 14, 2022
	Legal	Statewide Mandatory

Note: Estimated total cost is based on the City of Baltimore's Budget Publications FY2016-FY2022.

## Background

The EZ Tax Credit is a Statewide mandatory credit that was established in 1982. The stated intent of the program is to encourage targeted investment in economically distressed areas as measured by unemployment, poverty status, population decline, or property abandonment. Qualified properties must not be used for residential purposes, and must be located in an Enterprise Zone, the boundaries of which are redrawn periodically by the State with local jurisdiction input. The current boundaries for Baltimore are broad and include many industrial areas of the City, as well as traditional commercial districts along Harford Road, Belair Road, York Road, North Avenue, and Liberty Heights Avenue, among others.

The EZ Tax Credit is a 10-year credit at 80% in Year One through Year Five, phasing out by 10% annually to 30% in Year Ten. Focus Areas receive an 80% credit for all ten years. Baltimore has three focus areas: Carroll-Camden, Jones Falls, and Oldtown; Holabird Orangeville Industrial Area; and the Central West Baltimore area. The credit is due for sunset or renewal by June 14, 2022.



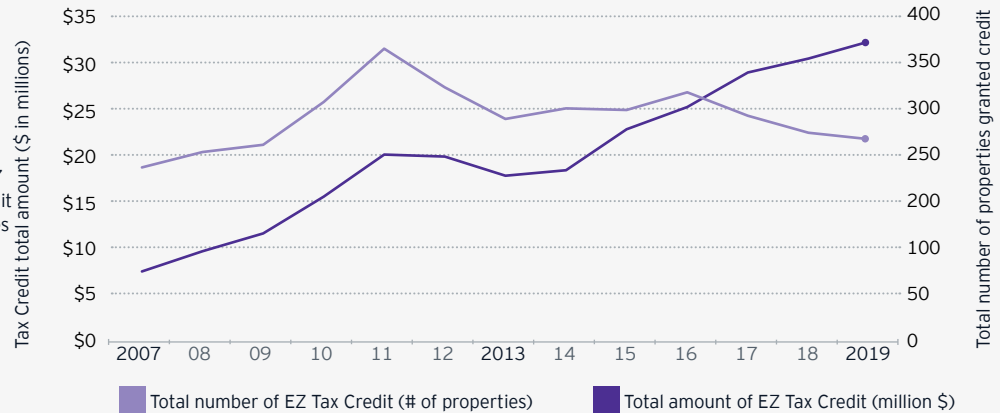


## Historical Trend

The number of properties receiving the EZ Tax Credit has remained steady from FY2007 to FY2019. However, the cost of the program grew from \$7.3 million in FY2007 to \$32.3 million in FY2019. Note that these costs are net of the 50% reimbursement that the City receives from the State:

**Figure 9.1 Historical trend of EZ Tax Credit, fiscal year**

Note: Tax Credit data available to EY can be validated only going back to 2007. All properties receiving the tax credit in 2007 are assumed to have received the tax credit for the first time in 2007; FY2019 includes data through April.



Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City's published budget.

## Geographical Distribution

The following table shows the top five neighborhoods by EZ Tax Credit amount granted in FY2019.

**Table 9.1 Top Five Neighborhoods by EZ Tax Credit Amount Granted (FY2019)**

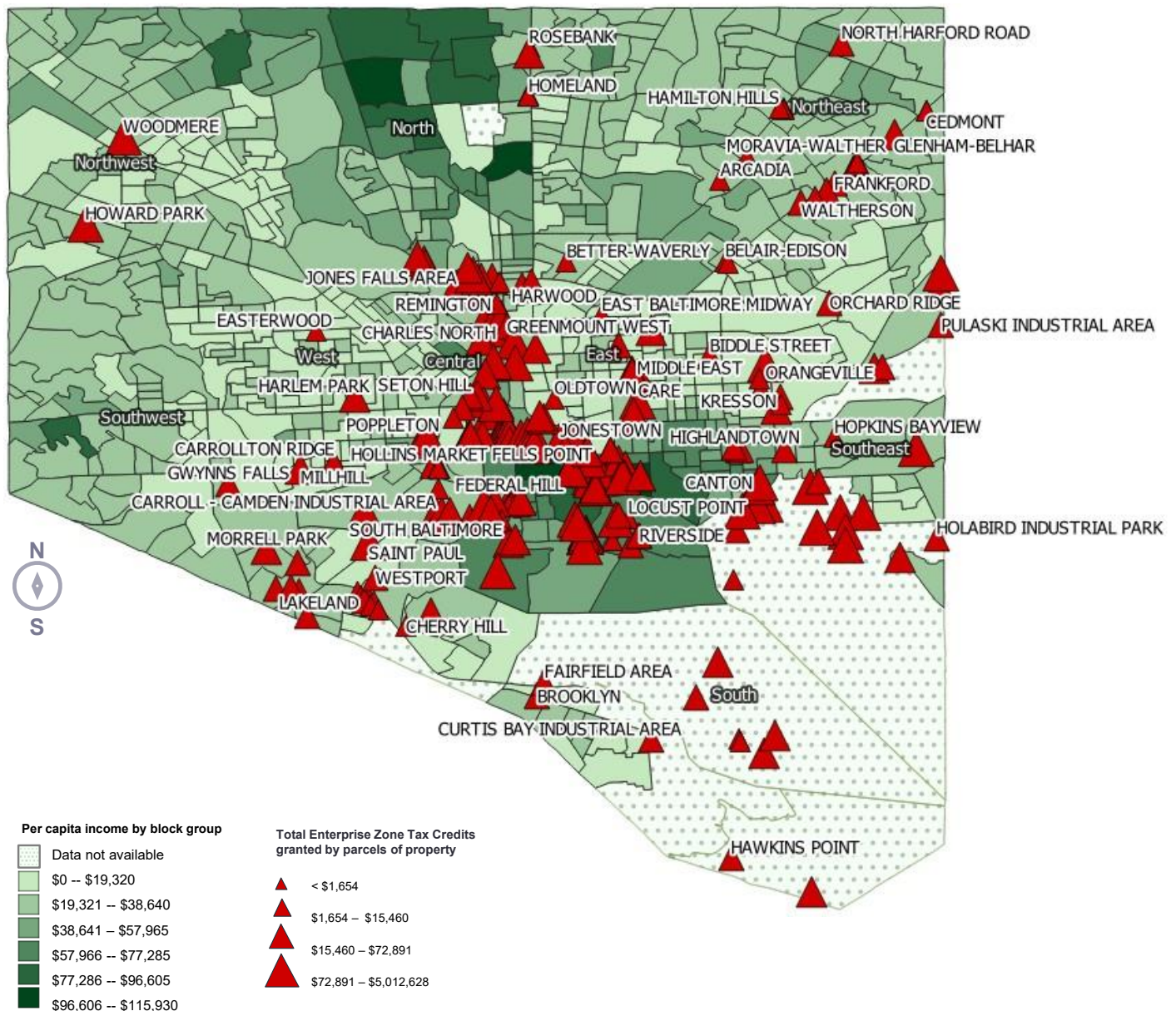
Neighborhood	Credit Cost	# of Properties	Avg. Credit
Carroll Camden IA	\$6.0M	6	\$1,010,818
Canton IA	\$6.0M	16	\$375,115
Fells Point	\$5.4M	19	\$289,933
Inner Harbor	\$3.1M	7	\$440,307
Middle East	\$2.3M	5	\$476,989
<b>Baltimore City-Wide</b>	<b>\$32.3M</b>	<b>248</b>	<b>\$130,070</b>

Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City's published budget.

71% of the total cost of the EZ Tax Credit accrues to properties in the top five neighborhoods listed above. Three of those areas are in more prosperous areas of the City - Inner Harbor, Fells Point, and Canton IA. The Carroll-Camden IA and Middle East neighborhoods are more economically distressed areas of the City. The Carroll-Camden neighborhood ranks first in total credit cost since it is located within a Focus Area and receives an 80% credit for all 10 years. The average credit amount in Carroll-Camden is nearly eight times higher than the average credit amount City-wide.

The following map shows the block groups that have been granted the Enterprise Zone Tax Credit.

**Figure 9.2 Map of City of Baltimore by block group showing the most affluent neighborhoods and parcels with EZ Tax Credit in FY2019**



Note: The heat map is generated using the block group level "per capita income in the past 12 months (in 2017 inflation-adjusted dollars)" from the American Community Survey 2017. The labeled neighborhoods represent some of the affluent neighborhoods with the highest per capita income and the neighborhoods where most of the properties with the credit are located. The neighborhood per capita income is derived by taking the weighted average of block group level per capita income (weighted by population).

Source: Parcel-level data from RPA 2019 and SDAT 2019. The aggregated data using these sources may not match the annual total reported in the City's published budget.



## Efficiency Considerations

Enterprise Zones are unlikely to create a significant increase of “new” economic activity; rather, they have the potential to transfer economic activity from other areas to the Enterprise Zone. This can produce benefits for the City if the economic activity is moved from an area outside of Baltimore City. However, the benefits of an Enterprise Zone are often limited for two key reasons. First, the assumed employment benefits often leak to employees that live outside of an Enterprise Zone or outside of the City entirely. For example, if a new business locates in a Baltimore City Enterprise Zone but the employees live in Baltimore County, the benefits of that employment (including the income tax revenue) flow back to Baltimore County. Second, an Enterprise Zone often increases the value of the land and, therefore, it benefits existing property owners rather than businesses that ultimately occupy property within the zone. This limits the development/redevelopment effect of the zone designation.

## Equity Considerations

The distribution of the EZ Tax Credit benefits depends on how well the zones are targeted to locations needing redevelopment. EZ designation can transfer economic activity to the zone by conferring benefits to residents and other zone property owners through increased property values. EZs could be equity-enhancing if the zoning targets areas with low-income residents and the need for redevelopment. However, the equity benefit would ultimately erode if the benefits accrue to landowners who are not City residents and if the construction activities benefit non-local contractors and construction workers.

## Other Considerations

The Enterprise Zone Tax Credit is the only City tax credit that receives partial reimbursement from the State. By law, the State must reimburse the City for 50% of the cost. Since the City’s foregone taxes is only half of the credit that its taxpayers benefit from, the EZ Tax Credit is considered more cost-effective to the City than other credits, regardless of the inefficiencies in its distribution.



## EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](https://ey.com).

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2022 Ernst & Young LLP.  
All Rights Reserved.

CSG no. 2201-3959492  
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

[ey.com](https://ey.com)