

City of Baltimore

**Report of the
Blue Ribbon Committee on Taxes and Fees**

Final Draft



City of Baltimore

The Honorable Sheila Dixon, Mayor

Blue Ribbon Committee

Joseph T. Landers, III, Co-Chair
The Honorable Joan Pratt, Co-Chair

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Mayor's Blue Ribbon Committee on Taxes and Fees

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- Joseph T. Landers III, *Executive Vice President Greater Baltimore Board of Realtors*

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- Diane Bell-McKoy, *President & CEO, Associated Black Charities*
- Kirsten Sandberg Caffrey, *Citizen Representative*
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The Honorable Sheila Dixon
Mayor
City of Baltimore
100 North Holliday Street
Baltimore, MD 21202

Dear Mayor Dixon:

Several months ago you appointed us to lead a 26-member group of civic leaders to review the city's tax structure. The Blue Ribbon Committee on Taxes & Fees was charged with developing options for your consideration to reduce the City's property tax rate. As you know, Baltimore's 2008 property tax rate of \$2.268 per \$100 of assessed value is twice that of neighboring counties, and is believed by many to be a significant obstacle to the City's competitiveness.

Our Committee has been meeting regularly since April. We have studied the current composition of the City's major revenue sources and property tax structure, and have heard from experts in municipal finance and property tax assessment and from State and City officials. Members of the Committee have brought their own expertise in economic development, banking, commercial real estate, community leadership, law and other fields. As a result of our deliberations, the Committee has developed a menu of alternate revenue options and other measures that the City can employ to reduce the property tax rate significantly. The Committee recommends that a broad selection of these measures be adopted, with the goal of reducing the City's property tax over the next several years by 32 percent, which equates to a \$0.72 reduction per \$100 of assessed value. A reduction of this magnitude will ensure that the City's property tax rate is no more than 50 percent higher than the average rate of the surrounding counties and will provide a tremendous stimulus to growth and development in the City.

The Committee's members realize that the current State budget shortfall creates a challenge for the City, as it is likely that part of the solution to the State's financial woes may be to ask all Maryland counties to do more. However, we also see this situation as a tremendous opportunity. Many of the Committee's recommended options for property tax reduction require State legislative approval. We hope that the City of Baltimore's goal of reducing its property tax rate – and the State authorization to take the necessary steps to do so – will be raised by the City's legislative delegation and the City Administration as the State budget solution is developed in coming weeks and months.

Along with other members of the Committee, we appreciate the opportunity to serve our City, and thank you for appointing us to undertake this challenging and important assignment.

Sincerely,

Joseph T. Landers III
Co-Chair

The Honorable Joan Pratt
Co-Chair

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EXECUTIVE SUMMARY

Executive Summary

The property tax rate in the City of Baltimore is approximately twice as high as the average rate in surrounding counties. A homeowner in Baltimore City whose home is assessed at \$150,000 pays up to \$3,402 annually in real property taxes, while in Baltimore County a home assessed at the same value is taxed at \$1,650. The disparity is even more pronounced for large commercial properties. Taxes on a \$25 million property in the City total \$567,000. In Baltimore County, the same property has an annual tax bill of just \$275,000. It is easy to see why potential homeowners and commercial property owners might hesitate before purchasing property in the City.

Despite this competitive disadvantage, the City has enjoyed some success in attracting both residents and businesses. In a reversal of fortune, Baltimore's population is estimated to have actually increased in 2006 - the second such increase since 1971. While census estimates put that increase at just 897 residents, it represents a major departure from the 1990's when the City lost an average of approximately 8,500 residents per year. Current development projects underway in 2007 are valued at approximately \$3.0 billion, including the first residential building at the East Baltimore Development Initiative and seven major biomedical and life science projects. In addition, expansions in major health and hospital institutions are expected to generate more than 12,000 jobs over the next five years. Finally, current projections estimate that 2,552 new households and 3,145 new jobs will relocate to the City between now and 2018 due to Base Realignment and Closure (BRAC). These trends indicate Baltimore's potential for growth and demonstrate the critical timing of this report.

Still, Baltimore's property tax rate - \$2.268 per \$100 of assessed value in FY2008 - is a major barrier to the City's growth and development. Lowering the rate could unlock the City's unrealized potential and trigger a significant increase in the real property base. In turn, this would increase property tax revenue and allow for further investment in the City's future in the form of an even lower tax rate, enhanced services, or a combination of both.

On February 15, 2007, Mayor Dixon appointed a 26 member¹ Blue Ribbon Committee to study the City's tax and fee structure and recommend ways to make a significant reduction in the property tax rate. The Committee, representing the City's residents, businesses, non-profit institutions, City Council, City Comptroller, City administration, and State officials, was charged with establishing recommendations for reforming the local tax and fee structure for the purpose of reducing the property tax rate and supporting the City's long-term fiscal health.

The Committee firmly believes that a rate reduction in itself would eventually result in growth in property tax revenue and therefore allow a reduced property tax rate. Its members also realize that the City cannot commit to a substantial rate reduction without replacing the resulting revenue loss. Therefore, the Committee looked to develop a menu of options that would allow a property tax rate reduction by replacing the lost revenue with new or enhanced revenue sources.

This report presents two options developed by the Committee to show alternative scenarios for property tax reduction. The first is intended to have maximum short-term impact, and is

¹ A full list of the Blue Ribbon Committee's members and their affiliation can be found in Appendix 5 of this report.

comprised of options which can be implemented over the next year to reduce the property tax rate to about \$2.00 from \$2.268. The second scenario includes options that will take longer to implement, but will lead to deeper reductions close to the Committee's target level.

It should be noted that just as the Committee was wrapping up its final recommendations, the Governor convened a Special Legislative Session of the Maryland General Assembly to address the State's structural deficit, estimated at \$1.65 billion for FY 2009. While the full impact of Session's outcomes are still under analysis and not yet fully known, several measures which passed have a direct bearing on the recommendations contained in this report. Some of the most significant measures include:

- An increase in the State sales tax rate from 5 percent to 6 percent;
- A requirement that controlling interests in the transfer of ownership of commercial properties pay State property transfer tax as well as local property transfer and recordation taxes on the value of the transfer;
- A constitutional amendment authorizing up to 15,000 video lottery terminals at five locations in Maryland (including a location in Baltimore City), subject to approval by the voters in the November 2008 general election.

In addition, several measures were passed that will negatively impact revenue and State aid to the City, particularly in the areas of income tax revenues, transportation, Program Open Space and education funding. It is useful to bear these very recent developments in mind when considering the Committee's recommendations that follow. There will likely be additional State legislative and budget changes that add more financial burden to the City when the 2008 General Assembly Session gets underway in January.

Short Term Scenario

After careful consideration of the sixteen options detailed in the body of this report, the Committee developed a scenario in which actions implemented over the next year or two could reduce the property tax rate by \$0.248 per \$100 of assessed value. While the City's commendable efforts to reduce the rate by two cents per \$100 of assessed value each year beginning in 2005 represent a firm commitment to an annual goal for property tax relief, the time is right for a more dramatic reduction.

With two exceptions, the options presented in the following scenario are steps the City can take on its own without approval from the State. If state action is requested to allow further and more significant rate reductions, it is important for the City to demonstrate maximum effort before asking for additional assistance. The exceptions are the two options dealing with transfers of controlling interests of business entities, both of which require changes to State law. Of all options reviewed by the Committee that require state action, these are believed to already have the strongest support in the Maryland General Assembly. In addition, the State's projected budget deficit of approximately \$1.7 billion provides an incentive for implementation of both options, as they would generate significant state revenue.

While not every Committee member supported each separate option individually, the Committee agreed that a package of multiple options affecting different stakeholders was needed to achieve

meaningful and fair property tax reduction. Each option has potential benefits and drawbacks that are outlined in the body of this report. However, by clustering a set of options together, the Committee has demonstrated that a significant property tax cut *is* possible if there is a firm commitment from the City, its legislative representatives, and its citizens and businesses.

The following table presents a scenario that would cut the real property tax rate by \$0.248 per \$100 of assessed value in two years – a ten percent decrease from FY2008 and more than eleven times the committed FY2008 reduction of two cents per \$100:

**Short Term Scenario
\$0.251 Reduction in One to Two Years**

Option	Revenue Potential (\$ millions)	Rate Reduction (per \$100)	Location in Report
Increase the Homestead Credit Cap to 10%	\$24.2	\$0.092	p. 43
Raise the Income Tax Rate to 3.20%	\$12.1	\$0.045	p. 49
Continue 2-Cent Reduction through FY2010 (two additional years)	\$0.0	\$0.040	p. 5
Transfer Tax on Transfers of Controlling Interests	\$4.7	\$0.020	p. 80
Require All Controlling Interest Transfers to be Reported to SDAT	\$4.0	\$0.015	p. 82
Further Coordination Between the City and SDAT, Other Improvements to the Assessment Process	\$4.0	\$0.015	p. 84
Increase the Hotel Tax Rate to 10%	\$4.1	\$0.013	p. 52
Comprehensive Fee Analysis	\$1.0	\$0.004	p. 55
Aggressive Vacant Property Fee	\$0.8	\$0.004	p. 88
Total	\$54.90	\$0.248	
Current Real Property Tax Rate		\$2.268	
New Real Property Tax Rate		\$2.020	

Options Included in the Short Term Scenario

Increase the Homestead Credit Assessment Cap to 10 Percent

The Homestead Credit is a cap on the growth in taxable assessed property value. The assessment cap only applies to owner-occupied residential property and is designed to protect homeowners from large increases in property tax obligations due to reassessment. The State of Maryland requires that the local property tax cap be set between zero and ten percent; Baltimore’s is set at four percent. If the City were to increase the assessment cap to the State limit, it would realize an additional \$24.2 million in revenue in FY2009. However, the City is required to notify the State of any change to the cap by November 15 of the preceding fiscal year. Because City Council must vote on such a change before the State is notified, it is unlikely that this option can be implemented until FY2010.

Increase the Income Tax Rate to 3.20 Percent

Increasing the City's current 3.05 percent income tax rate to the maximum 3.20 percent allowed by state law would generate approximately \$12.1 million in new revenue in FY2009 and would allow the property tax rate to be lowered by \$0.045 per \$100 of assessed value. To make a change in the income tax rate the City must notify the State by July 1 of the preceding calendar year. Therefore, the earliest this option could be implemented is January 1, 2009.

Continue Two-Cent Reduction

In FY2005, the City established a goal of reducing the real property tax rate by \$0.02 per \$100 in assessed value each year for five years. Mayor Dixon has made that reduction for FY2008 and could do so again in FY2009 and FY2010. This would reduce the property tax rate by \$0.020 per \$100 of assessed value each year for a total of \$0.040.

Require Transfer and Recordation Taxes to be Paid on Transfers of Controlling Interest

When property is transferred as part of a controlling interest transfer, recordation and transfer taxes are not required to be paid. This option would eliminate that exception and generate approximately \$4.7 million and allow a property tax rate reduction of \$0.020 per \$100 of assessed value.

Require All Controlling Interest Transfers to be Reported to SDAT

When properties are transferred as part of controlling interest transfers, the prices paid for those properties are not publicly recorded or reported to the Maryland State Department of Assessment and Taxation. The sale price is an important piece of the assessment process, and without it SDAT has fewer tools for properly assessing the value of these properties, which are often high in value. Requiring transfers of controlling interests to be reported to SDAT would yield an estimated \$4.0 million in City revenue and allow a property tax rate reduction of \$0.015 per \$100 of assessed value.

Improved Coordination Between the City and SDAT; and Further Improvements to the Assessment Process

SDAT's first priority is the fair, accurate, and consistent assessment of all taxable property in the State. It does not have a vested interest in city and county property tax revenue. Although local governments do not have the power to assess property, they can monitor SDAT assessments and appeal when they believe a property is underassessed. In addition, the City could improve its coordination with SDAT and share data to help to improve the accuracy of the agency's assessments. Improving the assessment process and better coordinating with SDAT could help the City recover approximately \$4.0 million in revenue and allow a property tax rate reduction of \$0.015 per \$100 of assessed value.

Increase the Hotel Tax Rate to 10 Percent

The current hotel tax rate is 7 percent. Raising the rate to 10 percent would generate \$4.1 million in new revenue. This option would yield an estimated \$4.1 million in City revenue and allow a property tax rate reduction of \$0.013 per \$100 of assessed value.

Comprehensive Fee Analysis

A comprehensive review of all fees, fines, and charges for service would ensure that the City charges enough to cover its costs for those services. Changes made to the fee structure as a result could generate approximately \$1.0 million in additional revenue, allowing property tax reduction of \$0.004 per \$100 of assessed value.

Aggressive Vacant Property Fee

The City should investigate charging a more aggressive fee for vacant property registration. The current fee charged is \$30 per year, but other cities have charged as much as \$5,000 for registration of property that has been vacant for ten years. Given current estimates of 17,000 vacant properties in the City, potentially significant revenue could be generated from higher registration fees. For this report, potential revenue generated by this option was conservatively estimated at \$850,000, allowing a modest rate reduction of \$0.004. However, the real benefit of any strategy that creates an incentive to rehabilitate and occupy vacant or abandoned properties is the eventual increase in the City's property tax base.

Other Major Revenue Options

In addition to the options outlined above, the Committee also examined other long-term alternatives that the City can pursue to provide substantial additional property tax reduction when adopted in combination with the short term options. The following list contains five such options that require State action and might take some time to implement, but would allow significant rate reduction. There was not a clear consensus among Committee members in favor of these options, in part because they were seen as difficult to implement. However, they do represent potentially large sources of revenue needed to help the City meet its property tax reduction goal:

Other Major Revenue Options

Option	Revenue Potential (\$ millions)	Rate Reduction (per \$100)	Location in Report
1% Local Option Sales Tax	\$64.4	\$0.236	p. 62
1% Regional Sales Tax	\$63.1	\$0.230	p. 66
1% Tax on Commuter Wages	\$75.7	\$0.240	p. 74
1% Local Earnings Tax	\$47.4	\$0.162	p. 69
Gaming Revenue	\$45.9	\$0.170	p. 76
Total	296.5	\$1.038	

Note: It is likely that only one of the sales tax options and one of the commuter/local earnings taxes could be implemented at one time, and they were considered mutually exclusive by the Committee.

Options Included in Other Major Revenues

Local Option Sales Tax

Establishing a one percent sales tax for all taxable goods sold in the City would generate approximately \$64.4 million in FY2009 and allow a property tax reduction of \$0.236 per \$100 of assessed value. If the State sales tax rate remains at five percent, this option would increase the aggregate sales tax rate in Baltimore to six percent. According to State law, subdivisions cannot levy a general sales tax; therefore, this option would require the passage of state legislation.

Regional Sales Tax

A regional sales tax differs from a local option sales tax in that the additional one percent rate would be levied on several counties in the greater Baltimore region rather than in the City alone. In addition, half of the revenue generated by the tax would be used to pay for cultural assets in the region. The other half would be distributed back to the counties and to the City according to a formula based on tax capacity and effort. This option would generate an estimated \$63.1 million for the City in FY2009 and allow a \$0.230 reduction to the property tax rate. Like the local option sales tax, a regional sales tax would require State legislation.

Commuter Wage Tax

The City's income tax revenue is derived only from its residents. Individuals who work in the City but do not live in the City are taxed by their county of residence. This option would generate approximately \$75.7 million by taxing those commuters on one percent of the wages they earn within city limits. This option, which would permit a property tax reduction of \$0.240 per \$100 of assessed value, requires state legislation.

Local Earnings Tax

This option differs from the pure commuter tax by taxing the wages of *all* individuals who work in the City. This would be a statewide option, so that each county could opt to levy the additional tax. Further, individuals could deduct the tax from the existing income tax they pay to their county of residence. In most counties, net income tax revenue would be reduced as a result of this option. In the City of Baltimore, approximately \$47.4 million in new revenue would be generated, allowing a property tax reduction of \$0.162 per \$100 of assessed value. Implementing this option would require state legislation.

Gaming Revenue

For several years, various Maryland Governors and the State General Assembly have considered legalizing slots and casino gambling to augment State revenues and support the ailing thoroughbred horse-racing industry. With the State facing a significant budget deficit next year, these revenue raising alternatives are expected to be considered once again. Experts appearing before the Blue Ribbon Committee suggested that the State's need for revenue could potentially lead to the adoption of limited gaming in Maryland. Many Committee members expressed the view that the City should receive a share of revenue if legislation allowing gaming in Baltimore passes. Through a revenue-sharing scenario presented in the body of this report the City could realize an estimated \$45.86 million, allowing a property tax rate reduction of approximately \$0.170 per \$100 of assessed value.

Long Term Scenario

To show the potential impact of these longer-term revenue options, the Committee developed a second scenario that adds two of the foregoing additional options to the Short Term Scenario presented earlier. Both of these – a local option sales tax and additional revenue generated by casino and slots gaming located in the City – require new state legislation. Of the five long-term options considered by the Committee, these two received the strongest support. Because both options could take some time before they are implemented, this set of options can be considered a long-term scenario for property tax relief. If all of the options listed in the Long-Term

Scenario below were to be implemented, Baltimore's property tax rate could be reduced by \$0.654 to \$1.614 – a 28.8 percent decrease.

**Long Term Scenario
\$0.653 Reduction Over Several Years**

Option	Revenue Potential (\$ millions)	Rate Reduction (per \$100)	Location in Report
Increase the Homestead Credit Cap to 8%	\$24.2	\$0.092	p. 43
Raise the Income Tax Rate to 3.20%	\$12.1	\$0.045	p. 49
Continue 2-Cent Reduction (2 years)	\$0.0	\$0.040	p. 5
Transfer Tax on Transfers of Controlling Interest	\$4.7	\$0.020	p. 80
Require All Controlling Interest Transfers to be Reported to SDAT	\$4.0	\$0.015	p. 82
Further Coordination Between the City and SDAT, Other Improvements to the Assessment Process	\$4.0	\$0.015	p. 84
Increase the Hotel Tax Rate to 10%	\$4.1	\$0.013	p. 52
Comprehensive Fee Analysis	\$1.0	\$0.004	p. 55
Aggressive Vacant Property Fee	\$0.8	\$0.004	p. 88
Local Option Sales Tax	\$64.4	\$0.236	p. 62
Gaming Revenue	\$45.9	\$0.170	p. 76
Total	\$165.20	\$0.654	
New Real Property Tax Rate		\$1.614	

Other Options

In addition to the options presented above, the Committee considered other alternatives. The remaining three options, discussed at length in the body of this report, are:

- Transfer additional functions to the State of Maryland (p. 91).
- Charge a fee for solid waste collection (p. 57).
- Develop a new strategy for tax-exempt property (p. 59).

The first two options, transferring additional functions to the State and charging a solid waste collection fee, were not included in either scenario because they did not receive a great deal of support from the Committee. The third option, developing a new strategy for tax-exempt property, was not included because the estimated revenue impact (and corresponding rate reduction) cannot be quantified. It did however receive substantial support from the Committee, and specific strategies outlined in the body of this report should also be considered as potential options to increase the City's real property base and lower the property tax rate.

In addition, the Committee recommends that the Mayor appoint an independent group, similar to this Blue Ribbon Committee, to investigate the potential for cost cutting, operational changes

and program consolidations that will permit the City to reduce expenditures and further assist the effort to reduce the City tax rate.

I. MISSION AND GOALS

Property Tax in Baltimore

The real property tax is the major source of funding for general operations of the City of Baltimore, routinely generating just under half of all General Fund revenue. Moreover, the property tax is one of the City's more stable sources of revenue, providing a level of consistency that matches well with the cost trend of basic services provided by the City, such as police and fire protection and solid waste collection.

The property tax has been a continuing source of controversy, however, because Baltimore's rate is so much higher than all other sub-divisions in the Baltimore region. In fiscal year 2007, Baltimore's tax rate of \$2.288 per \$100 of assessed value was at least twice that of suburban Baltimore counties and much higher than other large Maryland counties, a situation necessitated in part by Baltimore's relatively lower amount of assessable real property and higher costs of municipal services. The difference in rates and assessable bases between Baltimore and some of these counties is shown in the following table:

**Relative Property Tax Rate and Assessable Base, FY 2007
Baltimore City and Suburban Maryland Counties**

County	County Property Tax Rate	Property Tax Assessable Base (\$ Billions)
Baltimore City	2.288	23.3
Baltimore County	1.100	59.4
Montgomery County	0.916	141.9
Prince George's County	1.319	59.9
Anne Arundel County	0.918	58.3
Howard County	1.140	34.8

Source: Maryland Department of Legislative Services, Overview of Maryland Local Government, 2007
County rates include special taxing districts for unincorporated areas. The net property tax rate of incorporated county subdivisions may differ.

Many believe that the high property tax rate serves as a disincentive for residents and businesses to locate in the City of Baltimore; the Committee is convinced that this is the case. As a result, repeated attempts have been made to lower the rate and to limit the property tax burden in an effort to make the City more competitive.

When the State of Maryland required that each county establish a homestead cap limiting annual growth in the assessed value of owner-occupied properties to a range from zero to 10 percent, the City of Baltimore set the cap at four percent. In addition, over time a variety of tax credits and exemptions were created by City officials to provide targeted property tax relief or to spur investment that might otherwise have been stymied by high property tax rates. Finally, for fiscal year 2006, Mayor Martin O'Malley established a five-year goal of annually reducing the tax rate by two cents per \$100 of assessed valuation. The reductions were instituted for fiscal year 2006 and fiscal year 2007. Mayor Sheila Dixon included a third reduction in her fiscal year 2008 budget, and established a goal of including the two final reductions in subsequent budgets.

Mission, Goals and Operations of the Blue Ribbon Committee

On February 15, 2007, Mayor Dixon appointed a 26 member² Blue Ribbon Committee to study the City's tax and fee structure and recommend ways to make a significant reduction in the property tax rate. The Committee, representing the City's residents, businesses, non-profit institutions, City Council, City Comptroller, City administration, and State officials, was charged with establishing recommendations for reforming the local tax and fee structure for the purpose of reducing the property tax rate and to support the City's long-term fiscal health.

Mayor Dixon directed the Committee to focus on the following goals for the City's tax and fee structure:

- Sufficiency: provide enough resources to fund essential services and fulfill the government's responsibilities without wide variances from year to year;
- Competitiveness: support the City's goal to promote long-term sustainable economic development and growth;
- Simplicity: provide a structure that is easy to comply with and to administer; and
- Efficiency: provide a structure that supports good economic and public policy.

In achieving these goals, the Committee was charged with:

- Analyzing and reporting on the factors contributing to the City's high property tax rate relative to surrounding Maryland counties;
- Researching and reporting on the legal framework for and practice of financing local government in Maryland;
- Examining recommendations to improve measurement, monitoring, and management of the assessable tax base and equitably enhance the tax revenues to be derived from non-residential real property;
- Reviewing the City's existing tax and fee structure, including the various tax credits and exemptions currently in place, and report on the impact the existing measures have on the goals for a model tax and fee structure;
- Recommending changes to the current tax and fee structure that maximize attainment of the Committee's stated goals.

² A full list of the Blue Ribbon Committee's members and their affiliation can be found in Appendix 5 of this report.

The Mayor designated representatives from the City's Finance Department, Mayor's Office of Neighborhood and Economic Development, and Planning Department to support the work of the Committee. In addition, the Finance Department used a competitive process to select Public Financial Management, Inc. to plan and facilitate the activities of the committee.

Thirteen full Committee meetings were held, beginning in March and continuing through early October.³ During the early meetings, the City and its consultant PFM provided a variety of informational briefings to the Committee on issues including the City's tax structure and revenue-raising power and the level of State aid provided to the City. The State Department of Assessment and Taxation (SDAT) described its approach to assessment in the City, and the author of a study recommending changes in SDAT procedures provided counterpoint. Subsequently, the Committee directed PFM to provide information on how comparable cities around the country raised revenue, the revenue potential of specific options such as slots and casino gaming, and other issues. The presentations made to the Committee are included in Appendix C of this report.

The Committee's meetings were open to the public, and input was solicited in multiple forms. The Committee also maintains a website that includes presentations and other information on its deliberations. The website is accessible at <http://www.baltimorecity.gov/mayor/blueribbon.php>.

³ March 19, April 4; April 18; May 2; May 16; May 30; June 13; June 27; July 11; July 25; August 8; September 5; October 3.

II. BALTIMORE'S FINANCES

City of Baltimore Finances

The City of Baltimore's estimated population in 2005 was 640,064, with a median income of \$35,400 and median home price of \$140,000. According to 2000 U.S. Census estimates, 22.9 percent of the City's population lives in poverty. As shown below, compared with other large Maryland counties, the City of Baltimore has more citizens living in poverty, a lower median household income, and a lower median home price.

Relative Demographic Characteristics of Baltimore County and Suburban Maryland Counties

County	Population (2005)	Poverty Rate (2000 Census)	Median Household Income (2005)	Median Home Price (2006)
Baltimore City	640,064	22.9%	\$35,400	\$140,000
Baltimore County	786,113	6.5%	\$60,700	\$250,000
Montgomery County	927,583	5.4%	\$84,450	\$425,000
Prince George's County	846,123	7.7%	\$69,300	\$315,000
Anne Arundel County	510,878	5.1%	\$76,350	\$334,900
Howard County	269,457	3.9%	\$88,600	\$399,000

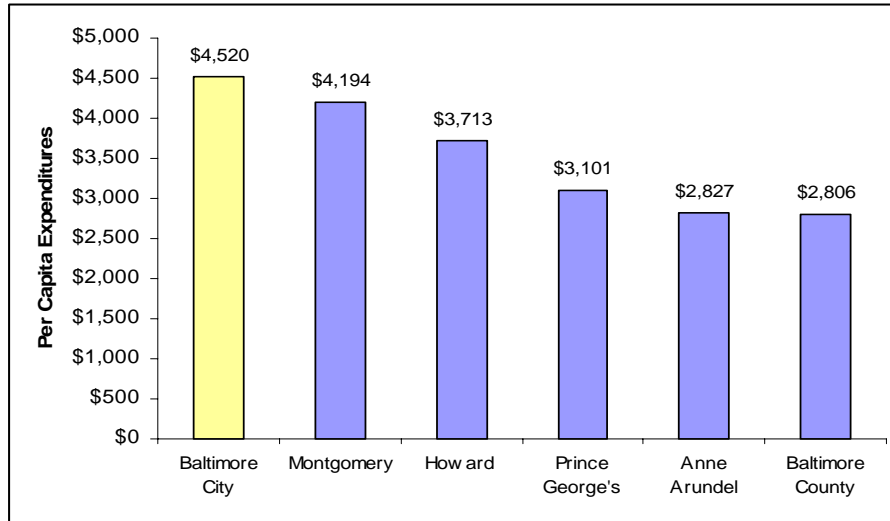
Source: Maryland Department of Legislative Services, Overview of Maryland Local Government, 2007
Baltimore City population data is an updated 2005 Census estimate that was revised upon appeal.

Note: The poverty rate is defined as the percentage of people with income determined to be below the poverty threshold. Poverty thresholds differ depending on family size and the age of individual family members.

In 2007 the City government budgeted 15,130 employees, with 9,383 or 62 percent funded by the General Fund and the remainder by special funds supporting water and wastewater treatment, parking facilities, grants, and other activities. The City's \$2.4 billion budget included \$1.2 billion for General Fund activities and over \$381 million for capital expenditures.

In part because of the demographic characteristics described above, the City of Baltimore spends more per capita for government services than other large Maryland counties. This difference, shown in the table below, was not within the purview of the Committee. However, at several points during its deliberations, members of the Committee suggested that additional property tax reductions could be achieved if City expenditures were lower. The Committee recommended that the Mayor appoint a separate panel to investigate ways in which the City can economize and reduce its expenditures (see the Recommendations section of this report).

**Table 3: Per Capita County Expenditures, FY2004
Baltimore City and Suburban Maryland Counties**

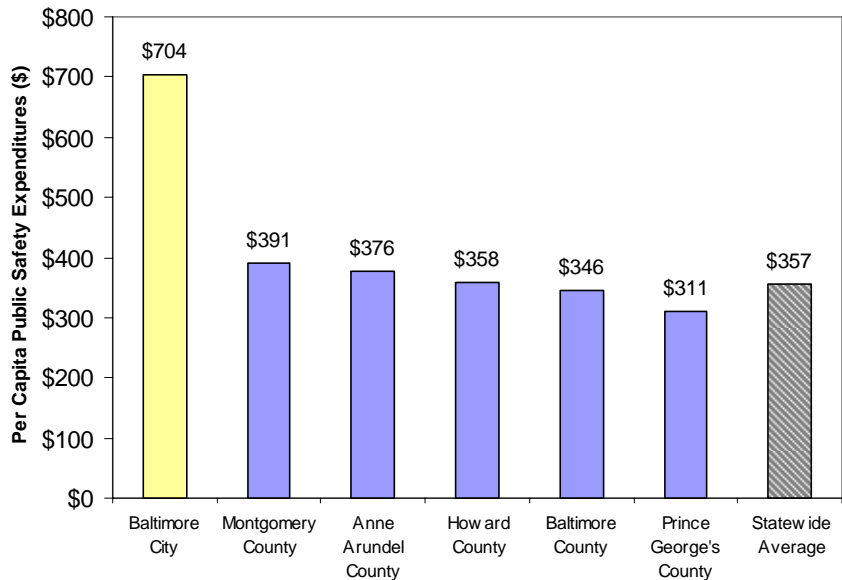


Source: Maryland Department of Legislative Services, Overview of Maryland Local Governments, 2007.

In fiscal year 2004, the City spent \$704 per capita on public safety - nearly twice the statewide average of \$357. This single factor accounts for much of the difference in spending between the City and the counties. The public safety needs of a concentrated, urban jurisdiction like Baltimore require significantly more resources than the more suburban counties in the State; for example, the City has twice the number of sworn police officers per capita as Baltimore County.⁴ To further put this in perspective, over half of the City's current property tax revenue is needed solely to fund the police department's \$286 million budget. The following graph compares the City's per capita public safety expenditures with those of selected counties. The statewide average per capita county spending on public safety of \$357 is represented by the bar on the right.

⁴ United States Federal Bureau of Investigation, Uniform Crime Report (UCR), 2006. The UCR is available online at <http://www.fbi.gov/ucr/cius2006/police/index.html>.

**Per Capita Public Safety Expenditures – FY2004
Baltimore City, Selected Counties, and Statewide Average**



To fund city services, the City relies principally on the property tax, which generates just under one-half of all revenue for general City operations each year. Other major City revenue sources include the local income tax, state and federal grant funds and shared taxes, and charges for services. The ten largest City General Fund revenue sources are shown in the following table:

**City of Baltimore
Ten Largest General Fund Revenue Sources, FY2007**

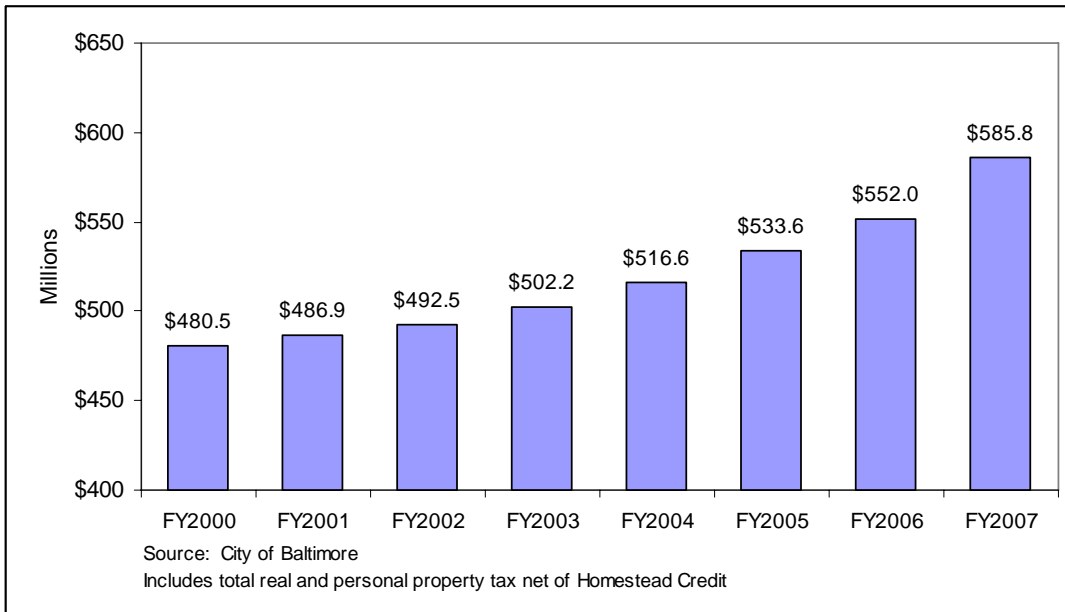
Revenue Source	FY2007	% of Total	Cumulative % of Total
Real & Personal Property Taxes	\$585,822,000	49.2	49.2
Income Taxes	\$243,611,000	17.8	67.0
State Aid – Income Tax Disparity Grant	\$76,002,000	6.3	73.3
Property Transfer Tax	\$51,756,000	4.3	77.6
Recordation Tax	\$46,550,000	3.9	81.5
Energy Tax	\$29,645,000	2.5	84.0
Telephone Tax	\$26,500,000	2.2	86.2
Net Parking Revenues (after debt service)	\$25,231,000	2.1	88.3
Net Hotel Tax (after debt service)	\$16,032,000	1.3	89.6
State Aid – Health	\$12,079,000	1.0	90.6
All Other	\$113,951,000	9.5	100.1
Total Revenues	\$1,227,179,000	100	

Source: City of Baltimore; percentages are greater than 100 due to rounding

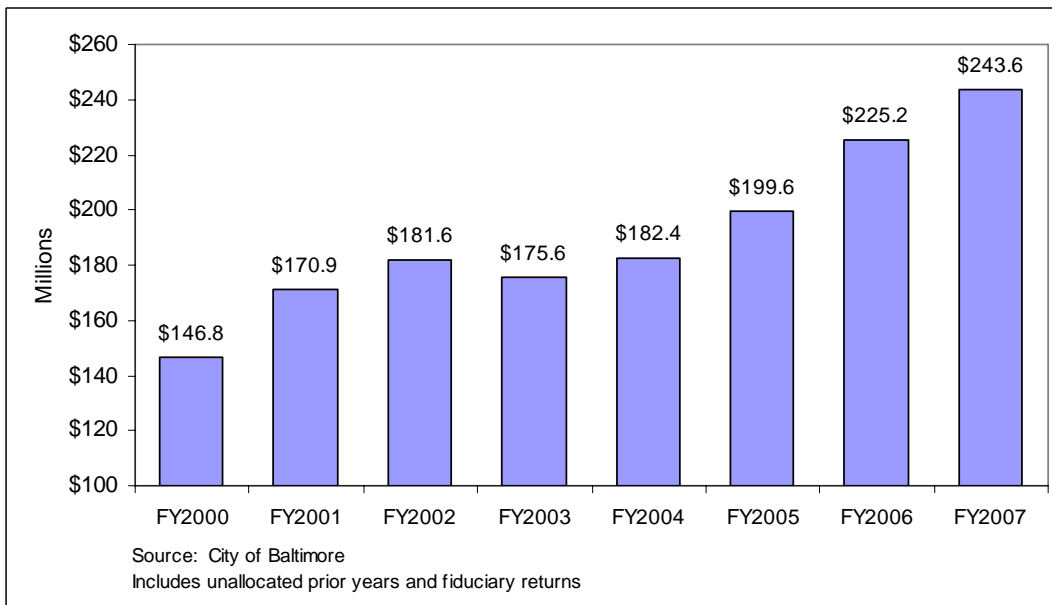
The property tax and the income tax are the City of Baltimore’s two largest sources of revenue, usually providing about two-thirds of annual General Fund revenue. While the income tax has seen periods of minimal growth and even decline, the property tax has been a reliable source of

revenue, providing steady if sometimes modest growth to balance the similar growth pattern in major City expenditure categories such as employee wages and benefits. While the overall growth of income tax revenue is comparable to that of property tax revenue, the property tax is less volatile and more reliable than the income tax. The two following tables show the relative revenue generated by the City's two major taxes from FY2000 through FY2007:

**Property Tax Revenue History
FY2000 – FY2007**



**Income Tax Revenue History
FY2000 – FY2007**



Other revenue sources are even more volatile than the income tax. For example, after the recession early in this decade, the recovering real estate market nationally and in Baltimore led to a spike in transactions. As a result, after low and then slow growth from FY2000 through FY2004, the City's transfer and recordation taxes – directly related to the number and value of real estate transactions – increased by 137 percent from FY2004 to FY2006, before dropping an estimated 10 percent in FY2007. While this meant that the City received a cumulative additional \$157 million in revenue from FY2005-FY2007 compared to the FY2004 baseline, the rapid and dramatic shifts up and down in this revenue category mean the City must be extraordinarily careful in relying on any future growth in this source.

Baltimore's Relatively High Property Tax Rate

While the property tax is a critical source of revenue that funds basic City services, it has been a continuing source of controversy because it is so high relative to the other counties in the region. In FY2008, Baltimore's tax rate of \$2.268 per \$100 of assessed value is at least twice that of nearby suburban Maryland counties, a situation necessitated in part by Baltimore's comparatively lower real property assessable tax base and higher per capita expenditures (see section on City finances, p. 16). With an assessable property tax base less than one-half of most comparable counties, Baltimore must have a property tax rate twice that of its peers to generate the same amount of revenue. The differences in rate and assessable base between Baltimore and the other large counties are shown in the following table:

**Real Property Tax Rates and Assessable Bases, FY 2007
Baltimore City and Suburban Maryland Counties**

County	Real Property Tax Rate	Real Property Tax Assessable Base (\$ Billions)
Baltimore City	2.288	23.3
Baltimore County	1.100	59.4
Montgomery County	0.916	141.9
Prince George's County	1.319	59.9
Anne Arundel County	0.918	58.3
Howard County	1.014	34.8

Source: Maryland Department of Legislative Services, Overview of Maryland Local Government, 2007
The City of Baltimore lowered its real property tax rate by 0.02 to 2.268 for FY2008.

Reasons for the City's High Property Tax Rate

With limited alternative sources of revenue, the City must rely on the property tax to fund basic services to citizens, businesses and visitors. The amount of revenue generated by the property tax is a function of two variables, the total value of the assessable real and personal property (the base), which is then multiplied by the tax rate (measured in dollars and cents). Personal property is defined generally as all property other than land and buildings attached to land. Examples include machinery, equipment, vehicles, furniture, tools, supplies, and inventory. In subdivisions of the State of Maryland, business-owned personal property is taxed at 2.5 times the rate of real property. Therefore, in the City of Baltimore the personal property tax rate is currently \$5.67 per \$100 of assessed value.

Revenue Yield = Property Tax Base x Property Tax Rate

As described above, because the value of the assessable base in Baltimore is less than in similar jurisdictions, its property tax rate must be higher to generate the revenue necessary to operate City government.⁵ As the table below indicates, the City of Baltimore has 11.35 percent of Maryland’s population, but only 4.61 percent of its assessable property base. This is due in part to the lower value of property in Baltimore, and in part due to the presence of a large number of tax-exempt entities in the City.

**Assessable Real and Personal Property Tax Base and Population, FY2007
City of Baltimore, Selected Counties and Statewide**

Jurisdiction	Assessable Base (\$000's)	Population (July 2005 Estimate)
Baltimore City	\$25,256,648	640,064
Montgomery County	\$145,815,228	927,583
Prince George’s County	\$62,726,164	846,123
Baltimore County	\$62,365,607	786,113
Anne Arundel County	\$60,826,688	510,878
Howard County	\$36,224,837	269,457
Statewide	\$547,383,444	5,600,388

Source: Maryland Department of Legislative Services, 2007
Baltimore City population data is an updated 2005 Census estimate that was revised upon appeal.

Another way to look at Baltimore’s comparative property tax situation is on a per capita basis. When the assessable property tax base is divided by population, Baltimore City again has the lowest value among large counties – for example: Prince George’s per capita assessed base is 87 percent higher than the City, and the other counties much more, as shown in the following table:

⁵ Note that because of Maryland’s effective procedures for disposition of delinquent property taxes, the City collects 98 percent of billed revenue each year. As a result, improved collections are an unlikely source of significant additional revenue.

**Per Capita Assessable Property Tax Base, FY2007
City of Baltimore, Selected Counties, and Statewide**

Jurisdiction	Per Capita Assessable Base	Comparative Per Capita Assessable Base % of Baltimore City's Assessable Base
Baltimore City	\$39,460	N/A
Montgomery County	\$157,199	396
Howard County	\$134,436	338
Anne Arundel County	\$119,063	300
Baltimore County	\$79,334	200
Prince George's County	\$74,134	187
Statewide	\$97,740	246

Source: Maryland Department of Legislative Services, 2007

As a result of this situation, each penny on the property tax rate yields less for the City of Baltimore than for other large counties. As shown in the table below, even with its property tax rate at twice the level of other large counties, one cent on the City's tax rate provides less revenue because of the smaller assessable base:

**Property Tax Yield and Tax Base, FY2007
City of Baltimore and Selected Counties**

Jurisdiction	One Cent Yield In Real Property Tax Rate FY2007	Real Property Tax Rate
Montgomery County	\$14,190,000	\$0.916
Prince George's County	\$5,991,000	\$1.319
Baltimore County	\$5,939,000	\$1.100
Anne Arundel County	\$5,829,000	\$0.918
Howard County	\$3,481,000	\$1.140
Baltimore City	\$2,327,000	\$2.288

Source: Maryland Department of Legislative Services, 2007

The City of Baltimore lowered its real property tax rate by \$0.02 to \$2.268 for FY2008. The one cent yield for the City of Baltimore in FY2008 is estimated to be \$2,625,000.

Baltimore's Income Tax Revenue Cannot Offset Property Tax

The income tax is the City's second largest source of income, but it is close to its maximum state-permitted rate, and yields less per capita than in other large counties. Baltimore's population is much poorer on average than that of other large counties, and as a result the City receives less in per capita income tax revenue. With per capita net taxable income of \$10,693 in 2005, Baltimore residents generate 30 percent less than those in Prince George's County and 225

percent less than Montgomery County residents. *If Baltimore City had the income tax wealth base of Baltimore County – a bit more than twice the per capita income of the City – Baltimore City would generate enough revenue to reduce its 2008 property tax rate of \$2.268 per \$100 of assessed value by approximately 60 cents.*

**Per Capita Net Taxable Income, FY2005
City of Baltimore and Selected Counties**

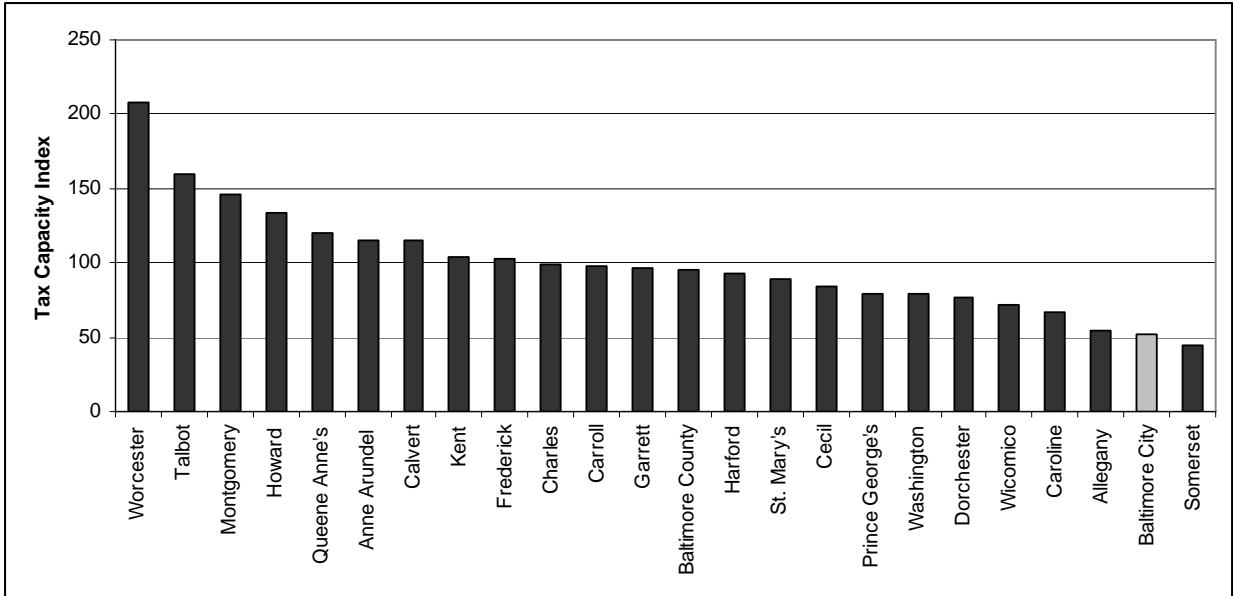
Jurisdiction	Per Capita Net Taxable Income (2005)	Comparative Per Capita Net Taxable Income % of Baltimore City's Per Capita Net Taxable Income
Baltimore City	\$10,693	N/A
Montgomery County	\$34,759	325
Howard County	\$29,857	279
Anne Arundel County	\$24,190	226
Baltimore County	\$22,849	214
Prince George's County	\$13,912	130

Source: Maryland Department of Legislative Services, 2007

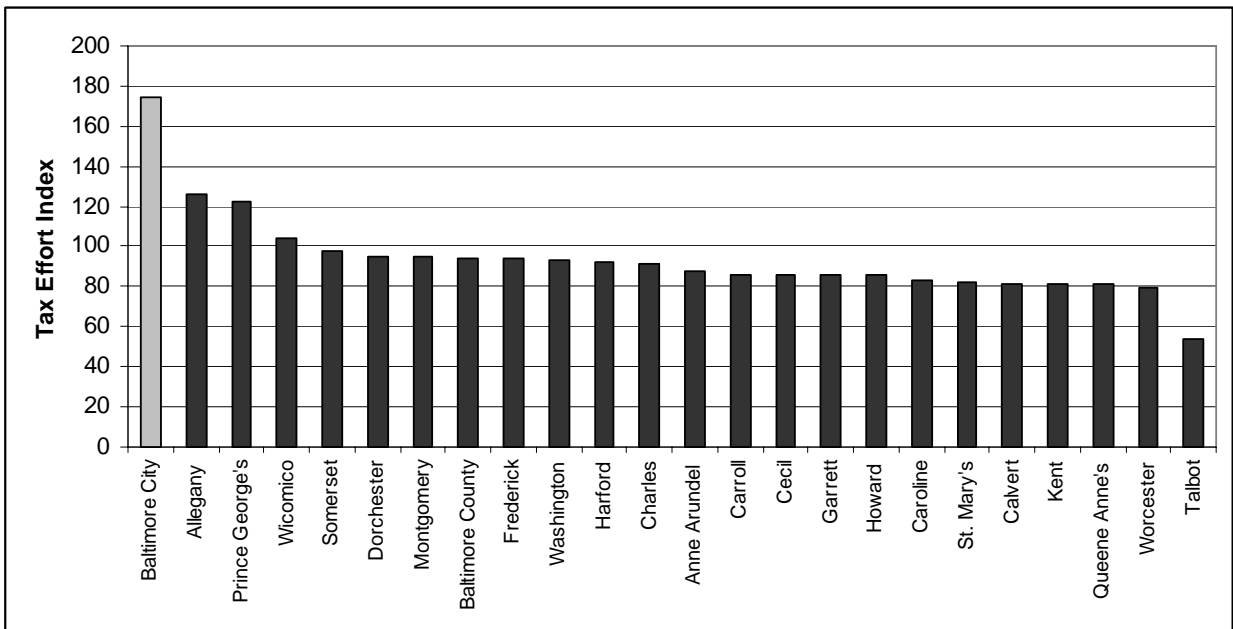
Is Baltimore Doing Enough to Raise Revenue?

When researchers compare tax rates and tax yield for governments, they consider two key factors – tax capacity and tax effort. Tax capacity is the potential to raise revenue from a particular group; essentially, the taxpayers' ability to pay. The State of Maryland ranks each county based on its ability to generate revenue, its tax capacity, using a score of 100 as the statewide average. Tax capacity is calculated by determining the per capita yield of eight different taxes *if the tax rate of each was equal to the State average*. Each "hypothetical yield" is combined into an aggregate per capita yield which is then compared with the aggregate state per capita yield.⁶ A score over 100 indicates that the county has a higher tax capacity than the State average, and a score under 100 means that the tax capacity is lower than the State average. Baltimore's tax capacity score of 52 indicates that if the City's aggregate tax rates were equal to the State average, the combined yields of the eight taxes would be significantly less than those of the State average. As shown in the table below, only one other county in the State has a weaker tax capacity than the City of Baltimore:

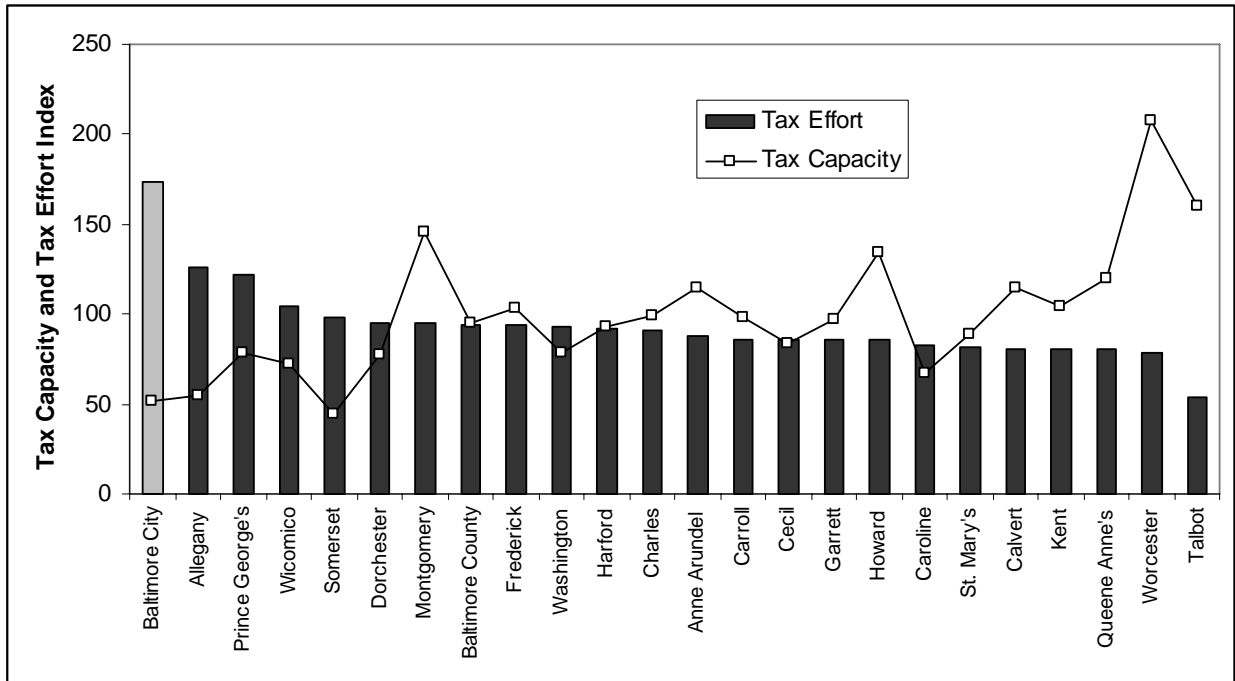
⁶ Taxes included in the calculation are: property; income; utilities sales; hotel/motel sales; transfer; recordation; admissions; and sewer, waste, and water fees.



The second key measure is tax effort, which calculates the extent to which the local tax base is actually taxed. A jurisdiction with a high tax effort tends to maximize the extent to which it obtains tax revenue from a sometimes limited tax base while a jurisdiction with a low tax effort taxes its base more lightly. Again, the State evaluates each county using scale with 100 as the statewide average tax effort. The tax effort calculation compares actual tax yields to the hypothetical yields generated when calculating tax capacity. A tax effort index score of over 100 means that the County (or Baltimore City) has to levy higher-than-average tax rates to generate the statewide average yield. Baltimore City has by far the greatest tax effort of any county, as shown in the following chart:



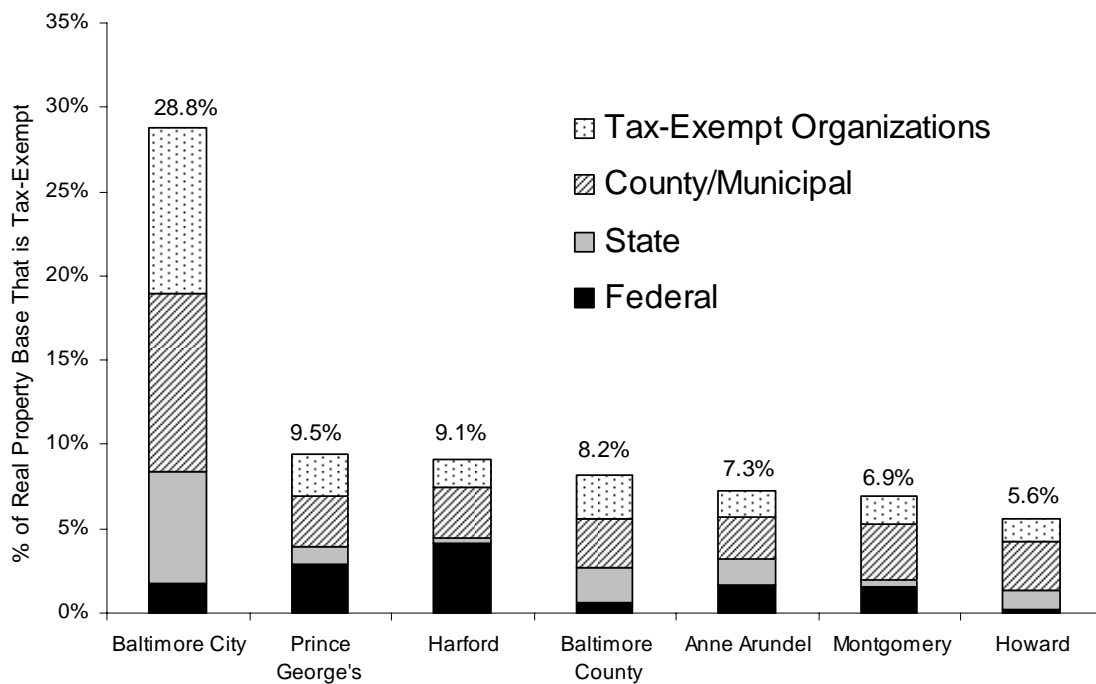
When the two charts are shown together, it is easy to see that Baltimore City is one of the counties most heavily taxing a base that can least afford it:



Tax-Exempt Property

A key reason that the City must tax at a higher rate is the percentage of tax-exempt property in Baltimore compared to other large counties in the State. In 2007 almost 29 percent of all real property in Baltimore City was tax exempt – a figure that is more than three times higher than that of the counties surrounding Baltimore and the large suburban counties near Washington, D.C. That difference helps to explain why Baltimore’s property tax rate is so much higher than other counties in the State: if the percentage of tax-exempt property in the City were 10 percent rather than 29 percent, the City would realize approximately \$86.2 million in additional revenue. In a revenue-neutral scenario, that increase could yield a \$0.328 decrease in the real property tax rate. The following graph compares the percentage of real property that is tax exempt in Baltimore with that of other large Maryland counties:

**Percent of Real Property that is Tax Exempt, FY2007
City of Baltimore and Selected Counties**



Source: Maryland Department of Legislative Services

Of the \$9.4 billion in real property that is tax-exempt in Baltimore, only 34.2 percent is non-governmental. The other 65.8 percent of tax-exempt property is owned by Federal (6.2 percent), State (22.8 percent), and City government (36.8 percent).

Summary of Current Tax Revenue Structure

Baltimore is a relatively poor city that is heavily taxed in comparison to other subdivisions of the State. Necessary reliance on property tax revenues to fund basic government services, combined with a relatively small assessable property base has led to the highest property tax rate in the State of Maryland. While recent strength in the economy has increased tax revenues and allowed for small incremental reductions in the property tax rate, the City needs to further reduce its rate to become more competitive. The Blue Ribbon Committee on Taxes & Fees was charged by Mayor Dixon with developing ideas that could allow a significant reduction in the property tax rate.

Multi-Year Budget Model

To estimate the growth of the revenue sources discussed by the Committee and to gauge the financial impact of the options they explored, a multi-year budget model was developed. The model is able to estimate whether recommended changes to the City's revenue structure can provide sufficient revenue to cover the projected growth in expenditures over a five year period.

Historical budget data was used to create initial growth assumptions for individual revenue sources, and those assumptions were further discussed with the City's Finance Department. The model allows each revenue option to be plotted against a corresponding reduction to the property tax rate, and can determine what adjustments are necessary to reduce the risk of creating a new deficit. If, for example, property tax revenue is projected to grow faster than the revenue generated by a particular option, the rate reduction allowed by the new revenue generated in the first year will not be sufficient in following years. In that scenario, the recommended rate reduction would be discounted to compensate for the disparity in growth.

A budget model is only as accurate as its assumptions. Every effort was made to use the best available estimates; however, forecasting revenue growth is a highly speculative process and unforeseen changes and events can widen gaps between what is projected and what occurs. See the section ____ of the appendix for a complete list of assumptions used in the model.

Overview of Revenues Other Than the Property Tax

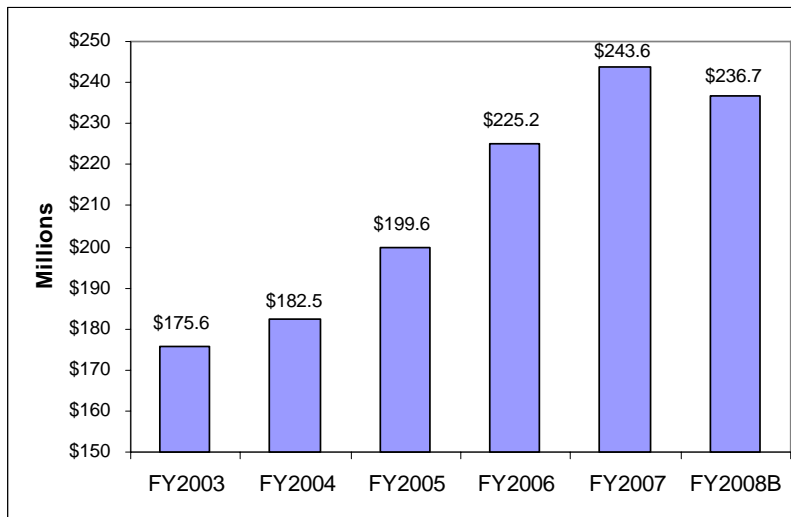
Income Tax

Baltimore's income tax rate is 3.05 percent. Statewide, the tax is levied by the subdivision but collected and administered by the State. For simplicity and convenience, each county's income tax is "piggybacked" off of the State income tax, meaning that items included in state taxable income are the same as those used to calculate county taxable income. The State caps the local income tax rate at 3.20 percent for all subdivisions, and there is no minimum rate requirement.

For the local portion of the income tax, residents are taxed by county of residence, regardless of where their income earned. If one lives in Baltimore County but works in the City of Baltimore, for example, wages earned in the City are taxed by Baltimore County. Because the total of wages earned by those working in but not living in the City (outflow) is higher than that of City residents (inflow), it can be said that Baltimore has a *net outflow* of earnings.

As shown below, Baltimore's income tax revenue grew by approximately 38.7 percent from FY2003 to FY2007.

City of Baltimore Income Tax Revenue, FY2003 – FY2008



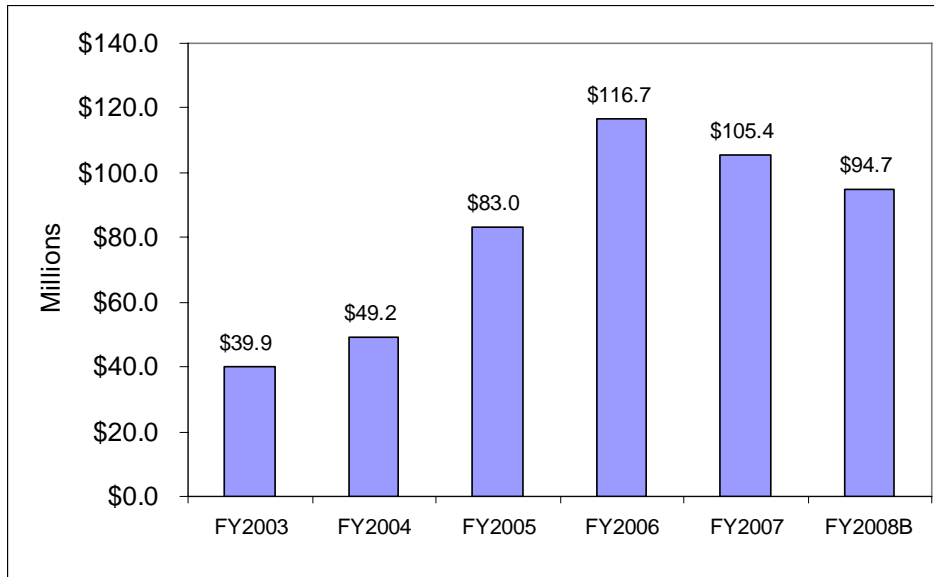
Recordation and Transfer Taxes

A recordation tax is imposed on instruments of writing recorded with the clerk of the circuit court. Instruments of writing can include deeds, contracts, mortgages, certain leases of real property, articles of transfer, and security agreements. The transfer tax is levied on the transfer of property before recordation by the Clerk of the Circuit Court. The State charges a 0.5 percent transfer tax on top of the rates levied by the City shown below:

Tax	Rate
Recordation Tax	\$5 for each \$500 or fractional part of \$500 in value paid, which generally equates to 1.0%
Transfer Tax	1.5% of taxable property

From FY2004 to FY2006, the City experienced tremendous growth in the real estate market, and consequently saw a spike in transactions and associated recordation and transfer tax revenues. However, some of the growth in FY2005 is due also to an increase in the recordation tax rate. Prior to that year, the rate was \$2.75 per \$500 in value paid, nearly half the current rate. More recently, the trend has appeared to reverse itself slightly, and in the next several years these revenues may continue to decline due to the national drop in the housing market. The following graph shows transfer and recordation tax revenues from FY2003 to FY2008 (budgeted):

Transfer and Recordation Tax Revenue, FY2003 – FY2008



Energy Taxes

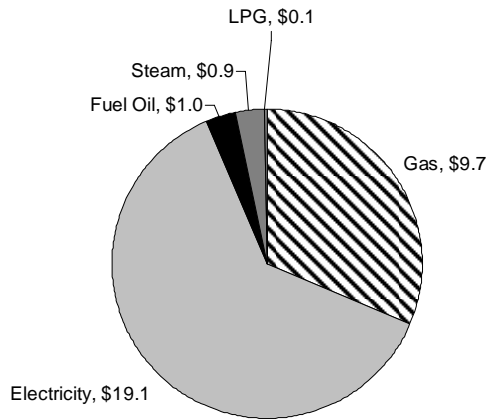
Energy is taxed by type (natural gas, oil, etc.) and unit. In addition, three unique user groups – commercial, residential, and non-profit organization – are charged different rates. All manufacturing businesses are exempt from the tax. The following table shows energy tax rates by type and user group:

**Energy Tax Rates – FY2008
By Energy Type and User Group**

User Group	Electricity (KWh)	Natural Gas (therm)	Fuel Oil (gal)	LPG (gal)	Steam (lb)
Commercial	0.005998	0.077568	0.088652	0.108193	0.001887
Residential	0.001920	0.022798	0.031996	0.034270	0.000542
Non-Profit	0.003628	0.053147	0.065992	0.081144	0.000962

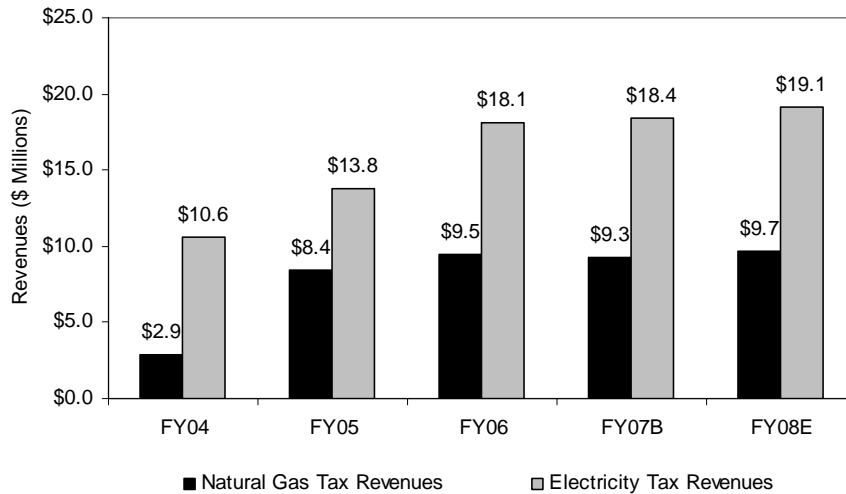
Total City energy tax revenue for FY2008 is estimated to be \$30.8 million. Taxes on gas and electricity represent the vast majority (\$28.8 million, or 93.5 percent) of that revenue. Fuel oil and steam revenue make up just \$1.9 million, and liquid petroleum gas (LPG) is estimated to generate just \$75,000. Energy tax revenue by source is shown in the following graph:

Estimated Energy Tax Revenue by Type, FY2008



The energy tax was restructured in FY2005. Rates were set based on data supplied by energy companies, and beginning in FY2007 rates were set in accordance with the annual change in the Baltimore-Washington Consumer Price Index (CPI). The following graph shows historical revenues for natural gas and electricity taxes:

Natural Gas and Electricity Tax Revenue, FY2004 – FY2008



Telecommunications Tax

In addition to the energy tax, the City reformed its telecommunications tax beginning in FY2005 to include all telecommunications lines provided to all users (government customers and lifeline service customers being the only exemptions). Prior to FY2005, the tax covered only land lines and both governments and nonprofit organizations were exempt. The expanded tax currently includes land lines, Centrex, and wireless service. Total telecommunications tax revenues increased from just under \$13.0 million in FY2004 to \$25.4 million in FY2005 and \$29.1 million

in FY2006 (the first full year of the expanded tax). Some portion of this increase is due to the inclusion of nonprofit organizations in the tax after FY2005. However, because the tax is on the provider of the services, not on the user, the City does not have specific information regarding how much tax the providers pay on behalf of individual users.

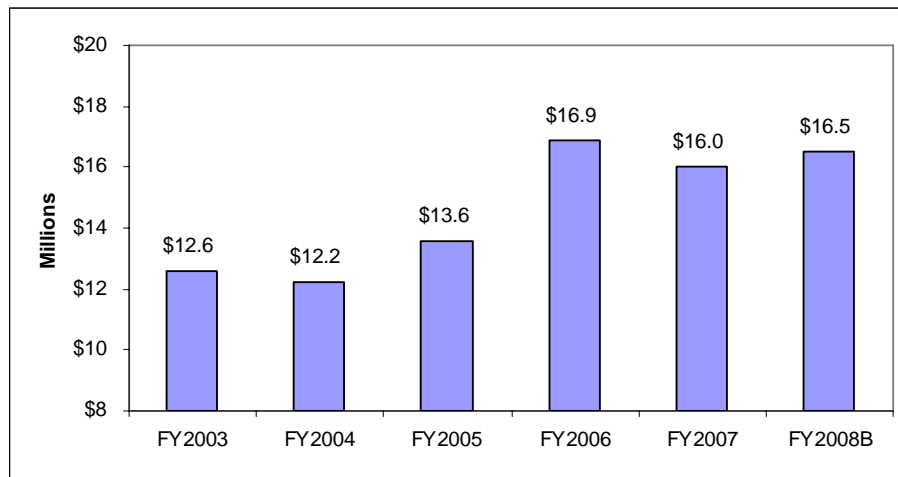
Total telecommunications tax revenue for FY2007 is an estimated \$29 million, and the City has budgeted the same amount for FY2008.

Hotel Tax

The City’s hotel tax is levied on the use, occupancy, or rental of any room for sleeping accommodations. Currently, the tax is paid at a rate of 7.5 percent of gross room costs.

Hotel tax revenue initially goes to the Convention Center Bond Fund, and debt service for Convention Center bonds is deducted before the remaining revenues are transferred to the General Fund. In addition, after the balance reaches the General Fund, 40 percent of gross hotel tax revenue is appropriated to the Baltimore Area Convention and Visitors Association (BACVA). Until June 1, 2007, Baltimore City’s hotel tax rate was limited to 7.5 percent by state legislation. HB 991 and SB 407 extended the required BACVA appropriation of 40 percent of gross hotel tax revenue and repealed the provision limiting the rate to 7.5 percent. There is currently no limit to the rate, and the City may raise the rate by ordinance of the Mayor and City Council.

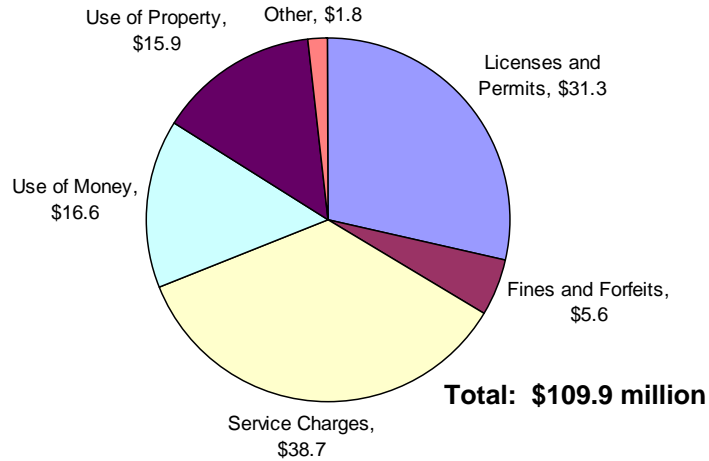
**Net Hotel Tax Revenue - Distributions to the General Fund
After Debt Service and BACVA Appropriation**



Non-Tax Revenues

Locally generated non-tax revenues will generate an estimated \$109.9 million in FY2008. The majority of that revenue (63.7 percent) is comprised of fees and service charges. Use of money (interest and investment earnings) and use of property (rent) makes up another 29.6 percent, and fines and forfeits generate approximately 5.1 percent of locally generated non-tax revenue. The following chart depicts locally generated non-tax revenue by type:

Locally Generated Non-Tax Revenue by Type – FY2008
All Figures in \$ Millions

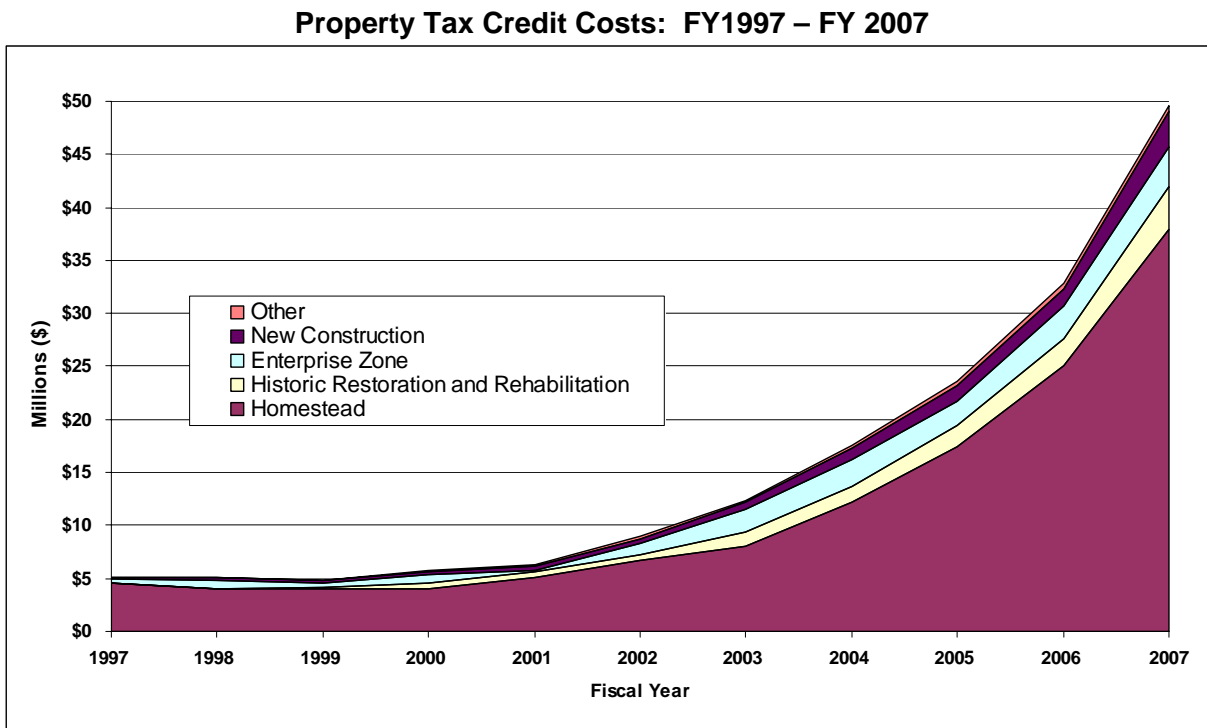


State Income Tax Disparity Grant

The State provides a grant to subdivisions in which per capita income tax revenue generated is less than 75 percent of the per capita statewide income tax yield. The grant is equal to the difference between those two values. The City of Baltimore expects to receive approximately \$78.2 million through this grant in FY2008.

Overview of Property Tax Credits

In FY2007, nine property tax credits cost the City approximately \$49.6 million, or 8.5 percent of FY2007 projected property tax revenue. The Homestead Tax Credit accounts for \$38.0 million, or 76.6 percent of the total credit cost. The following graph depicts the increasing costs of property tax credits over a ten year period from FY1997 through FY2007:



Homestead Tax Credit

The Homestead Tax Credit protects homeowners from dramatic increases in property tax obligations by placing a cap on the growth of taxable assessed value. The State of Maryland requires that the local property tax cap be set between zero and ten percent; Baltimore's is set at four percent. The credit is limited to owner-occupied property only.

The effect of this cap is that despite any increase in value exceeding four percent qualifying homeowners will never pay more than four percent more in property taxes than they had in the previous year unless the tax rate is increased. In recent years, when some properties have increased in value by as much as ten percent annually, the cap has provided relief from excessive increases in tax obligations. Any tax relief to taxpayers is also a cost to the City, as it receives less revenue than it would without the cap.

When a property is sold, the assessed value reverts to SDAT's phased-in assessment. Therefore, the Homestead Credit can cause significant disparity in tax obligations between otherwise identical properties. For example, if two identical properties in the same neighborhood have been increasing at the same rate for twenty years but one is sold while the other remains owned by the original owner, the taxes paid on those properties may be quite different. Depending on

the overall growth in property value, the new homeowner might pay significantly more in property taxes than his neighbor who has been protected by the Homestead cap for the last twenty years. A higher assessment cap would lessen this disparity.

Historic Restoration and Rehabilitation Credit

This ten-year credit is designed to encourage preservation and investment in historic properties. The credit is applied to the increase in assessment directly resulting from qualifying improvements. Projects with construction costs of less than \$3.5 million receive a 100 percent credit on improvements for the ten year period. Projects with construction costs of more than \$3.5 million receive 80 percent tax relief for the first five taxable years, declining by 10 percent annually until reaching 30 percent in tenth year. As of February 2007, 449 properties qualified for the credit. The total cost of this credit in FY2007 was \$3.9 million.

Enterprise Zone Credit

The Enterprise Zone credit is designed to encourage targeted investment in economically distressed areas. Commercial and industrial properties are eligible for the credit, which equals 80 percent of the increase in assessment due to improvements in the first year and decreases by ten percent annually until the full tax is paid in the eleventh year. As of February 2007, 200 properties received the credit. The FY2007 cost of this credit was approximately \$3.8 million.

Newly Constructed Dwelling Credit

This five-year credit is designed to create an incentive for the purchase and construction of new homes, as well as the rehabilitation of dwellings that have been cited as being vacant or abandoned for more than one year. The credit is equal to 50 percent of the property tax obligation in the first year and declines by ten percent each year until no credit is received in the sixth year. As of February 2007, 1,359 properties qualified for the credit. Total cost for FY2007 was approximately \$3.3 million.

Other Property Tax Credits

Other property tax credits are shown in the following table:

Credit	Purpose	Terms	Recipients
Home Improvement Credit	To provide an incentive to make improvements and lessen financial burden on property owners	<ul style="list-style-type: none"> 5 year credit, with 100% in year one declining 20% each year thereafter Does not apply to value of improvements to the dwelling that exceed \$100,000 	31

Credit	Purpose	Terms	Recipients
Brownfield Credit	To encourage redevelopment of contaminated, abandoned and/or under-utilized industrial and commercial sites	<ul style="list-style-type: none"> • 10 year credit in Enterprise Zones, 5 years in all other • 50% credit for projects spending less than \$250,000 in eligible improvements • 70% credit for projects spending more than \$250,000 in eligible improvements 	31
Dwelling on Cemetery Property Credit	To provide a full tax credit for cemetery property improvements or if the improvement is used as a dwelling by an employee of the owner of the exempt property	<ul style="list-style-type: none"> • 100% credit 	3
Fallen Heroes Credit	To provide property tax relief to the surviving spouse of an individual determined to have died in the line of duty (police or fire)	<ul style="list-style-type: none"> • 100% credit 	11
Neighborhood Preservation & Stabilization Demonstration	To increase homeownership and stabilize a targeted neighborhood (Waverly Community)	<ul style="list-style-type: none"> • 10 year credit, 40% in first 5 taxable years, declines 5 % each year thereafter, with the State providing income tax of an equal amount. 	76

Property Tax Credit Elimination

The Committee discussed the possibility of eliminating some or all of the property tax credits as a way to increase revenue and lower the property tax rate. However, there was a general consensus that these credits represent valuable incentives for development and that any revenue gains realized by the elimination of credits would be negated by the loss in development that would not occur but for an incentive. The newly-constructed dwelling credit was specifically cited as an example of an incentive-based property tax credit that delivers a return on investment for the City. Further, most Committee members felt that any credits up for renewal should be renewed and extended until further review and evaluation has been completed. This is especially relevant given the current status of the real estate market.

III. PRINCIPLES

Overall Goals

The Mission and Goals section of this report identified the four goals that Mayor Dixon set for the recommendations of the Blue Ribbon Committee:

- Sufficiency: provide enough resources to fund essential services and fulfill the government's responsibilities without wide variances from year to year;
- Competitiveness: support the City's goal to promote long-term sustainable economic development and growth;
- Simplicity: provide a structure that is easy to comply with and to administer; and
- Efficiency: provide a structure that supports good economic and public policy.

During its work, the Committee identified five additional principles to guide its work:

- Fairness: While changes in tax policy inevitably create some parties that will pay more and others that will pay less, the Committee would attempt to balance the impact of its recommended changes and not put a disproportionate burden on any particular group of taxpayers/revenue generators;
- Revenue Growth: The Committee recognized and would take into account the stability and robust growth of the property tax as a revenue source, and would attempt to offset lower property tax revenues with new revenue sources that had potential for increases over time;
- Social Responsibility: The impact of different Committee recommendations on those least able to pay would be taken into account by the Committee;
- Population Growth: The Committee would encourage policies that create a "larger revenue pie" and therefore allow tax reduction by increasing revenues as new payers join and expand the tax base;
- Legislative Support: Emphasis would be given to those recommendations that could be implemented by the City Administration acting on its own or with the consent of City Council, or those that are considered to be more likely to garner support in the General Assembly when state action is required.

Specific Targets Established by the Blue Ribbon Committee

During the Committee's meetings, several very specific goals for City tax policy were agreed upon by members. These are described below:

Percentage Reduction: At several points during its meetings, members of the Committee discussed the appropriate goal for the amount of property tax reduction in the City. While it was clear that many members of the Committee wished to see property tax rates competitive with the counties surrounding Baltimore, the Committee realized that this would mean a reduction of almost \$300 million in revenue on a General Fund budget of just \$1.2 billion – a 25 percent decrease.

After deliberation, the Committee set a goal of reducing Baltimore's property tax rate until it is no more than 50 percent higher than the average rate of surrounding counties. With the current rate of \$2.268 per \$100 of assessed value more than twice that in Anne Arundel, Baltimore, Carroll, Harford and Howard counties, the Committee concluded that a City rate reduction to 150 percent of the average rate of those counties would provide significant tax relief and send a meaningful message to those considering locating in or staying in Baltimore City rather than locating in or relocating to its suburbs.

As shown in the table below, using 2007 rates, this goal would require reducing the City's property tax rate by \$0.7275 cents per \$100 in assessed value, resulting in a new rate of about \$1.5405 cents per \$100 in assessed value. This equates to a 32 percent reduction in the City property tax rate:

Relative Baltimore-Area County Real Property Tax Rates, Effective July 1, 2007

County	Real Property Tax Rate
Baltimore County	1.1000
Anne Arundel County	0.8910
Howard County	1.0140
Harford County	1.0820
Carroll County	1.0480
Average	1.0270
Average x 1.5	1.5405
Baltimore Rate	2.2680
Difference	0.7275

State Department of Assessment & Taxation, PFM

Source:

Assuming a collection rate of 98 percent, the City's Department of Finance estimates the net tax yield from \$0.01 per \$100 of assessable base (one cent yield) to be \$2.625 million in FY2009. Using those figures, lowering Baltimore's property tax rate by 0.7275 would require approximately \$191.0 million in additional revenue, or 14.2 percent of the projected FY09 General Fund budget.

Dedication of Blue Ribbon Committee Recommendations to Property Tax Reduction: There was broad consensus among members of the group that application of the Committee's recommended initiatives to property tax reduction was of paramount importance. Most members of the Committee were emphatic that the ideas and alternate tax proposals put forth by the Committee should be adopted by the Mayor and City Council or authorized by the General Assembly solely for the purpose of reducing the City property tax rate. Various members expressed concern during the process that initiatives recommended to help reduce the property tax burden on City residents and businesses would instead generate revenue that would be spent to fill budget gaps or address other pressing needs.

In addition, the overwhelming majority of Committee members were of the opinion that reducing the tax rate will be a catalyst for increasing investment and development in the City, and thereby grow the tax base and expand the pool of taxpaying wage earners choosing to live in the City. Strengthening the tax base will permit the City to enhance critical services, such as public safety and education, while maintaining a competitive tax rate.

IV. REVENUE OPTIONS TO REDUCE PROPERTY TAX

Major Options Evaluated by the Blue Ribbon Committee

As the Blue Ribbon Committee heard presentations on various revenue alternatives and the experience of other localities, members worked with City staff and the consultants from PFM to develop a list of potential options for generating funds to apply to property tax reduction.

This section of the report includes discussions of each of the sixteen major options generated as a result of the Committee's work. Those major options are:

Options Requiring Mayor and City Council Approval

- Option 1: Increase Homestead Cap
- Option 2: Raise Income Tax
- Option 3: Increase Hotel Tax
- Option 4: Undertake Comprehensive Fee Study and Update Fee Structure
- Option 5: Charge a Fee for Solid Waste Collection
- Option 6: Develop a New Strategy for Tax-Exempt Property

Options Requiring General Assembly Authorization

- Option 7: Local Option Sales Tax
- Option 8: Regional Sales Tax
- Option 9: Local Earnings Tax
- Option 10: Income Tax on Commuters
- Option 11: Gaming Revenue
- Option 12: Impose Transfer and Recordation Taxes on Controlling Interest Transfers
- Option 13: Require All Transferred Property to be Reported to SDAT
- Option 14: Further State Department of Assessment & Taxation (SDAT) Improvement
- Option 15: Vacant House Tax or Fee
- Option 16: State Assumes Additional Functions

The presentation of each option includes an initial section describing the option and providing background on the revenue source. Subsequent sections cover areas such as revenue potential, legislative authority needed to implement the option, impact on taxpayers, economic impact, how the new revenue source will grow over time, and other factors.

A summary of all options, their value in revenue and potential property tax rate reduction, and other factors are presented in matrix format at the end of this section.

Option 1: Increase Homestead Cap			
FY2009 Revenue Impact:	\$4.2M to \$24.2M	Tax Rate Impact:	\$0.016 to \$0.092
Authorization Required:	City Council Vote and Mayoral Approval		

Background and Description

In 1978, amid extraordinary growth in the housing market, the State of Maryland established the Homestead Tax Credit to reduce the property tax impact on homeowners experiencing rapidly escalating real estate values. The credit is actually a limit or “cap” on increased property taxes that result from rising property tax assessments and is applied only to owner-occupied residential property. For property taxes levied by the State, the cap is ten percent per year, meaning the tax liability cannot increase more than ten percent per year. For property taxes levied by the counties and the City of Baltimore, State law permits the local governments to set the local assessment cap at any level between zero and 10 percent annually. The cap may be applied only to owner-occupied residential property. Since the early 1990s the City of Baltimore has held the local annual cap at 4 percent.

From the outset, the General Assembly has been repeatedly warned by the Attorney General that the Homestead Credit was initially described as a temporary form of relief to some taxpayers and would undoubtedly violate Maryland’s constitutional requirement that property taxes be “uniform” if continued beyond the short term. Thirty years later the tax is well beyond temporary and short term. The disparities and the non-uniformity have grown over the decades, and the legal issue and its fairness implications loom larger.

It should be noted that the cap does not limit the growth in assessed value. Instead, growth in *taxable* assessed value is capped at four percent per year, meaning that despite any growth in assessed value greater than four percent any City homeowner living in his or her home pays no more than 104 percent of the previous year’s tax bill assuming there is no increase in the tax rate. The underlying assessed value continues to rise at the full market rate. The difference between the cap and the full tax levy appears as a credit on the tax bill. The following table provides an illustrative example of how the credit affects taxpayers:

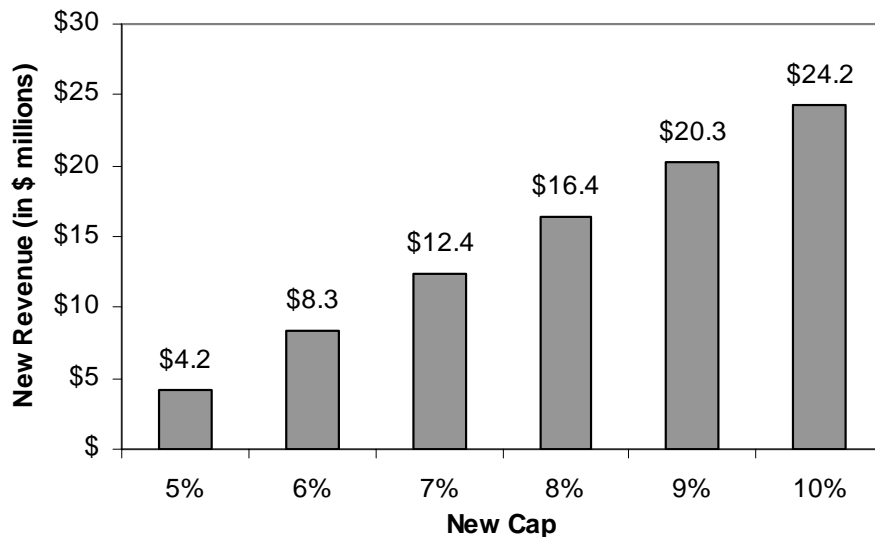
Year	Assessed Value	Assessed Value Increase	Taxable Assessed Value	Tax Obligation No Cap	Taxable AV Increase With Cap	Property Tax Obligation With Cap	Cap Savings
1	\$150,000	-	\$150,000	\$3,402	-	\$3,402	-
2	\$166,667	11.1%	\$156,000	\$3,780	4.0%	\$3,538	\$242
3	\$183,334	10.0%	\$162,240	\$4,158	4.0%	\$3,680	\$478
4	\$200,000	9.1%	\$168,730	\$4,536	4.0%	\$3,827	\$709
5	\$205,000	2.5%	\$175,479	\$4,649	4.0%	\$3,980	\$669
6	\$210,000	2.4%	\$182,498	\$4,763	4.0%	\$4,139	\$624
7	\$215,000	2.4%	\$189,798	\$4,876	4.0%	\$4,305	\$571

Years one, four, and seven represent years in which the property was assessed, and the three-year increase in assessed value is phased-in in equal increments over the three year period between assessments. In years in which the annual assessed value growth is greater than four percent (years two, three, and four), the resident property owner pays tax on four percent of the increase only. By year seven, although the property was reassessed at \$215,000, the owner is only taxed on \$189,798 and saves \$571 in property taxes because of the assessment cap. It should be noted that if the property value continues to grow at a rate less than four percent, the taxable assessed value will eventually catch up with the actual assessed value.

The outstanding credit amount would continue to apply and be calculated for the property so long as it is owner occupied and remains under the same owner. When the property is sold or transferred, the existing credit does not carry forward to the new owner. Instead the new owner begins paying taxes based on the actual assessed phase-in value of the property. The cap does not apply to the new owner until one full fiscal year has passed with no new deed transfer, and it applies only to the extent that phase-in value or the new assessment increased by more than four percent.

Increasing the cap would generate new revenue by capturing growth in the assessed value of owner-occupied residential property that is currently protected by the cap. With the strong real estate market in recent years, many residential property owners saw annual increases in values in excess of ten percent over a period of four to five years. Because the cap is set at four percent per year, the City isn't benefiting from any increase in the assessed value of owner-occupied residential property above four percent per year. In turn, this has limited the City's ability to reduce the real estate tax rate. The following graph shows estimates of additional property tax revenue generated by cap increases at six different cap levels for FY2009:

**New Revenue Generated By An Increase In The Homestead Cap
4% to 5%-10% (FY2009)**



Members of the Blue Ribbon Committee suggested that the cap does not necessarily need to be increased to the maximum ten percent allowed by State code. An incremental increase in the cap

over five or six years would spread the adjustment impact on taxpayers over time, allow for a more graduated increase in tax obligations, and permit the tax rate to be reduced at an accelerated pace. The following table shows the revenue impact of a one percent annual increase to the cap as well as the corresponding property tax rate reduction.

**Incremental Increase In The Homestead Cap - 1% Per Year
New Revenue Realized And Property Tax Rate Reduction Allowed**

Year	Cap	Revenue (\$ thousands)	Rate (cumulative)
FY2009	5%	\$4,155	\$0.016
FY2010	6%	\$12,669	\$0.045
FY2011	7%	\$23,516	\$0.077
FY2012	8%	\$33,520	\$0.101
FY2013	9%	\$44,656	\$0.125
FY2014	10%	\$56,996	\$0.171

Impact on Taxpayers

The critical question asked by Committee members about a change in the homestead credit was whether an increase in the cap would be offset for existing homeowners by reducing the real estate tax rate. The answer varies depending on the value of a homeowner’s property, how long they have been under the current cap, and the relative increase in the value of their property over time. Removing the homestead cap and using the additional revenue to reduce the property tax rate should have a positive effect on homeowners with property that has been appreciating at less than four percent on average over a period of years. Those who purchased recently, after the last several years of rapid price escalation abated, may also benefit as the housing market cools. In these cases, homeowners may not benefit consistently from the cap, and are already paying on something close to a full assessment value in most years. In contrast, those homeowners who have lived in more valuable homes for a longer period of time and continue to see rapid growth in the value of their residence could pay more if the cap is raised (although they would still be capped at ten percent per year, and the cost would be offset partially by a lower rate).

One of the other negative long-term effects of having the cap set at such a low level is that it tends to shift a disproportionate share of the tax burden to newer residents. In neighborhoods where values have increased by 50-80 percent over the last five years, the long-term residents, whose properties have been subject to the cap, can have a much lower tax obligation, even though their properties may be assessed for the same amount. When the property changes hands, the taxable assessment rebounds instantly to the actual stated assessment amount and the credit is lost to the new buyer. The larger the adjustment the more it serves to accentuate the high property tax burden in the City and put a damper on resale values.

Finally, members of the Committee pointed out that since the cap is only for residential owner-occupiers, commercial and industrial properties would benefit from the lower rate without giving up anything in exchange. Others noted that this benefit to non-residential properties could be affected by the implementation of other recommendations of the Committee. It should be noted that commercial property owners do not benefit from the Homestead Credit to begin with, although they do benefit from the three-year phase-in of assessments.

The tables in the following section illustrate how an incremental cap increase might affect individual homeowners in four different scenarios. In years one through seven, the assessment cap is increased by one percentage point per year until it reaches the maximum ten percent allowed by state law. Taxable assessed value (AV) is shown both with the incremental cap increase and the existing four percent cap, and the difference in tax obligation is shown as the cost to the taxpayer in the last column. That difference includes the reduced property tax rate that is allowed by the increased revenue, shown in the following table:

**Property Tax Rate
With Incremental Cap Increase**

Year	Cap	Property Tax Rate Per \$100 AV
1	4%	2.268
2	5%	2.252
3	6%	2.223
4	7%	2.191
5	8%	2.167
6	9%	2.143
7	10%	2.097
8	10%	2.097
9	10%	2.097
10	10%	2.097

The first scenario shows a single property valued at \$100,000 in the first year and uses a triennial growth assumption of ten percent; that is, each triennial assessment is assumed to be an increase of ten percent over the previous assessed value. Because the triennial assessments are phased in over three years, this particular property sees an annual increase in assessed value of 3.1 percent to 3.3 percent. Note that in this scenario, the taxable assessed value is the same as the actual assessed value because annual growth is never above the current cap of four percent:

**Homestead Credit Cap Increase Scenario #1:
\$100,000 Initial Property Value and 10% Triennial Growth**

Year	Cap	Assessed Value	Percent Increase	Taxable AV w/ incremental cap increase	Taxable AV w/ 4% Cap	Tax Obligation w/ Incremental Cap Increase	Net Obligation with Rate Reduction	Obligation w/ 4% Cap	Incremental Increase Cost to Taxpayer
1	4%	\$100,000	-	\$100,000	\$100,000	\$2,268	\$2,268	\$2,268	\$0
2	5%	\$103,333	3.3%	\$103,333	\$103,333	\$2,344	\$2,327	\$2,344	(\$17)
3	6%	\$106,667	3.2%	\$106,667	\$106,667	\$2,419	\$2,371	\$2,419	(\$48)
4	7%	\$110,000	3.1%	\$110,000	\$110,000	\$2,495	\$2,410	\$2,495	(\$85)
5	8%	\$113,667	3.3%	\$113,667	\$113,667	\$2,578	\$2,463	\$2,578	(\$115)
6	9%	\$117,333	3.2%	\$117,333	\$117,333	\$2,661	\$2,514	\$2,661	(\$147)
7	10%	\$121,000	3.1%	\$121,000	\$121,000	\$2,744	\$2,537	\$2,744	(\$207)
8	10%	\$125,033	3.3%	\$125,033	\$125,033	\$2,836	\$2,622	\$2,836	(\$214)
9	10%	\$129,067	3.2%	\$129,067	\$129,067	\$2,927	\$2,707	\$2,927	(\$221)
10	10%	\$133,100	3.1%	\$133,100	\$133,100	\$3,019	\$2,791	\$3,019	(\$228)

The last column on the right compares the taxes paid by the owner of this property with a four percent cap with those paid if the cap was raised incrementally by one percent each year. The “cost” is actually a savings because the taxable assessed value does not change when the cap is

raised and the tax rate is reduced. Thus the taxpayer is paying a reduced rate on the same value, saving up to \$228 by the tenth year.

The next scenario uses the same initial property value as Scenario 1. The difference is that in each triennial assessment the assessed value increases by 25 percent.

**Homestead Credit Cap Increase Scenario #2:
\$100,000 Initial Value and 25% Triennial Growth**

Year	Cap	Assessed Value	Percent Increase	Taxable AV w/ incremental cap increase	Taxable AV w/ 4% Cap	Tax Obligation w/ Incremental Cap Increase	Net Obligation with Rate Reduction	Obligation w/ 4% Cap	Incremental Increase Cost to Taxpayer
1	4%	\$100,000	-	\$100,000	\$100,000	\$2,268	\$2,268	\$2,268	\$0
2	5%	\$108,333	8.3%	\$105,000	\$104,000	\$2,381	\$2,365	\$2,359	\$6
3	6%	\$116,667	7.7%	\$111,300	\$108,160	\$2,524	\$2,474	\$2,453	\$21
4	7%	\$125,000	7.1%	\$119,091	\$112,486	\$2,701	\$2,609	\$2,551	\$58
5	8%	\$135,417	8.3%	\$128,618	\$116,986	\$2,917	\$2,787	\$2,653	\$134
6	9%	\$145,833	7.7%	\$140,194	\$121,665	\$3,180	\$3,004	\$2,759	\$245
7	10%	\$156,250	7.1%	\$154,213	\$126,532	\$3,498	\$3,234	\$2,870	\$364
8	10%	\$169,271	8.3%	\$169,271	\$131,593	\$3,839	\$3,550	\$2,985	\$565
9	10%	\$182,292	7.7%	\$182,292	\$136,857	\$4,134	\$3,823	\$3,104	\$719
10	10%	\$195,313	7.1%	\$195,313	\$142,331	\$4,430	\$4,096	\$3,228	\$868

In this case, because the property value is increasing by as much as 8.3 percent annually, the taxpayer is protected by the existing four percent assessment cap. When that cap is raised, the taxable assessed value also increases because a higher cap offers less protection from increases in assessed value. As is shown in the last column on the right, increasing the cap creates a larger tax obligation in this case, even with a reduction in the property tax rate.

The next two scenarios are similar to Scenarios #1 and #2, except the initial property value has been increased to \$300,000. In this case, the cost or savings of this option is increased in proportion to the value of the home. As shown, the net effect of this option (whether it provides a cost or savings to a taxpayer) is determined by the growth of the property value, while the cost or savings amount is determined by the value of the property.

**Homestead Credit Cap Increase Scenario #3:
\$300,000 Initial Value and 10% Triennial Growth**

Year	Cap	Assessed Value	Percent Increase	Taxable AV w/ incremental cap increase	Taxable AV w/ 4% Cap	Tax Obligation w/ Incremental Cap Increase	Net Obligation with Rate Reduction	Obligation w/ 4% Cap	Incremental Increase Cost to Taxpayer
1	4%	\$300,000	-	\$300,000	\$300,000	\$6,804	\$6,804	\$6,804	\$0
2	5%	\$310,000	3.3%	\$310,000	\$310,000	\$7,031	\$6,981	\$7,031	(\$50)
3	6%	\$320,000	3.2%	\$320,000	\$320,000	\$7,258	\$7,114	\$7,258	(\$144)
4	7%	\$330,000	3.1%	\$330,000	\$330,000	\$7,484	\$7,230	\$7,484	(\$254)
5	8%	\$341,000	3.3%	\$341,000	\$341,000	\$7,734	\$7,389	\$7,734	(\$344)
6	9%	\$352,000	3.2%	\$352,000	\$352,000	\$7,983	\$7,543	\$7,983	(\$440)
7	10%	\$363,000	3.1%	\$363,000	\$363,000	\$8,233	\$7,612	\$8,233	(\$621)
8	10%	\$375,100	3.3%	\$375,100	\$375,100	\$8,507	\$7,866	\$8,507	(\$641)
9	10%	\$387,200	3.2%	\$387,200	\$387,200	\$8,782	\$8,120	\$8,782	(\$662)
10	10%	\$399,300	3.1%	\$399,300	\$399,300	\$9,056	\$8,373	\$9,056	(\$683)

**Homestead Credit Cap Increase Scenario #4:
\$300,000 Initial Value and 25% Triennial Growth**

Year	Cap	Assessed Value	Percent Increase	Taxable AV w/ incremental cap increase	Taxable AV w/ 4% Cap	Tax Obligation w/ Incremental Cap Increase	Net Obligation with Rate Reduction	Obligation w/ 4% Cap	Incremental Increase Cost to Taxpayer
1	4%	\$300,000	-	\$300,000	\$300,000	\$6,804	\$6,804	\$6,804	\$0
2	5%	\$325,000	8.3%	\$315,000	\$312,000	\$7,144	\$7,094	\$7,076	\$18
3	6%	\$350,000	7.7%	\$333,900	\$324,480	\$7,573	\$7,423	\$7,359	\$63
4	7%	\$375,000	7.1%	\$357,273	\$337,459	\$8,103	\$7,828	\$7,654	\$174
5	8%	\$406,250	8.3%	\$385,855	\$350,958	\$8,751	\$8,361	\$7,960	\$402
6	9%	\$437,500	7.7%	\$420,582	\$364,996	\$9,539	\$9,013	\$8,278	\$735
7	10%	\$468,750	7.1%	\$462,640	\$379,596	\$10,493	\$9,702	\$8,609	\$1,092
8	10%	\$507,813	8.3%	\$507,813	\$394,780	\$11,517	\$10,649	\$8,954	\$1,695
9	10%	\$546,875	7.7%	\$546,875	\$410,571	\$12,403	\$11,468	\$9,312	\$2,156
10	10%	\$585,938	7.1%	\$585,938	\$426,994	\$13,289	\$12,287	\$9,684	\$2,603

It is important to note that the tables above only show the independent impact of a change in the homestead cap. Homeowners with high sustained triennial growth in their property values could see their property taxes increase more than the offsetting reduction in tax rate funded by raising the cap, as shown in scenarios #2 and #4. However, the Committee presumes that this option would not be adopted independently. Other options to further reduce the property tax rate will be adopted at the same time, diminishing and possibly eliminating any negative impact on high growth homeowners from increasing the homestead cap.

Option 2: Raise Income Tax			
FY2009 Revenue Impact:	\$12.1M	Tax Rate Impact:	\$0.045
Authorization Required:	Council Vote and Mayoral Approval		

Description

The City is projected to receive \$256.9 million in income tax revenue in FY2009, making this the second largest source of City funds after the property tax. While the income tax rate is currently set at 3.05 percent, the City is authorized by the State to increase the rate up to 3.20 percent. To do so for calendar year 2009, the City would have to notify the State of its intent to increase the rate no later than June 30, 2008. Howard and Montgomery Counties are already at the State maximum.

Revenue Potential

Increasing the income tax rate on City residents to the maximum 3.20 percent would generate an estimated \$12.1 million in new revenue in FY2009⁷.

Legislative Authority

Article 18, §18-2 of the Baltimore City Code sets the income tax rate at 3.05 percent. An ordinance would be required to raise the rate. The State caps county income tax rates at 3.20 percent per §10-106 of the Tax-General State Code.

Effect on Taxpayers

An income tax is generally proportional. Because taxpayers are taxed on a percentage of all taxable income (using the State’s income tax criteria), those with higher incomes pay more taxes relative to individuals with lower incomes even though both pay the same proportion of their net taxable income.

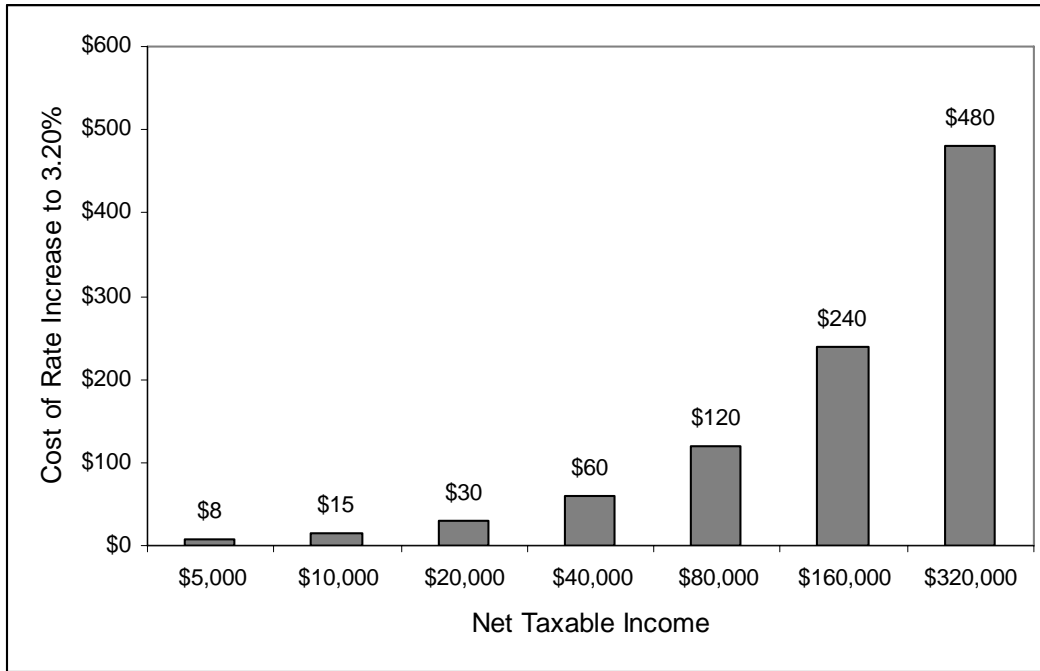
**Per Capita Income Tax Revenue - FY2009
3.05% Rate Vs. 3.20% Rate**

Per Capita NTI	Per Capita Income Tax Revenue at 3.05%	Per Capita Income Tax Revenue at 3.20%	Difference
\$11,880.16	\$362.30	\$380.17	\$17.87

Although measuring income tax revenue on a per capita basis shows what the cost to the average taxpayer might be, it is helpful to look at several different income levels to gauge the potential effect on the diverse and disparate income tax base that exists in Baltimore. As shown in the following graph, because the rate is flat the increase in cost is proportional to the increase in net taxable income.

⁷ Estimate from the City of Baltimore Finance Department

**Annual Impact of Increase in Income Tax Rate
By Level of Net Taxable Income
3.05% to 3.20% (FY2009)
All Figures in Millions**



The costs to individual taxpayers in this proposal would be partially offset by rate reduction. For example, a taxpayer earning \$40,000 and living in a house valued at \$75,000 would pay \$60 more per year in income tax but \$34 less in property tax. A taxpayer earning \$90,000 per year and living in a house valued at \$150,000 would pay \$135 more per year in income tax but \$68 less in property tax.

Revenue Growth

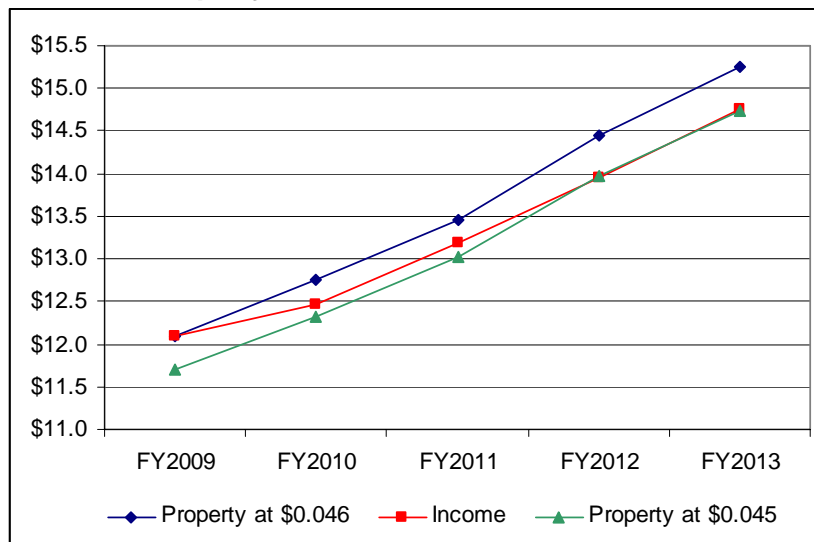
Although \$12.1 million in new revenue could allow a property tax rate reduction of \$0.046 in FY2009, the reduction has been discounted very slightly to \$0.045 to allow for slightly less aggressive projected income tax revenue growth in several of the next five years. Projected growth rates for both revenue sources are shown in the following table:

**Projected Property and Income Tax Revenue Growth Rates
FY2009 - 2013**

Projected Growth Rates					
Revenue Source	FY2009	FY2010	FY2011	FY2012	FY2013
Property Tax	5.44%	5.35%	5.63%	7.24%	5.61%
Income Tax	8.53%	3.03%	5.78%	5.78%	5.78%

The next graph compares five year growth of \$12.1 million in income tax revenue with that of property tax revenue at both the corresponding \$0.046 rate and the adjusted \$0.045 rate:

**Projected Growth - \$12.1M in Income Tax Revenue
Vs. Property Tax Revenue
Property Tax Rate of \$0.046 and \$0.045**



Comparative Rates

As shown in the following table, Baltimore City’s income tax rate compares favorably with that of the surrounding counties as well as the large suburban Washington, D.C. counties (Montgomery and Prince George’s).

**Income Tax Rates
Selected Maryland Counties**

County	Income Tax Rate
Baltimore City	3.05%
Anne Arundel County	2.56%
Baltimore County	2.83%
Harford County	3.06%
Howard County	3.20%
Montgomery County	3.20%
Prince George’s County	3.10%

Option 3: Increase Hotel Tax			
FY2009 Revenue Impact:	\$4.1M	Tax Rate Impact:	\$0.013
Authorization Required:	City Council Vote and Mayoral Approval		

Description

The City's hotel tax is levied on the use, occupancy, or rental of any room for sleeping accommodations. Currently, the tax is paid at a rate of 7.5 percent of gross room costs. This option would raise the hotel tax rate to 10 percent (note that the State's five percent sales tax is also levied on hotel rooms).

The tax generated gross revenue of approximately \$21.0 million in FY2007, and FY2008 revenue is expected to increase slightly to almost \$21.1 million. However, debt service for Convention Center bonds is deducted before the remaining revenues are transferred to the General Fund. In addition, after the balance reaches the General Fund, 40 percent of gross hotel tax revenue is appropriated to the Baltimore Area Convention and Visitors Association (BACVA). The following table shows how the revenue is collected and appropriated and includes estimates for FY2008 – FY2010:

Hotel Tax Revenue Estimates: 7.5% Rate FY2008 - 2010

	FY2008 Est.	FY2009 Est.	FY2010 Est.
Gross Hotel Tax Revenue	\$21,065,000	\$20,600,000	\$21,100,000
Convention Center Debt Service	\$4,613,000	\$4,627,000	\$4,600,000
Net to General Fund	\$16,452,000	\$15,973,000	\$16,500,000
BACVA Appropriation (40% of gross)	\$8,426,000	\$8,240,000	\$8,440,000
Net to General Fund for Appropriation	\$8,026,000	\$7,733,000	\$8,060,000

Revenue Potential

Raising the hotel tax rate to 10 percent would generate an estimated additional \$4.1 million in net revenue for the General Fund in FY2009, assuming that the estimated hotel tax base of \$274.7 million does not change as a result of the tax increase. Estimated revenue collection and appropriation assuming a 10 percent hotel tax rate follows:

Hotel Tax Revenue Estimates: 10% Rate FY2008 – FY2010

	FY2008 Est.	FY2009 Est.	FY2010 Est.
Gross Hotel Tax Revenue	\$28,086,667	\$27,466,667	\$28,133,333
Convention Center Debt Service	\$4,613,000	\$4,627,000	\$4,600,000
Net to General Fund	\$23,473,667	\$22,839,667	\$23,533,333
BACVA Appropriation	\$11,234,667	\$10,986,667	\$11,253,333
Net to General Fund for Appropriation	\$12,239,000	\$11,853,000	\$12,280,000
Difference: 10% - 7.5%:	\$4,213,000	\$4,120,000	\$4,220,000

Legislative Authority

Until June 1, 2007, Baltimore City's hotel tax rate was limited to 7.5 percent by state legislation. HB 991 and SB 407 extended the required BACVA appropriation of 40 percent of gross hotel tax revenue and repealed the provision limiting the rate to 7.5 percent. There is currently no limit to the rate, and the City may raise the rate by ordinance of City Council, signed by the Mayor.

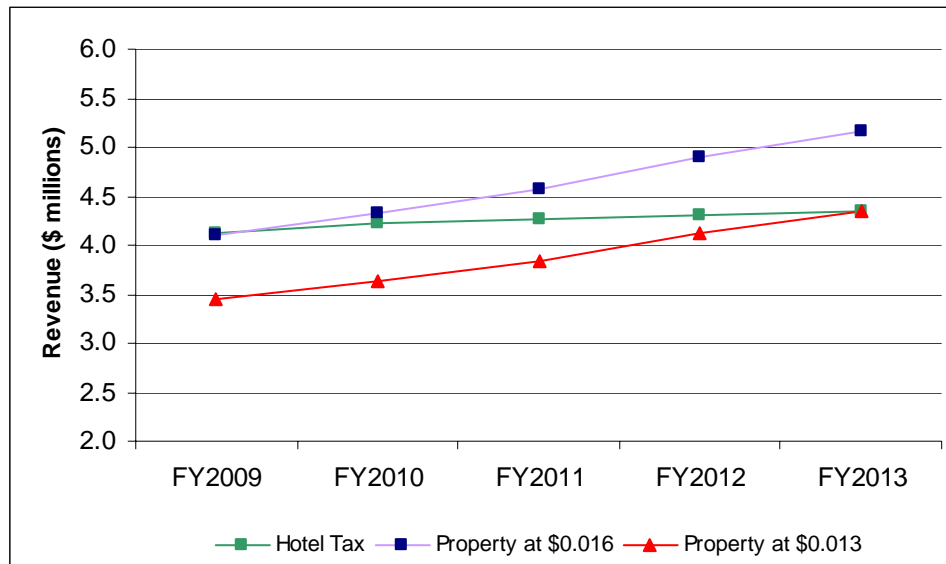
Effect on Taxpayers

The hotel tax enables the City to generate revenue from non-City residents, including tourists, business travelers, and convention participants. Hotel customers paying a daily rate of \$100 would see an additional \$2.50 per day attached to their room bill.

Revenue Growth

Hotel tax revenue growth can be volatile and is difficult to estimate with any degree of certainty. It is possible that the hotel industry may implement rate increases, and the effect of the opening of the new Convention Center Hotel is unknown. The City's Finance Department provided a conservative estimate of one percent annually after FY2010. Because of the significantly higher growth of property tax revenue (generally five percent to seven percent) the corresponding property tax rate reduction allowed by this option should be adjusted downward. Using the FY2009 one-cent yield of \$2.625 million, \$4.1 million in new revenue would allow a rate reduction of \$0.016. As shown in the following graph, reducing the property tax rate by \$0.016 would create a deficit of nearly \$1 million by 2013. It would be necessary to adjust the rate reduction to \$0.013 to avoid creating a deficit in the next five years.

Revenue Growth: Hotel Tax to 10% Rate vs. Property Tax at \$0.016 Rate and \$0.013 Rate



Economic Effects

Raising the hotel tax could have a negative effect on the local economy as the tourism industry (including convention traffic) could respond to the slightly higher hotel room rates. While the

revised rate would be somewhat higher than in surrounding counties, the combined hotel tax and sales tax would be similar to that in cities competing for mid-Atlantic convention business. One of the side benefits of raising the hotel tax is that it would likely generate an additional \$2.7M in operating revenue for BACVA's use in promoting the Baltimore convention and tourism business, which could help boost revenue from this source.

Option 4: Undertake Comprehensive Fee Study and Update Fee Structure			
FY2009 Revenue Impact:	\$1M	Tax Rate Impact:	\$0.004
Authorization Required:	Fees are adjusted by the Board of Estimates		

Background and Description

Since 2000, City agencies have been actively reviewing the fees that they charge for various services. This review has been coordinated through the CitiStat process and has focused primarily on the Fire Department, Health Department, Department of Recreation and Parks, Department of Housing and Community Development, Department of Public Works, and the Department of Transportation. In FY2000, these agencies generated approximately \$36.2 million in annual General Fund revenues. By FY2005, these same departments had increased their General Fund revenues by more than 50 percent to \$53.8 million.

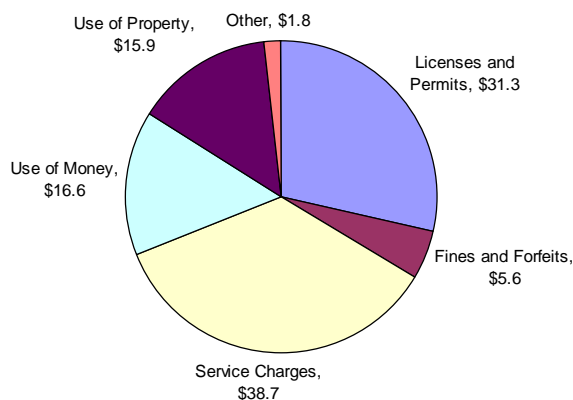
This option proposes that the City further and comprehensively analyze the services it is providing and ensure that the fees are covering the cost of the service(s) provided. This could include identifying services that the government provides for free, but for which a user charge could be considered, as well as recommending adjustments to fees for existing services.

A fee study would also examine whether all applicable costs are included, both direct and indirect. Indirect costs will include fringe benefits as well as administrative costs both within the subject department and the central services. Knowing the full cost of services provided would allow the City to ensure that tax dollars are not inappropriately subsidizing private activities. Finally, fees should be examined in relation to inflation as well as the elasticity of demand.

Revenue Potential

The City currently generates approximately \$109.9 million in locally generated non-tax revenue, a broad category that includes use of money (earnings on investments and interest) and property (rent), licenses and permits, fines and forfeits, and charges for service. The following chart shows estimated locally generated non-tax revenue by type for FY2008:

**FY2008 Locally Generated Non-Tax Revenue
(All Figures In \$ Millions)**



Total: \$109.9 Million

Given the overall revenue generated through these categories, a conservative estimate of \$1 million is appropriate for a comprehensive analysis and update of the fee structure. While other cities have generated as much as \$5 to \$6 million, Baltimore has recently reviewed and updated many fees and charges, seeking to maximize the recovery of City costs where equitable, feasible, and desirable as municipal policy. As a result, most of the "low hanging fruit" has already been identified and captured. Therefore, it is believed that a \$1 million annual revenue estimate is conservative but appropriate in this case.

Legislative Authority

Changes to the fee structure would require approval by the Board of Estimates or, in some cases, vote by City Council and approval from the Mayor.

Effect on Taxpayers

If \$1 million were to be spread among different fees, charges, and fines, the impact on individual taxpayers would be negligible. In addition, individuals and organizations are only charged if they use a particular service.

Revenue Growth

All fees should be adjusted annually according to the growth of the City's budget.

Economic Effects

The economic effects of this option would be minimal due to the relatively small amount of revenue generated.

Option 5: Charge a Fee for Solid Waste Collection			
FY2009 Revenue Impact:	\$14.0M	Tax Rate Impact:	\$0.05
Authorization Required:	Council Vote and Mayoral Approval		

Background and Description

Currently, solid waste collection is paid for through the General Fund with no dedicated revenue. Four counties in Maryland (Anne Arundel, Howard, Prince George's, and Montgomery) charge their citizens a fee for waste collection services. This option would create a sanitation fee that would recover the City's costs associated with solid waste collection.

Solid Waste Collection Fees in Surrounding Counties

County	Charge for Solid Waste Collection	Annual Charge	Total Yield All Solid Waste Fees FY2007
Anne Arundel County	Yes	\$275	\$48.8M
Baltimore County	No	No Charge	---
Carroll County	No*	No Charge	---
Harford County	No*	No Charge	---
Howard County	Yes	\$175	\$16.0M
Montgomery County	Yes	\$264.42	\$11.9M
Prince George's County	Yes	\$202.40	\$82.5M
* Carroll and Harford Counties do not provide solid waste collection services to non-incorporated areas. In the eight incorporated areas in Carroll County, each area has taken responsibility for administering their own solid waste collection services.			
Montgomery County: The County provides waste collection in the southern parts of the county. All other parts go through private companies. Fee for waste collection in leaf vacuuming districts is \$344.96.			
FY2007 Fee Yields: Maryland Association of Counties.			

Revenue Potential

The City budgeted approximately \$23.1 million for solid waste collection in FY2008, and an estimated \$9.1 million in revenue will be generated through landfill tipping fees, a solid waste surcharge of \$7.50 per ton on all waste disposed of in the City, and a "host community fee" of \$1.00 per ton for each ton of acceptable waste processed at the Baltimore Refuse Energy Company facility (BRESCO).

A new sanitation fee would attempt to recover the difference in collection expenditures and solid waste revenue, an estimated \$14 million in FY2008.

Such a fee would present significant collection challenges. Delinquency would likely be an issue, and in order to ensure an acceptable collection rate the City would have to rely on tax sales to collect the fee in many cases.

Legislative Authority

The State imposes no restrictions on charging such a fee. Implementing this option would require a vote from Council and Mayoral approval.

Effect on Taxpayers

Because the City does not provide collection services for commercial properties, residential property owners shoulder the burden of this option. Commercial and industrial property owners would enjoy the benefit of a reduced property tax rate without being required to pay the new fee.

In addition, this option is somewhat regressive as lower-income households pay the same fee as higher-income households.

Revenue Growth

The new sanitation fee should be adjusted according to overall growth in City expenditures. Because estimated expenditure growth is very close to estimated property tax revenue growth, shifting property tax revenue to revenue generated by a sanitation fee should not require significant adjustments to account for growth disparity. Using the FY2009 one-cent yield of \$2.625 million, \$14 million in new revenue would allow a rate reduction of approximately \$0.05.

Economic Effects

The economic impact of this option would likely be minimal, but any effects that do occur would likely be due to the rate reduction itself. However, there is also a possibility that charging such a fee would encourage some residents to leave the City.

Option 6: Develop a New Strategy for Tax-Exempt Property			
FY2009 Revenue Impact:	NA	Tax Rate Impact:	NA
Authorization Required:	Varies		

Background and Description

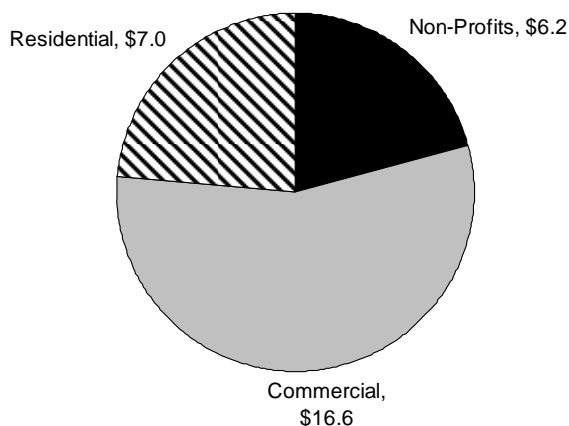
According to the City, approximately \$10.9 billion in real property, or roughly 29 percent of the gross property base (taxable and tax exempt) is currently tax exempt. Approximately \$2.9 billion of the tax exempt property is owned by nonprofit organizations, and the remainder consists of federal, state, and local government property.

Nonprofit organizations do pay both energy consumption and telecommunications taxes. Energy taxes are paid by nonprofit organizations at rates shown in the following table:

	Electricity (per kWh)	Natural Gas (per therm)	Fuel Oil (per gal)	LPG (per gal)	Steam (per lb)
Nonprofit Energy Tax Rate	0.003628	0.053147	0.065992	0.081144	0.000962

Total energy tax contributions from nonprofits are estimated to be approximately \$6.2 million in FY2008. Energy tax revenue by user group is shown in the following chart:

Estimated FY2008 Energy Tax Revenue
Total Energy Tax revenue \$29.8 Million
Figures in \$ Millions



Telecommunication taxes are paid per line. Centrex lines are taxed at \$0.35 per line, and land and wireless lines are both taxed at \$3.50 per line. Total telecommunications tax revenue is estimated to total approximately \$29.0 million in FY2008; however it is not known how much of that revenue is generated by organizations exempt from property taxes.

Recent History

During this decade, the City has taken several approaches to generating revenue from non-profits that balance their contributions to the community with their demand on services. For the period from FY2002 to FY2005, the City had a negotiated voluntary contribution agreement with the City's major non-profit institutions. Seventeen educational and health care institutions participated in the agreement. Total revenues and specifically revenues from Hopkins University, Hopkins Hospital and Bayview Medical Center, and the University of Maryland Medical Center were as follows:

Year	Hopkins University	Hopkins Hospital and Bayview	University of Maryland Medical Center*	Total All Participating Institutions
FY2002	\$1,027,616	\$993,479	\$415,955	\$4,000,000
FY2003	\$1,541,428	\$1,490,217	\$623,932	\$6,000,000
FY2004	\$1,541,427	\$1,490,218	\$623,932	\$6,000,000
FY2005	\$1,027,616	\$993,479	\$415,955	\$4,000,000
Total	\$5,138,087.00	\$4,967,393.00	\$2,079,774.00	\$20,000,000.00

*Does not include contributions for Deaton, Maryland General Hospital, or Mt. Washington PEDS, which are all affiliated with the University of Maryland Medical Center.

After these agreements expired in FY2006, the local energy tax was extended to non-profit energy users at the rates described above. In addition, nonprofits began paying telecommunications taxes in FY2005 when the City reformed the tax to include all users (government customers and lifeline service customers being the only exemptions). Prior to FY2005, the tax covered only land lines and both governments and nonprofit organizations were exempt. The expanded tax includes both land lines and wireless service.

Future Strategy

During its deliberations, many members of the Committee asked for more information about possible ways to generate revenue from non-profits. The Committee heard a presentation about non-profit contribution structures in other northeastern cities that have a strong university and hospital presence, and also received a letter from the Maryland Hospital Association (MHA) detailing the value of their members' existing service and payment contributions to the City (both the presentation and the letter are included in the appendices to this report).

In the letter written on behalf of the MHA, it was reported that in addition to energy and telecommunications taxes nonprofits contribute to City revenue through license fees and taxes on parking facilities. The Johns Hopkins institutions alone paid \$6.6 million in parking taxes and fees in FY2007. In addition, nonprofits provide other assistance by furnishing on and off-campus security and by maintaining the cleanliness of surrounding areas.

After reviewing this information, many members of the Committee continued to express interest in expanding non-profit contributions to the City to fund property tax relief. As a result, this option puts forward two possible strategies:

1. Coordinate periodic meetings with nonprofit organizations to discuss and negotiate reasonable direct payments in lieu of taxes to be made to the City, and to afford the organizations an opportunity to review and quantify both the direct and indirect contributions made by these organizations, which benefit the entire City and/or specific neighborhoods or populations.
2. Expand and enhance the Live Near Your Work program.

The Live Near Your Work Program started as a joint effort by the City, the State, and employers in which each would contribute \$1,000 towards the down payment and closing costs of an employee who decides to move into the City within a designated area or cluster of neighborhoods, selected jointly by the employer and City representatives. The Mayor should designate an official or staff member responsible for working with the nonprofits to:

- Better market the program
- Expand the areas/neighborhoods designated to qualify for the program
- Increase the contributions offered by the organizations, to provide a greater incentive for employees to purchase homes and reside within the City

A more effective program would encourage more employees of participating organizations and businesses to move into the City, adding to the property tax base and the City's overall tax capacity.

Option 7: Local Option Sales Tax			
FY2009 Revenue Impact:	\$64.4M	Tax Rate Impact:	\$0.236
Authorization Required:	State legislation		

Description

Currently, the only general sales tax is the State’s, at five percent. While the City does collect some specialized sales and excise taxes, it does not collect taxes on general sales. A one percent local option sales tax would be dedicated directly to the City’s General Fund, and the net sales tax rate in the City would be six percent or one percent above whatever sales tax rate the General Assembly sets as a statewide rate.

Proposed solutions to the State’s projected deficit include an increase of the State sales tax. If the General Assembly raises the sales tax rate to six percent, a local option sales tax is still an option. A seven percent net sales tax rate would still be competitive with rates in other destination cities.

Although local governments are generally not permitted to levy local option sales taxes in Maryland, specific exceptions have been made that may establish precedent for changes to State legislation. Ocean City, for example, is permitted to levy a local food and beverage tax. State law permits any county subdivision that qualifies as a “resort area” to impose such a tax for the “sole purpose of providing revenues to pay the principal and interest on bonds issued relating to the construction, reconstruction, repair, renovation, or equipping of a convention center facility in the resort area.” The total principal of the bonds must not exceed \$15 million.

Revenue Potential

A one percent local option sales tax would generate approximately \$62.1 million in additional City revenue, and could allow a property tax rate reduction of approximately \$0.236 per \$100 of assessed value. Because sales tax revenue has a lower projected growth rate than the property tax revenue it would replace, and to account for some elasticity, a discount of approximately 10 percent has been applied to the rate. Growth rates for both tax bases are shown in the following table:

**Projected Property and Sales Tax Revenue Growth Rates
FY2009 - 2013**

Revenue Source	Projected Growth Rates				
	FY2009	FY2010	FY2011	FY2012	FY2013
Property Tax	5.44%	5.35%	5.63%	7.24%	5.61%
Sales Tax	4.59%	5.10%	4.45%	5.22%	5.00%

Legislative Authority

Currently, subdivisions of the state may not impose a local option sales tax. Section 11-102 (c) of the Maryland Tax – General Code limits local imposition of sales and use taxes to fuels, utilities, rental of space, controlled dangerous substances, and certain food and beverages. Any change to allow for a local option general sales tax would require amendments to State legislation. The exact language of the code follows:

Maryland Code
Tax – General - §11-102 (C)

(c) *Limitation on political subdivisions.*

(1) *A county, municipal corporation, special taxing district, or other political subdivision of the State may not impose any retail sales or use tax except:*

(i) *a sales tax or use tax that was in effect on January 1, 1971;*

(ii) *a tax on the sale or use of:*

1. *fuels;*

2. *utilities;*

3. *space rentals; or*

4. *any controlled dangerous substance, as defined in § 5-101 of the Criminal Law Article, unless the sale is made by a person who registers under and complies with Title 5, Subtitle 3 of the Criminal Law Article; or*

(iii) *a tax imposed by a code county on the sale or use of food and beverages authorized under Article 25B, § 13H of the Code.*

Effect on Taxpayers

A City sales tax would apply to residents as well as non-city residents, including tourists and commuters. The Baltimore Area Convention and Visitor's Bureau estimates that in 2005 approximately 17.7 million visitors to the City spent \$3.0 billion.⁸ In addition, the US Census Bureau estimates that in 2000 approximately 186,000 individuals who work in the City (54.6 percent) were commuters who do not contribute significantly to the City's revenue stream.⁹ If those commuters spent an average of just \$5.00 per day on taxable goods in the City, a one percent local option sales tax would generate approximately \$3.4 million from commuters alone.

Current Maryland Sales Tax Exemptions

- Most non-prepared food
- Medicine
- Manufacturing machinery and equipment
- Certain agricultural equipment and supplies

While a local option sales tax can be simplified by retaining these same exemptions, legislators wishing to pursue the option may wish to include further exemptions to limit the impact on lower-income residents. For example, several states provide exemptions for other necessities such as clothing and footwear.

⁸ Baltimore Area Convention and Visitor's Bureau,
http://www.baltimore.org/cmt_media/pdfs/media_visitor_spending.pdf

⁹ U.S. Census, *Journey to Work* Data

Revenue Growth

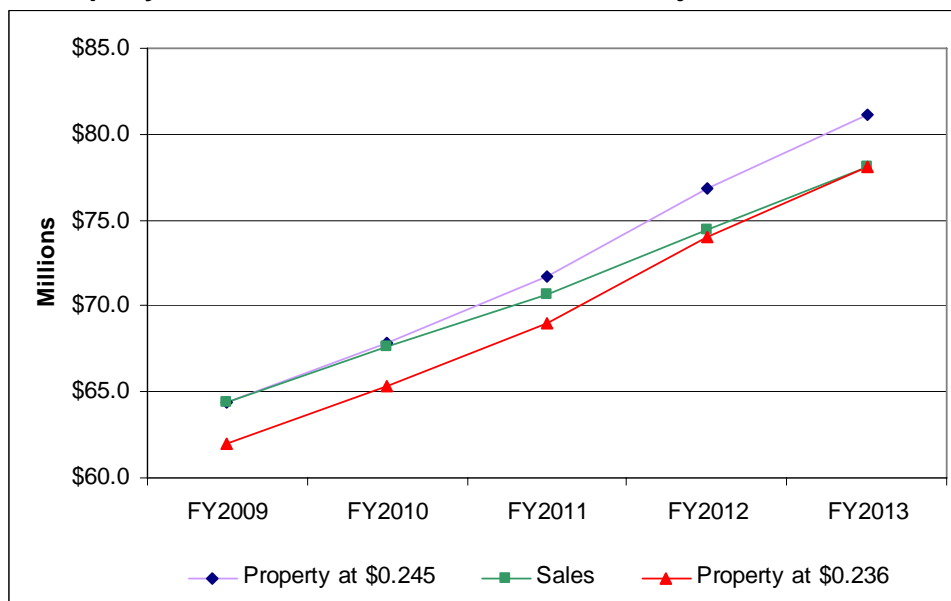
The Maryland Department of Legislative Services estimates that \$285.3 million in State sales tax revenue was generated in the City of Baltimore in FY2006. Projected annual growth in state sales tax revenues is applied to that estimate in the following table to arrive at an estimate for FY2009:

Fiscal Year	FY2006	FY2007E	FY2008E	FY2009E
Growth Rate	-	3.0%	4.8%	4.6%
Estimated Revenue	\$285.3	\$293.9	\$308.0	\$322.1

If projected growth rates hold, the City's portion of state sales tax revenue is estimated to reach \$322.1 million in FY2009. Given the current state sales tax rate of 5 percent, \$322.1 million in revenue implies a sales tax base of \$6.44 billion. Therefore, a 1 percent local option sales tax in the City of Baltimore would generate approximately \$64.4 million in FY2009.

Using the City's projected FY2009 one-cent yield of \$2.625 million per \$100 of assessed value, this option could allow a property tax rate reduction of approximately \$0.245. However, in order to allow for the disparity in growth rates mentioned above, and for some amount of tax flight, a more conservative estimate for this option is \$0.236. While reducing the property tax rate by \$0.245 would generate the same amount of revenue as the new local option sales tax revenue in FY2009, by 2013 the net cost of this option would be approximately \$3.0 million. By adjusting the rate down slightly to \$0.236, the net cost after five years would be closer to zero. The following graph compares projected property tax revenue growth for both rates with the growth of \$64.4 million in sales tax revenue.

**Sales Tax Revenue at 1% Rate Vs.
Property Tax Revenue at \$0.0245 Rate and Adjusted \$0.236 Rate**



Economic Effects

Implementing this option would set Baltimore's combined sales tax rate at six percent, or one percent higher than other counties within the State. While the exact economic impact of a one percent relative increase to the rate is unknown, it can be assumed that some percentage of sales would migrate to surrounding counties, and an even smaller percentage of sales might not occur. In addition, vendors of taxable goods could be less inclined to locate their businesses within City limits if their customers would be paying a higher net price for the same goods they could purchase outside of the City (these effects are all assumed to be captured in the slight discount applied to the rate calculation for this option). However, the City already finds itself at a disadvantage because of its high property tax rate. Part of the challenge presented to this Committee is to recommend options that help reduce the property tax rate and the burden imposed on property owners without diminishing the City's ability to compete for other sources of revenue.

It should be noted that this option would permit the City to capitalize on and generate revenue from the millions of tourists who visit cultural attractions and sporting venues each year. Further, the City provides both direct and indirect support to these attractions, yet the bulk of the tax revenues generated flow to the State. This option is also less likely to draw opposition from political leaders and neighboring jurisdictions because there would be little to no impact on business and constituencies outside of the City.

Option 8: Regional Sales Tax			
FY2009 Revenue Impact:	\$ 63.1 million	Tax Rate Impact:	\$0.23
Authorization Required:	New State Legislation		

Background and Description

This option would impose a one percent general sales tax on taxable goods sold in the region, which includes the City of Baltimore and the following counties:

- Anne Arundel
- Baltimore County
- Carroll County
- Harford County
- Howard County

A regional sales tax would be used in part to fund cultural assets within the region. Half of the revenue generated would be used for that purpose, and the other half would be distributed back to the Counties based on a formula that takes into account both tax capacity and tax effort.

Revenue Impact

To calculate the total sales tax revenue earned by the District, state sales tax revenue generated by each county was used to determine the sales tax base for each county as well as the total sales tax base for the district. Because half of the revenue generated by the District would be distributed to the counties, the base was multiplied by 0.5 percent (half of the one percent sales tax) to determine the total distribution. The percentage of revenue distributed to each county used the same distribution formula used by the 2002 study *Alternative Revenue Sources and Structures for Baltimore City* initiated by the Baltimore Efficiency and Economy Foundation. That formula was derived from the formula used by the Allegheny Regional Asset District in Allegheny County, PA, which follows:

<p>Community A share = Total funds available X</p>	$\frac{\text{Total Tax Revenue Community A /} \\ \text{Community A \% of Regional Property} \\ \text{Market Value}}{\text{Sum of Weighted Tax Revenues of all} \\ \text{Communities in the Region}}$
<p>Source: <i>Alternative Revenue Sources and Structures for Baltimore City</i>, BEEF, 2002</p>	

The following table shows state sales tax revenue generated by county, the corresponding sales tax base, the revenue that would be generated by half of the one percent tax, the percent of revenue distributed back to the counties, and the final distribution:

County	State Sales Tax	Base	Revenue at 0.5%	Distribution %	Distribution \$
Anne Arundel County	\$310,081,193	\$6,201,623,860	\$31,008,119	12.97%	\$18,524,891
Baltimore City	\$286,765,138	\$5,735,302,760	\$28,676,514	44.21%	\$63,130,652
Baltimore County	\$500,946,186	\$10,018,923,720	\$50,094,619	26.65%	\$38,054,680
Carroll County	\$80,371,396	\$1,607,427,920	\$8,037,140	3.81%	\$5,438,659
Harford County	\$102,949,914	\$2,058,998,280	\$10,294,991	5.68%	\$8,106,880
Howard County	\$146,849,309	\$2,936,986,180	\$14,684,931	6.68%	\$9,540,551
Total District	\$1,427,963,136	\$28,559,262,720	\$142,796,314	100.00%	\$142,796,314

The other half of the revenue (\$142.8 million) would be used to fund the cultural assets located in the region. Because the City currently funds some of those assets, the resulting reduction in expenditures could allow additional property tax relief.

Legislative Authority

Creating a Regional Asset District and imposing a regional sales tax would require new state legislation.

Revenue Growth

Sales tax revenue is projected to have a slightly slower rate of growth than property tax revenue over the next five years. Growth rates for both revenue sources are shown in the following table:

**Revenue Growth: Sales and Property Taxes
FY2009 – FY2013**

Revenue Source	FY2009	FY2010	FY2011	FY2012	FY2013
Sales Tax	4.59%	5.10%	4.45%	5.22%	5.00%
Property Tax	5.44%	5.35%	5.63%	7.24%	5.61%

Because of this disparity, the corresponding reduction to the property tax rate was adjusted slightly from \$0.24 (based on the FY2009 one-cent yield estimate of \$2.625 million) to \$0.23. Sales tax revenue growth is compared to growth of property tax revenue at both rates in the following graph. As is shown, the revenue lost from a property tax rate reduction of \$0.23 would catch up to the estimated revenue gained from this option by 2013. If the \$0.24 rate were used, the option would worsen the City's structural deficit.



Impact on Taxpayers

The impact on taxpayers would be similar to that of Option 6, “Local Option Sales tax.” However, unlike the sales tax applied to only city limits, all residents in the region would be subject to the one percent tax.

Economic Effects

A 1 percent sales tax on the region would likely have less of a local economic impact than an additional local option sales tax imposed solely on the City, because the borders of the taxing district would be broadened to include six counties. This lessens the incentive to travel across district borders to make purchases of taxable goods. However, any impact that the additional one percent sales tax has on sales beyond the “border effect” would affect the entire region rather than Baltimore alone. In addition, although the area of the region is larger than the City alone, there would still be an incentive to travel a short distance across the region border to purchase goods at a slightly discounted total cost. Therefore, areas along the border of the region could be affected more than the City.

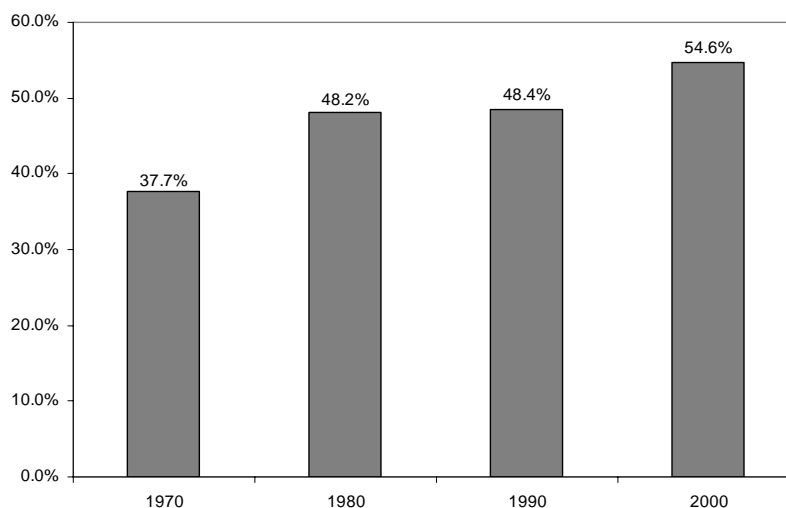
The fact that Baltimore City would receive more revenue than was actually generated within its borders and the other counties in the district would receive less than they generated presents a challenge for new legislation. However, there is a strong argument to be made that enhancing the City’s potential for growth by lowering City property taxes will help reduce population growth pressures and rising infrastructure costs in the surrounding counties. Promoting more growth in the City by reducing the tax burden would relieve growth pressure on the counties and help to mitigate concomitant negative factors; such as increased traffic congestion, school overcrowding, strained water supplies, environmental degradation, and loss of open space and farm land. Preserving the quality of life in suburban counties is more and more dependent on improving the quality of life in the core City.

Option 9: Local Earnings Tax			
FY2009 Revenue Impact:	\$47.4 million	Tax Rate Impact:	\$0.162
Authorization Required:	State legislation		

Background and Summary

According to the last Census survey in 2000, 54.6 percent of the individuals working in the City of Baltimore were not City residents. That percentage has grown substantially from 37.7 percent in 1970, as shown in the following graph:

**Commuters as a Percentage of Total Workforce
City of Baltimore - 1970 to 2000**



Source: U.S. Census "Journey to Work" data

The argument for taxing commuters points to the necessary increases in City services to accommodate the large daily workforce inflow. In turn, this requires increases in City expenditures. Because of Maryland's local income tax structure, the City can only collect income taxes from those who reside within its borders. Therefore, the large (and growing) body of daily commuters is not contributing significantly to the increasing costs of providing municipal services.

A local earnings tax is one of two options considered by the Committee aimed at targeting commuter income as a source of tax revenue for the City. This option, which is based on proposed General Assembly legislation from 1995, would give counties and the City of Baltimore the option of levying an additional 1 percent income tax on those who work within the limits of the subdivision. To make the option tax-neutral for taxpayers, the 1 percent could be deducted from income taxes paid to the county of residence.

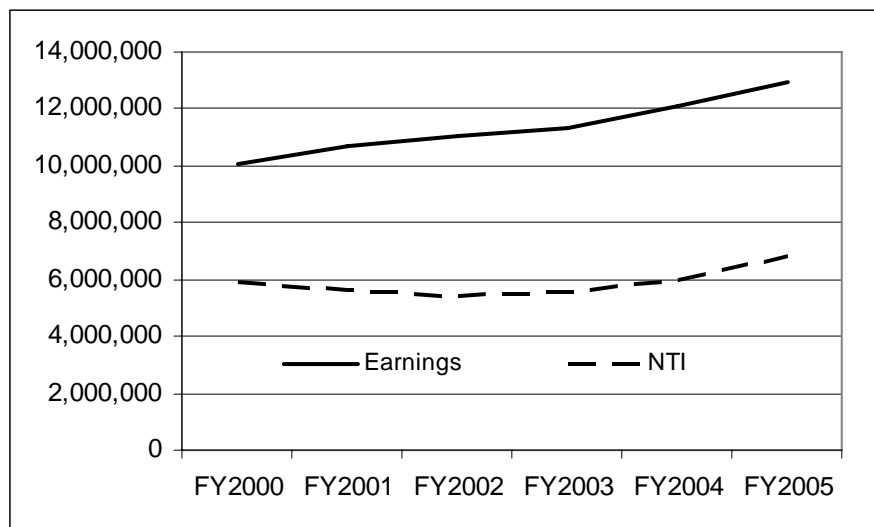
According to the 2002 Baltimore Efficiency and Economy Foundation (BEEF) study *Alternative Revenue Sources and Structures for Baltimore City*, this option would yield a positive gain in net income tax revenue for just seven counties, including the City of Baltimore. The other 17 counties would see a net loss in revenue due to deductions from existing local income taxes by

residents working in other Maryland counties. While commuting patterns have changed since the completion of the 2002 study, it is likely that a majority of Maryland counties would still see a net loss in revenue from this option. If that assumption holds true, it presents a significant political hurdle to overcome before implementation is possible. Another possibility is that legislative votes from counties with a resulting net gain in revenue would constitute a majority of total General Assembly votes.

Revenue Impact

The existing local income tax structure in Maryland makes it difficult to calculate precise revenue estimates for this option. Currently, county income taxes are collected based on the county of residence of the taxpayer. Maryland governments do not track taxable earned income by place of employment.

The U.S. Bureau of Economic Analysis (BEA) does have data on both *earnings by place of residence* and *earnings by place of work*. However, *earnings* as defined by the BEA do not equal *taxable income* as defined by the State of Maryland. The following graph shows both *net taxable income (NTI)* and *earnings* for the City of Baltimore from FY2000 – FY2005:



As shown, NTI does not correspond with earnings in a way that promotes a simple conversion between the two. Earnings are significantly higher than NTI and NTI actually decreased from FY2000 to FY2002 while earnings increased. The BEA’s definitions of both *earnings by place of residence* and *earnings by place of work* follow:

Earnings by Place of Residence:
Net earnings by place of residence is earnings by place of work less contributions for government social insurance, plus an adjustment to convert earnings by place of work to a place of residence basis.

Earnings by Place of Work:
Earnings by place of work is the sum of wage and salary disbursements, supplements to wages and salaries, and proprietors' income.

While NTI includes the types of gross earnings identified in the preceding definitions, it also includes gross deductions and exemptions that can be significant and can change from year to year.

The adjustment used by the BEA that converts earnings by place of work to earnings by place of residence is based on the net inflow or outflow of earnings to or from each county. The City of Baltimore, for example, has a net outflow of earnings – that is, the amount of earnings generated by commuters working in the City (and taking them home to their county of residence) is greater than the amount of earnings generated by City residents working outside of the City.

To convert the BEA’s *earnings by place of work* to NTI, the following relationship was assumed to be true:

$$NTI_r : NTI_w :: E_r : E_w$$

NTI = Net Taxable Income
 E = Earnings
 r = place of residence
 w = place of work

The complete equation used to calculate NTI by place of work follows:

$$NTI_w = NTI_r / (E_r / E_w)$$

In this case, FY2009 estimates were used with the following results:

Variable	Value (\$ thousands)
NTI _r	\$ 8,078,689
E _r	\$15,163,537
E _w	\$24,072,077
NTI_w	\$12,824,897

Because earnings by place of residence are estimated to be approximately 63.0 percent of earnings by place of work, it follows that NTI by place of residence is approximately 63.0 percent of NTI by place of place of work. Therefore, using this assumption an estimated \$12.8 billion will be earned by those who work in the City of Baltimore in FY2009.

A significant problem with this assumption is that true NTI (as defined by the State of Maryland) by place of work must be discounted because NTI includes investments and other income that can only be collected in the place of residence. A more accurate estimate of NTI by place of work would discount the above figure to adjust for this fact. Unfortunately, at the time of this writing suitable data could not be obtained to accurately calculate such a discount. If this option is to be pursued, a more accurate estimate of NTI by place of work might consider examining

what percentage of NTI is generated through investments versus wages, deductions, and exemptions.

Using the above figure of \$12.8 billion in NTI from those working in the City, a 1 percent tax on income earned in the City would generate approximately \$128.2 million in FY2009. However, City residents working in another county would then deduct taxes paid to their county of work from income taxes paid to the City.

To estimate the amount of NTI earned in the city by commuters, the relationship between earnings outflow (commuter earnings) and earnings by place of work was applied to the estimate of NTI by place of work. According to BEA data, the average relationship between earnings outflow and earnings by place of work was approximately 59.1 percent. Applying that relationship to the \$12.8 billion figure referenced previously, it was estimated that commuters will earn approximately \$7.6 billion in NTI in FY2009. Therefore, a 1 percent tax on commuter income alone would yield approximately \$76 million.

To calculate NTI *inflow*, or NTI earned by City residents working in another county, the same method was used. Earnings outflow equals approximately 21.5 percent of earnings by place of work. Applying that percentage to NTI by place of work yields slightly more than \$2.8 billion that would be deducted from the traditional “piggyback” City income tax. To arrive at a final estimate of revenue generated by this option, NTI inflow was subtracted from NTI outflow to arrive at a net NTI outflow of just over \$4.7 billion¹⁰. Accordingly, if all counties imposed the tax and accepted deductions on the existing taxes paid to the county of residence, a 1 percent tax on the calculated net NTI outflow would yield approximately \$47.4 million.

Legislative Authority

This option would require new State legislation. Because most counties in the state would actually lose income tax revenue because of deductions, getting the required votes necessary to pass this measure presents a challenge.

Revenue Growth

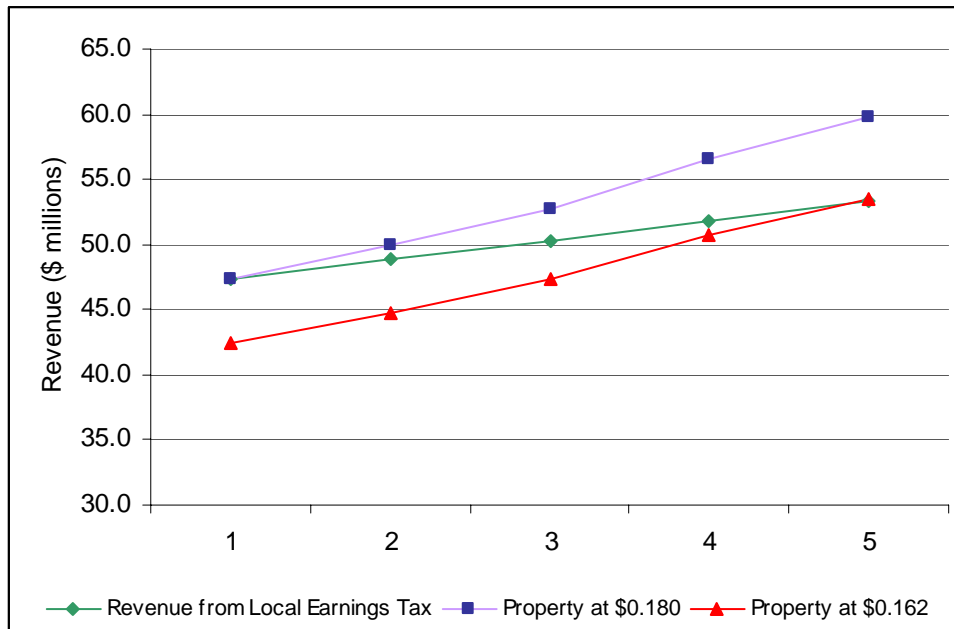
Because property tax revenue is projected to grow at a higher rate than income tax revenue, the property rate reduction allowed by this option had to be adjusted to compensate for growth disparity in the years following implementation. The following chart shows the growth rate assumptions used in this analysis:

Revenue Source	FY2009	FY2010	FY2011	FY2012	FY2013
Net Earnings Outflow	3.02%	3.02%	3.02%	3.02%	3.02%
Property Tax	5.44%	5.35%	5.63%	7.24%	5.61%

Using these growth rate assumptions, it was estimated that the revenue lost from a property tax reduction of \$0.162 would eventually catch up with the revenue generated by a 1 percent commuter tax by 2013. If the corresponding FY2009 reduction of \$0.18 (using the FY2009 one-percent yield estimate of \$2.625 million) is used, more revenue would be lost by the reduction than was created by the option beginning in FY2010, and the gap would continue to widen in

¹⁰ Figures slightly off due to rounding. Calculations did not use rounded figures.

following years. Revenue generated by a 1 percent commuter tax is compared to revenue lost by both property tax rate reductions in the following graph:



Impact on Taxpayers

This option would be tax-neutral for City and non-City taxpayers. However, many Maryland counties would lose revenue as a result of deductions taken against income taxes paid to their residents' place of work.

Economic Effects

The economic effect of this option would likely be less significant than that of a pure commuter tax (see option 10: "Commuter Tax") if it is kept tax-neutral for taxpayers.

Option 10: Income Tax on Commuters			
FY2009 Revenue Impact:	\$75.7 million	Tax Rate Impact:	\$0.24
Authorization Required:	State legislation		

Background and Description

This option differs from the local earnings tax (see Option 8) in that no deductions for taxes paid to the City are made to the taxpayer’s county of residence. The option would simply be a 1 percent tax on the wages of those who work but do not live in the City.

Revenue Impact

The estimated revenue generated by this option is based on the *outflow of earnings* from the BEA (see option 8, “Local Earnings Tax”). As in Option 8, the BEA’s earnings were adjusted to the City’s definition of NTI. It is important to note that while NTI includes earnings from investments and other sources of income that are not included as commuter earnings earned in the City. However, this conversion does discount BEA’s data on earnings significantly.

According to BEA data, commuters working in Baltimore took home earnings of \$12.3 billion in FY2005. Adjusted using a ten-year average growth rate in earnings outflow of 3.64 percent, the estimated FY2009 outflow of earnings is \$14.2 billion. If that figure is used without adjusting for exemptions and deductions, revenue from a 1 percent commuter tax would be approximately \$142.0 million. Converting BEA earnings data to NTI using the calculation cited in Option 8 yields a projected commuter NTI of \$7.57 billion for FY2009. Therefore, a rough estimate of the revenue generated by a 1 percent tax on commuter earnings is approximately \$75.7 million.

Legislative Authority

This option would require State legislation to authorize the City to impose an additional income tax on commuters working within its borders. Although the Counties would not be losing any revenue as a result of this option, their residents would see an increase in their net income taxes due.

Impact on Taxpayers

Baltimore City residents would enjoy the benefit of a reduced property tax rate without any additional tax obligation. Those who work but do not live in the City would carry the burden of the reduced tax rate based on the benefits they enjoy as a result of working in the City. Not surprisingly, commuter taxes in general are unpopular with residents living in the “bedroom communities” surrounding the City that imposes the tax, and this option would likely see similar opposition.

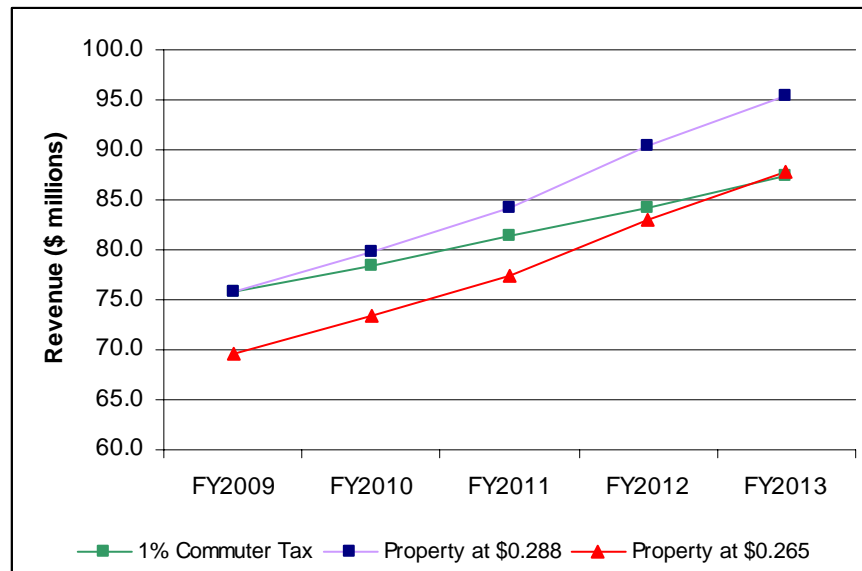
Revenue Growth

Because property tax revenue is projected to grow at a higher rate than income tax revenue, the property rate reduction allowed by this option had to be adjusted to compensate for growth disparity in the years following implementation. The following chart shows the growth rate assumptions used in this analysis:

**Projected Growth Rates
FY2009 to FY2013**

Growth Rate Projections					
Revenue Source	FY2009	FY2010	FY2011	FY2012	FY2013
Commuter Income	3.64%	3.64%	3.64%	3.64%	3.64%
Property Tax	5.44%	5.35%	5.63%	7.24%	5.61%

Using these growth rate assumptions, it was estimated that the revenue lost from a property tax reduction of \$0.265 would eventually catch up with the revenue generated by a 1 percent commuter tax by 2013. If the corresponding FY2009 reduction of \$0.288 (using the FY2009 one-cent yield estimate of \$2.625 million) is used, more revenue would be lost by the reduction than was created by the option beginning in FY2010, and the gap would continue to widen in following years. Revenue generated by a 1 percent commuter tax is compared to revenue lost by both property tax rate reductions in the following graph:



Economic Effect

Proponents of a commuter tax maintain that commuters receive a broad range of services from the City every day, including costly public safety services, and that they should contribute a portion of those costs. Opponents contend that commuters are net economic contributors to the City and should not be treated as a burden, and that a commuter tax could have a negative impact on the City’s ability to attract and retain jobs.

Option 11: Gaming Revenue			
FY2009 Revenue Impact:	\$45.86 million	Tax Rate Impact:	\$0.17
Authorization Required:	State legislation		

Background and Description

For several years, various Maryland governors and the State General Assembly have considered legalizing slots and casino gambling to augment state revenues and shore up the State’s ailing thoroughbred racing industry. With the State facing a significant budget deficit next year, slots in particular are being considered once again. Experts appearing before the Blue Ribbon Committee suggested that while the State’s need for revenue could potentially lead to adoption of limited gaming in Maryland, gaming revenue is not likely to be shared with localities in the absence of very effective advocacy (beyond possible limited impact payments for the actual cost of transportation and public safety personnel and infrastructure). There was consensus that local governments would not be permitted to institute any sort of gaming independently of the State.

Initially, the Committee discussed gaming revenue from slot machines and from casino table games, and considered each separately. In the Committee Recommendations and Ranking of Options section of this report, therefore, both are presented. By the end of its deliberations, however, the majority of the Committee clarified that it had presumed that the casino option included slots revenue as well. Therefore, this option describes both a slots-only and a combined slots and table game facility.

It is also important to note that when the Committee discussed and ranked both the slots gaming and casino table gaming options, a number of Committee members indicated that they were not necessarily in favor of either type of gaming being established in the City. However, many members, including some who were not in favor of slots or casinos, did express the opinion that if the State does decide to implement gaming as part of its strategy to generate additional revenue, the City should receive a share of gaming revenue beyond traditional impact fees. Therefore, this option is generally intended to be pursued only if the State implements gaming as part of its overall strategy.

Revenue Impact – Slots

Local government shares of slots revenue typically depend on four major factors:

- The number of slot machines;
- The number of days per year that those machines are in operation (usually 364 or 365);
- The “revenue per machine per day,” or the average daily deposits less daily payout to winners (typically 90-95 percent) from each machine daily;
- The rate of taxation designated as a local share.

Multiplying each of these factors creates the following formula:

$$\# \text{ of machines} \times \# \text{ of days} \times \text{revenue per machine per day} \times \text{tax rate} = \text{tax yield}$$

The amount of revenue generated by each slot machine varies widely based on population density (how many people live within driving distance of the venue), market saturation (the number of nearby gaming alternatives), type of venue (urban casino, rural riverboat, or other), the level of taxation, and other economic conditions. Tax rates vary widely from state to state. For example, Nevada has the highest number of machines in the country, easily available gaming, and a top tax rate of 6.75 percent for locations with gross revenue over \$134,000. In Illinois, which restricts gaming to specific locations and has far fewer locations but more concentrated population, the top rate is 70 percent (for gross revenues over \$250 million). The tax rates in most states cluster between 20 percent and 40 percent.

The local share in states adjacent to Maryland varies widely. New Jersey has no local share, although a portion of gross revenues is deposited into a Casino Reinvestment Fund to which governments statewide can apply for housing and economic development grants. Delaware also has no local share of gaming revenue.

Pennsylvania's nascent slots gaming industry is taxed somewhat differently in each jurisdiction. For Philadelphia, a combined city and county like Baltimore, the local government will receive 4 percent of gross revenues annually. Philadelphia will also benefit from the state's expenditure of gaming-supported Tourism & Economic Development Fund monies to cover the debt service on approximately \$600 million spent to expand the City's convention center and from a separate appropriation to reduce the City's 4.26 percent wage tax by 13 percent. Pittsburgh, in contrast, will receive 2 percent of gross revenues annually or \$10 million from its slots venue, whichever is greater. Allegheny County, in which it is located, will receive an additional 2 percent annually. Both entities will also receive significant funds from the Tourism & Economic Development Fund and possibly monies for school property tax reduction.

For illustrative purposes, the Blue Ribbon Committee's consultant created a hypothetical funding structure in which a 364-day slots operation in Baltimore had 2,500 machines generating \$300 per machine per day in gross revenue. At a 12 percent tax rate, the same rate the City of Detroit receives in Michigan, Baltimore would receive \$32.76 million per year. This is a gross figure, and does not include any costs to the City for transportation improvements, increased permitting and law enforcement costs, or related expenses. This figure also does not take into account any replacement of other amusement expenditures with gaming, since the City currently receives minimal revenue from amusement-related taxes and fees.

Revenue Impact – Table Games

During the Committee's discussion of gaming alternatives, some members suggested that casino gaming – meaning venues featuring table games in addition to slot machines – could be more lucrative and might be a more acceptable and productive option for Baltimore than just slot machines. Reasons for that preference include:

- Casinos with table gaming generally appeal to a broader base than slots-only facilities. A facility that attracts users from diverse economic backgrounds is generally more progressive than one limited to a smaller spectrum of clients.
- Full casino gaming can attract more out-of-state dollars. Slots-only venues tend to draw a larger percentage of local residents.

- Neighboring states are likely to establish full casino gaming in the near future. To compete, Maryland would have to offer table gaming in addition to slots.
- Casinos with table gaming require more staff to operate – thus creating more employment opportunities for City residents. In addition, staff positions for table games are generally higher paid than those positions required by a slots-only facility.
- Full casinos can be more effectively packaged with other tourist attractions and accommodations such as entertainment venues, hotels, and resorts.

Local government shares of table gaming revenue typically depend on four major factors:

- The number of positions (i.e. seats for gamblers) at tables;
- The number of days per year that those tables are active (usually 364 or 365);
- The “revenue per position” per day or the average daily deposits less daily payout to winners;
- The rate of taxation designated as a local share.

Multiplying each of these factors creates the following formula:

$$\# \text{ of positions } \times \# \text{ of days } \times \text{ revenue per position per day } \times \text{ tax rate } = \text{ tax yield}$$

Outside of Atlantic City, Las Vegas and the nation’s many Native American gaming venues, table gaming is less prevalent than slots gaming in much of the United States. The City of Detroit is one of the only urban locations similar to Baltimore that has significant comparable table gaming experience.

Therefore, for illustrative purposes the Blue Ribbon Committee’s consultant created a simple hypothetical funding structure in which a 364-day casino gaming operation in Baltimore had 500 positions generating \$600 per position each day in gross revenue. At a 12 percent tax rate, the same rate the City of Detroit receives in Michigan, Baltimore would receive \$13.10 million per year from table gaming alone.

Therefore, the combined revenue from a slots and table gaming operation in Baltimore was assumed to be \$45.86 million. As noted above, this is a gross figure, and does not include externalities, amenity costs, or tax replacement impact. In addition, the figure does not reflect the greater economic impact offered by full-casino gaming.

Legislative Authority

State approval would be needed for any type of gaming in Baltimore.

Impact on Taxpayers

While there would be no direct impact on resident or business taxpayers generally, social costs and nearby facility impacts could affect residents who gamble and any residents and businesses in the immediate vicinity of gaming facilities. Most states with gaming establish tax-supported entities to address these issues.

Revenue Growth

Gaming revenues are somewhat elastic, and fluctuate with economic conditions.

Economic Effect

While evidence is not conclusive, some believe that gaming partially replaces other available local entertainment options. Since the City of Baltimore receives relatively limited revenue from entertainment, any such negative impact would be modest.

Option 12: Impose Transfer and Recordation Taxes on Controlling Interest Transfers			
FY2009 Revenue Impact:	\$4.7M	Tax Rate Impact:	\$0.02
Authorization Required:	State legislation		

Description

In the State of Maryland, property transfers are subject to a 0.5 percent state transfer tax, plus additional transfer taxes, if any, levied by the county government. In the City of Baltimore, the transfer tax rate is 1.5 percent. In addition, a recordation tax of \$5 for each \$500 paid (which equates to 1 percent of the sale price) is imposed by the City and collected by the State.

Currently, when real property is held under a separate corporate entity or controlling interest, the real property conveyed with the transfer of ownership in the controlling interest is not subject to transfer or recordation taxes. In addition, the sale of property through the transfer of a controlling interest is not recorded and therefore the value of the transferred property is not readily available to State Dept. of Assessments and Taxation (SDAT), making it difficult to arrive at accurate property assessments. The lack of current, accurate and verifiable data on commercial and large multi-family residential market values results in these properties being under-assessed and potential property tax revenues are never realized.

This option addresses the imposition of the transfer and recordation taxes only. See Option 14, “Require All Transferred Property to be Reported to SDAT,” for further analysis.

Revenue Potential

According to the Fiscal and Policy Note prepared by the State’s Office of Legislative Services in conjunction with pending state legislation (HB 475 and SB 616, introduced in 2007), the City of Baltimore would receive approximately \$4.7 million in transfer and recordation taxes in FY2009 if all property transferred through transfers of controlling interest was subject to those taxes, with the following requirements:

- 1) The transferred entities must have assets of which at least 80 percent is comprised of real property.
- 2) That property must have an aggregate value of at least \$500,000.

Legislative Authority

The City is currently limited by State legislation in its ability to collect transfer and recordation taxes for transfers of controlling interests. Several attempts have been made to change existing State law in this area, but none have been successful thus far.

The most recent attempt was in the 2007 session, through HB 475 and SB 616.¹¹ The House version of the bill passed with a vote of 101-35 but the bill did not pass in the Senate. However,

¹¹ The bills also required additional that local revenue generated by those taxes be dedicated to public school construction and would have required such transfers to be publicly recorded and submitted to SDAT within 30 days. Obviously, different language would be needed in order to allow the City of Baltimore to use proceeds for property tax reduction.

the Governor recently announced that he is supporting the taxation of controlling interest transfers as part of his overall tax plan to close a looming \$1.7 billion State budget deficit. With legislative leaders lining up to support many elements of the Governor's plan, it appears likely that this particular measure will be approved by the General Assembly in the upcoming legislative session.

Effect on Taxpayers

This option would have no direct effect on the majority of City taxpayers other than the corresponding reduction in the property tax rate it allows. Partnerships, LLCs and other corporate structures that transfer property through a change in controlling interest would have to pay transfer and recordation taxes like all others who do not create LLCs but rather transfer property in the traditional manner. In addition, the full value of the real property involved in the transfer would be recorded by SDAT and used for purposes of assessment. Making these transfers and the underlying property values more transparent would likely result in higher property assessments; thereby increasing property tax liabilities for the affected properties (see Option 13, "Uncover Value of Property Transfers Currently Unrecorded.")

Revenue Growth

Transfer and recordation tax revenue growth can be volatile, as the number of real estate transactions that drive such revenues can vary widely from year to year. The City's Finance Department estimates future growth of just over 1 percent per year for both revenue sources, with the expectation that actual growth could stray from that estimate significantly. If the City wanted to employ a more conservative approach to a rate reduction associated with the implementation of this option, a reduction of \$0.01 might be used rather than \$0.02 as a cushion for unexpected market changes or for the effect of the option itself.

Economic Effects

The economic effects of this option are potentially significant. The fact that high-value properties can be transferred without being recorded by SDAT and without paying transfer or recordation taxes makes Maryland somewhat more attractive to potential companies seeking to buy large properties in the State. On the other hand, shielding these transactions from transfer and recordation taxes places an unfair and higher burden on the many owners of commercial and residential properties that are recorded and pay the full tax levies due.

Option 13: Require All Transferred Property to be Reported to SDAT			
FY2009 Revenue Impact:	\$4.0	Tax Rate Impact:	\$0.015
Authorization Required:	Amendment to State Legislation		

Background and Description

As noted previously (see Option 12, “Impose Transfer and Recordation Taxes on Controlling Interest Transfers”), the value paid for properties transferred as part of a controlling interest transfer is not required to be recorded in land records and submitted to the Maryland State Department of Assessment and Taxation (SDAT). Without the disclosed value paid for these properties, SDAT does not have the market and property data it needs to accurately assess property values. As a result, large properties can be significantly undervalued; which undermines the goal of having uniform, fair and equitable assessments, and robs local governments of needed tax revenues.

Revenue Potential

Because the values of controlling interest transfers are not officially and consistently recorded, it is difficult to determine the FY2009 revenue potential of this option with any certainty. It is possible to examine several scenarios to develop some understanding of its potential impact. The following table shows the revenue impact using two variables to create 30 different scenarios. The first unknown variable is the market value of the property being transferred without being reported to SDAT each year. The second variable is the percentage of the market value that is included in the assessed value.

Revenue Lost Due to Underassessment All Figures in Dollars

Market Value Of Property	Revenue Lost by Percentage of Market Value Included in Assessment				
	80%	70%	60%	50%	40%
50,000,000	226,800	340,200	453,600	567,000	680,400
100,000,000	453,600	680,400	907,200	1,134,000	1,360,800
200,000,000	907,200	1,360,800	1,814,400	2,268,000	2,271,600
300,000,000	1,360,800	2,041,200	2,712,600	3,402,000	4,082,400
500,000,000	2,268,000	3,402,000	4,536,000	5,670,000	6,804,000
1,000,000,000	4,536,000	6,804,000	9,072,000	11,340,000	13,608,000

The last scenario shown in the chart assumes that \$1 billion of property is unrecorded by SDAT because it is transferred as part of a controlling interest. If the assessed value is 80 percent the market value of the property, the unrealized revenue would be approximately \$4.5 million. If the assessed value is just 40 percent of the market value, the revenue potential of this option would be approximately \$13.6 million.

Legislative Authority

This option would require State legislation mandating that the value of real property transferred as part of a controlling interest sale be recorded and reported to SDAT.

Effect on Taxpayers

This option would have no direct effect on the majority of City taxpayers other than the corresponding reduction in the property tax rate it allows. However, requiring such property transfers to be recorded and submitted to SDAT would likely result in higher, more accurate property assessments, thereby increasing property tax liabilities for the affected properties.

Revenue Growth

See Option 12, “Impose Transfer and Recordation Taxes on Controlling Interest Transfers”

Economic Effects

See Option 12, “Impose Transfer and Recordation Taxes on Controlling Interest Transfers”

Option 14: Further State Department of Assessment & Taxation (SDAT) Improvement			
FY2009 Revenue Impact:	\$4.0 million	Tax Rate Impact:	\$0.015
Authorization Required:	State legislation, City Council action with Mayoral approval		

Background and Description

Maryland’s Department of Assessment and Taxation (SDAT) is responsible for the triennial assessment of over two million property accounts throughout the State. The Department has offices in each county and in the City of Baltimore, and each office is responsible for assessments in their political subdivision. Baltimore City is divided into three assessment groups, and one group is assessed each year to complete the triennial assessment cycle.

Tax-Property Article §8-104(c) of the Maryland Code states that properties can be assessed or reassessed out-of-cycle if any of the following occur:

1. The zoning classification is changed at the initiative of the owner or anyone having an interest in the property;
2. A change in use or character;
3. Substantially completed improvements (new construction) are made which add at least \$50,000 in value to the property;
4. An error in calculation or measurement of the real property caused the value to be erroneous;
5. A residential use assessment is terminated pursuant to § 8-226 of this title; or
6. A subdivision occurs. For purposes of this subsection, "subdivision" means the division of real property into 2 or more parcels by subdivision plat, condominium plat, time-share, metes and bounds, or other means.

Assessments for new construction are completed quarterly on October 1, January 1, April 1, and July 1. All other out-of-cycle assessments are completed for the full year beginning July 1.¹²

There can be a significant lag between a project’s completion and its out-of-cycle assessment. As a result, a portion of the increased tax revenue due to new construction cannot be realized until the second year of the assessment phase-in. This is due at least in part to both a lack of coordinated communication and data-sharing between SDAT’s assessors and the City and a lack of sufficient SDAT resources.

At one of its meetings, officials from SDAT described the assessment process to the Committee. The Committee also heard from John Hentschel, author of a study of SDAT practices with recommended improvements. A subgroup of the Committee met with representatives from City

¹² Source: Maryland State Department of Assessment and Taxation

departments including Housing, Law, Public Works, Finance, and the Mayor's Office to discuss permit and property information technology systems in the City and how to improve communications with SDAT. Several recommendations for change were made, including:

- The City should begin providing Use & Occupancy permit issuance notification to SDAT on a regular basis and should track the status of SDAT's response, at least on the highest priority projects.
- A group of representatives from the Finance and Law Departments, the Mayor's Office, and the Mayor's Office of Information Technology should meet to discuss further whether the City would like to pursue developing the capacity to analyze assessment data on a regular basis and, if so, to identify the next steps for moving forward.
- As part of that effort, the City should consider whether it can and should pursue its own "negative appeals" to low property assessments, possibly by hiring a consultant to analyze properties it believes may be under-assessed and should be the subject of negative appeals.
- The City should establish a working group of representatives from relevant City agencies and officials from SDAT to meet on a regular basis (perhaps quarterly) to discuss issues, facilitate access to information, and also to review SDAT's performance relative to lag time on out-of-cycle reassessments. The City might be able to use this forum to help prioritize SDAT's workload, in terms of getting out to newly constructed projects for reassessments.
- Part of that effort could also consist of working with SDAT to ensure that the Homestead credit is only applied to properties that qualify for that benefit.
- It might be in the City's best interest to provide direct funding for additional SDAT Assessors for Baltimore. To the extent that this is possible, an increased SDAT staffing complement could allow the Department to more accurately assess property values in the City. In turn, the increase in the real property base would yield higher property tax revenues that could pay for the City's investment in SDAT. Any return above that investment would be devoted to property tax relief.
- Finally, the City should consider pursuing legislation to allow reassessment of commercial properties annually to more closely link assessed values with sales prices (some expressed reservations about the effect of more frequent assessments in a flat or declining real estate market).

As implied by these recommendations, the Committee focused its efforts on large commercial properties because of their high value and because they are not subject to the Homestead cap on increases in assessed value.

Revenue Impact

Existing data does not allow for an accurate estimate of property tax revenue lost due to the untimely reassessments of properties with new construction projects. It is possible however to create scenarios that can illustrate how reassessment delays and market changes can significantly affect tax revenue.

The following table compares a scenario in which property with a newly constructed building is reassessed immediately with a scenario in which there is a nine month delay in reassessment. If the full cash value is determined to be \$250 million and there is a nine month delay in assessment, the City realizes just 25 percent of the potential revenue that would have been due in the first year of the assessment phase-in. This occurs because without the immediate reassessment the City is not owed the increased taxes for the first nine months of the first phase-in year.

\$250 Million New Building				
Year	1	2	3	Total
Assessed Value	250,000,000	250,000,000	250,000,000	
Phase-In Value	155,000,000	202,500,000	250,000,000	
Tax Rate	2.2680%	2.2680%	2.2680%	
Tax Due	3,515,400	4,592,700	5,670,000	13,778,100

\$250 Million New Building, 9 Month Delay				
Year	1	2	3	Total
Assessed Value	250,000,000	250,000,000	250,000,000	
Phase-In Value	38,750,000	202,500,000	250,000,000	
Tax Rate	2.2680%	2.2680%	2.2680%	
Tax Due	878,850	4,592,700	5,670,000	11,141,550
Difference	(2,636,550)	0	0	(2,636,550)

For the purposes of this Committee, a conservative revenue estimate of \$4.0 million was used for this option. This includes revenue generated by reduced delays in out-of-cycle reassessments and appealing underassessed large commercial properties.

Legislative Authority

The subcommittee's recommendations to enhance the City's communications SDAT and encourage data-sharing would not require legislative action from the City or the State. Increasing SDAT staffing or funding would require action from the State.

Impact on Taxpayers

If an improved assessment process were to fulfill its goal of producing more accurate property assessments and if properties with very high values were targeted by the City for potential appeal, individual taxpayers would enjoy the benefit of a reduced property tax rate without seeing substantial change in the assessed value of their own residential property. If such improvements to the assessment process yielded higher assessed values for all properties, the

City should be able to reduce the property tax rate in a way that makes the option tax-neutral (on average) for most taxpayers.

Option 15: Aggressive Vacant Property Strategy			
FY2009 Revenue Impact:	\$850,000	Tax Rate Impact:	\$0.004
Authorization Required:	Fees can be adjusted by the Board of Estimates		

Background and Description

Baltimore currently has an estimated 17,000 vacant or abandoned properties. Vacant property presents several problems:

- **Vacant and abandoned property can have a negative impact on property values in the surrounding neighborhood.** In turn, lower property values directly impact property tax revenue. Additionally, these areas are less attractive to potential developers and homeowners, thus the problem exacerbates itself.
- **Vacant property can invite crime and be a detriment to neighborhood quality of life.** This increases City expenditures for public safety, housing, code enforcement, and other City services that must be paid for by all citizens.
- **Owners of vacant or abandoned properties are less likely to pay property taxes.** This forces the tax burden on responsible property owners.

Municipalities across the country have developed numerous solutions to combat the growth of vacant property rates and stimulate the development and redevelopment of unproductive property. In 2006, the United States Conference of Mayors published a report entitled *Combating Problems of Vacant and Abandoned Properties*, which cites best practices in use in 27 cities.¹³ Selected best practices include:

- **Aggressive Vacant or Abandoned Building Fees** – Some cities, including Albany, NY; Burlington, VT; Chicago, IL; and Wilmington, DE have established an aggressive fee schedule for vacant properties. Burlington, for example, charges \$50 per day if a property owner fails to make a building safe within a given time period, and the City will do the necessary work and place a lien for the cost on the property. These actions can be in addition to public nuisance actions brought to the Superior Court or criminal charges in District Court. In Chicago, the police department can issue fines of \$1,000 per day for failure to secure a vacant building, with a cap of \$50,000. The City of Wilmington increased vacant property registration fee revenue from \$7,875 in FY2003 to \$446,000 in FY2005 by establishing an aggressive fee schedule.
- **Land Bank Initiatives** – Through special state legislation, the City of Dallas, TX was authorized to identify and assemble clusters of properties for tax foreclosure to be sold at below market prices to affordable housing developers. Properties were purchased with voter-approved property acquisition bonds, and title companies and law firms have helped the program by providing pro bono services. Land bank programs in Dallas and in other cities seek to revitalize neighborhoods, encourage development, and ultimately

¹³ The report was published by the United States Conference of Mayors in June 2006 and is available online at: http://www.usmayors.org/uscm/best_practices/vacantproperties06.pdf.

decrease government spending and increase fee and property tax revenue. The Dixon Administration has recently released for public comment an ambitious Land Bank Initiative for the City of Baltimore.

Revenue Impact

The City of Baltimore's Housing Code Enforcement Division issues code violations and monitors the corrective actions taken by property owners. Fines of up to \$500 per day can be issued for non-compliance. District Court housing fines generated approximately \$50,000 in revenue in FY2007. In addition, all non-owner-occupied residential property (including unoccupied property and property deemed unfit for habitation) must be registered and each owner must pay a registration fee of \$30 per dwelling unit. Revenue from these registration fees totaled approximately \$1.6 million in FY2007. That is in addition to the estimated \$2.5 million in multi-family dwelling permit fees, charged to property owners at rates of \$35 per dwelling unit plus \$25 per rooming unit. Finally, the City collected \$48,000 in vacant lot registration fees, paid at \$25 per lot.

As part of a more comprehensive analysis of the City's fee structure, these specific housing fees and fines should be examined to determine whether the City's costs of monitoring, citing, and prosecuting property owners are being fully recovered. The \$30 annual fee for rental property registration, for example, might be increased or modified so that owners of unoccupied property bear more of the cost. In Wilmington, property owners pay annual fees depending on the length of time a property has been vacant, starting at \$500 for one year and rising to \$5,000 for ten years and another \$500 for each additional year. If Baltimore collected a similar minimum \$500 fee from just 10 percent of its 17,000 vacant properties, it would generate \$850,000 in revenue. It is important to note, however, that many vacant properties are owned by the City or other government agencies, or may already be delinquent and in the foreclosure process. Therefore, in addition to generating revenue, a secondary goal of this option would be to rehabilitate and occupy the properties and to increase the City's overall property tax base.

A land bank program could help the City get delinquent properties back on the tax rolls and spur the growth of neighborhood property values. A combination of funds could be used to purchase groups of foreclosed properties for sale to affordable housing developers. While the return on investment might not be realized immediately, increased property tax revenue due to higher property values and collection rates could be used in concert with fee and fine revenue to fund the initiative and also to contribute to the City's General Fund and allow for future decreases to the property tax rate.

Legislative Authority

Fees can be adjusted by the City's Board of Estimates. A land bank program may require new state legislation.

Impact on Taxpayers

Taxpayers in affected neighborhoods would benefit from increased property values, and if the City maintains a revenue-neutral strategy all taxpayers would likely benefit from a slightly reduced property tax rate. In addition, taxpayers would benefit from lower crime rates and overall neighborhood revitalization.

Revenue Growth

Fees related to vacant properties could be adjusted to increase according to the growth in the City budget. If the program were to succeed, over time fee revenue should decrease as property tax revenue from redeveloped property increases. Similarly, a successful land bank program (as has recently been proposed) would encourage development and thus increase the City's property base.

Economic Effect

A comprehensive strategy aimed at the redevelopment of vacant and abandoned properties could produce tangible economic enhancements for the City and its neighborhoods. Increased property values, lower crime rates, potential community investment, and an overall increase in the quality of life in Baltimore could help trigger additional investment and start a cycle of growth that could help the City realize its potential to compete nationally as a place to live and work.

Option 16: State Assumes Additional Functions			
FY2009 Revenue Impact:	Varies	Tax Rate Impact:	Varies
Authorization Required:	State Action required		

Background and Description

Maryland counties receive a variety of types of aid from the State. Among other items, the State provides funding for county Community Colleges, policing, fire and rescue, open space, and other functions. The State also funds the employer's share of retirement costs for teachers, librarians, and community college faculty. Baltimore is one of nine counties that receive a "disparity grant" from the State, intended to provide additional support for counties with income tax receipts below 75 percent of the state average. For the City of Baltimore, the State also operates the Detention Center and Central Booking Facility, and pays for the full costs of the Community College of Baltimore. As a partial offset, the City receives a State police grant smaller than that provided to other counties. The major sources of state aid to the City are shown in the tables below:

Total Direct State Aid to Baltimore City Estimated FY2008

Income Tax Disparity Grant	\$78,160,000
Security Interest Filing Fees	\$2,925,000
Police Protection Aid	\$85,000
Local Health Operations	\$12,712,000
Public Utility De-Regulation Grant	\$453,000
Library Services	\$6,594,000
War Memorial	\$180,000
Total Direct State Aid	\$101,109,000

Source: City of Baltimore FY2008 Budget

State-Assumed Functions in Baltimore City Estimated FY2008

Detention Center & Central Booking and Intake Facility	\$126,235,988
Baltimore City Community College	\$40,197,646
Total State Assumed Functions	\$166,433,634

Source: State of Maryland FY2008 Budget
Includes General Fund operating support only

State Support for Baltimore City Public Schools Estimated FY2008

All State Sources	\$813,989,438
Total State Assumed Functions	\$813,989,438

Source: Baltimore City Public Schools FY2008 Proposed Budget
Includes General Fund operating support only

The Committee specifically discussed two functions that might be considered for transfer to the State. The first, the State's Attorney's Office, is budgeted at \$25.7 million in FY2008. The second function is the Circuit Court, for which the City budgeted \$8.5 million in expenditures in FY2008.

**Potential Additional State-Assumed Functions in Baltimore City
Estimated FY2008**

State's Attorney	\$25,700,000
Circuit Court	\$8,500,000
Total State Assumed Functions	\$34,200,000

Source: City of Baltimore

Summary of Revenue Options

Option	Description	FY2009 Revenue Production Capacity (\$ millions)	Approximate Impact on Tax Rate	Legislative Action Required
Increase Homestead Credit Cap	Raise the cap incrementally above the current 4% to as much as 10%	\$4.2 to \$24.2	\$0.02 to \$0.09 Depending on Structure	Council Approval and Action from the Mayor
Raise Income Tax	Increase current rate for City residents from 3.05% to 3.20%	\$12.1	\$0.045	Council Approval and Action from the Mayor
Increase Hotel Tax	Raise current hotel tax rate from 7.5% to 10%	\$4.1	\$0.016	Council Approval and Action from the Mayor
Undertake Comprehensive Fee Study and Update Fee Structure	Review current fees and charges for full cost recovery, regional and national comparables, commit to regular inflationary adjustments	\$1.0	\$0.004	Council Approval and Action from the Mayor
New Sanitation Fee	Fund residential solid waste collection from a fee rather than property tax	\$14.0 (based on FY2008 estimated costs)	\$0.050	Council Approval and Action from the Mayor
New Local Option Sales Tax	1% tax on sales in Baltimore City only	\$64.4	\$0.236	Amendment to Maryland State Code/New Legislation
New Regional Sales Tax	1% tax on regional sales, implemented in lieu of a local option sales tax	\$63.1	\$0.230	Amendment to Maryland State Code/New Legislation
New Local Earnings Tax	An additional 1% tax on wages earned in the City. This would be a statewide option for all counties. The 1% income tax would be deducted from an individual's "piggyback" income tax paid to his or her county of residence.	\$47.4 includes deductions from City residents working in other counties	\$0.162	Amendment to Maryland State Code/New Legislation
Income Tax on Commuters	1% tax on the wages of those who work in the City, but do not live in Baltimore	\$75.7	\$0.240	Amendment to Maryland State Code/New Legislation
Slots Options	Secure local revenue from slot machine gambling	\$32.8	\$0.120	Amendment to Maryland State Code/New Legislation
Casino Options	Secure local revenue from casino gaming	\$45.9	\$0.170	Amendment to Maryland State Code/New Legislation
Impose Transfer Tax on LLC Transactions	Make property transfers between LLCs subject to the transfer tax	\$4.7	\$0.020	Amendment to Maryland State Code/New Legislation
Uncover Value of Property Transfers Currently Unrecorded	Require LLC property transfers to be publicly recorded and available to SDAT, City	\$4.0	\$0.015	Amendment to Maryland State Code/New Legislation
Further SDAT Improvement	Reduce time to register real estate transactions; provide additional staff and expert resources to SDAT	\$4.0	\$0.015	New state legislation
Non-Profit Strategy	Meet periodically with nonprofit organizations to discuss and negotiate payments; improve the Live Near Your Work Program	NA	NA	
Vacant House Tax or Fee	A tax or fee on vacant homes	NA	NA	

V. COMMITTEE RECOMMENDATIONS

Recommendations of the Blue Ribbon Committee

During the Blue Ribbon Committee's deliberations members made a variety of recommendations, including specific evaluation of options that could generate funds to be used to reduce the property tax rate, and other initiatives that might provide resources in the long run. Some of the latter recommendations have been discussed elsewhere in the report, but are grouped here to provide a comprehensive presentation of the Committee's conclusions.

General Recommendations

- The City of Baltimore should set a goal of reducing its current property tax rate of \$2.268 cents per \$100 of assessed value to 150 percent of the average rate of the counties surrounding the City. At 2007 property tax rates, this would set the current goal at \$1.549 cents per \$100 in assessed value, or \$0.7194 cents less than the current City rate.
- Revenue generated from the initiatives suggested by the Blue Ribbon Committee should be dedicated to property tax relief, and not diverted to fund other operating, capital or policy priorities. The prevailing opinion among Committee members is that the current high property tax rate has a stifling effect on the City's ability to grow the tax base.
- The Mayor should appoint an independent group, similar to this Blue Ribbon Committee, to investigate the potential for cost cutting, operational changes and program consolidations that will permit the City to reduce expenditures and further assist the effort to reduce the City tax rate.

Committee Evaluation of Funding Options

At the Committee's September 5, 2007 meeting, members filled out paper forms that allowed them to evaluate the options presented in the previous section of this report. Estimated revenue that could be generated by each option in FY2009 was provided so that choices could be made that would reach the \$0.7194 property tax reduction goal.

Committee members were asked to rank 17 revenue options¹⁴ based on both feasibility and overall desirability (the level of support they gave each option without regard to feasibility). The survey consisted of two questions, each with five possible answers. Members were asked to determine both the desirability and feasibility of each option. For feasibility, the choices were:

- Very Unfeasible
- Somewhat Unfeasible
- Unsure/Undecided
- Somewhat Feasible
- Very Feasible

¹⁴ The two gaming revenue options were later combined, leaving 16 options.

For desirability, the choices were:

- Strongly Opposed
- Somewhat Opposed
- Unsure/Undecided
- Somewhat in Favor
- Strongly in Favor

The format and scoring used follows:

How easily can this be done? (Check One)					Do you support or oppose this action? (Check One)				
Very Unfeasible	Somewhat Feasible	Unsure/Undecided	Somewhat Feasible	Very Feasible	Strongly Opposed	Somewhat Opposed	Unsure/Undecided	Somewhat In Favor	Strongly In Favor
-2	-1	0	1	2	-2	-1	0	1	2

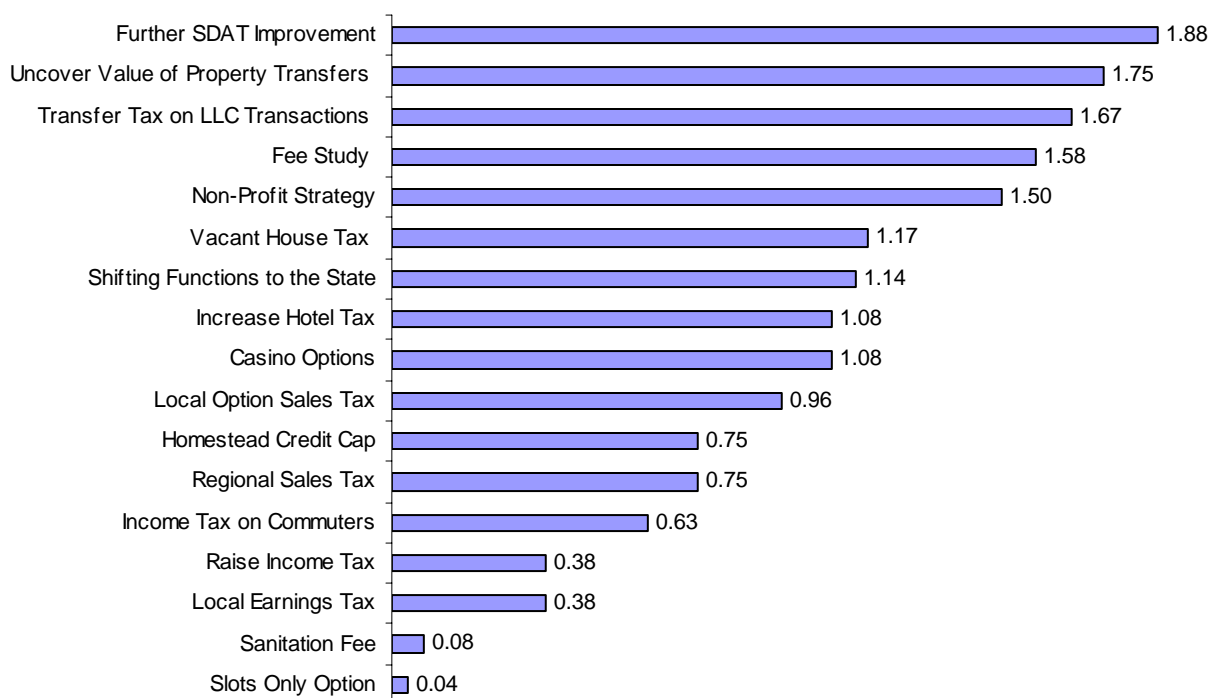
At the September 4 meeting, twenty-one members of the Committee or their alternates were present and filled out the evaluation forms. Subsequently, an additional three members of the Committee provided their forms. The results below, therefore, reflect the input of twenty-four of the twenty-six Committee members, or over 92 percent.

The results were tallied using the average, median (the middle of the distribution), and mode (most common value). In general, options ranked higher in overall support than feasibility. While nine of the seventeen options ranked (using an average) somewhere between “somewhat in favor” and “strongly in favor” on the support scale, seven ranked within (but significantly lower within) the same range on the feasibility scale.

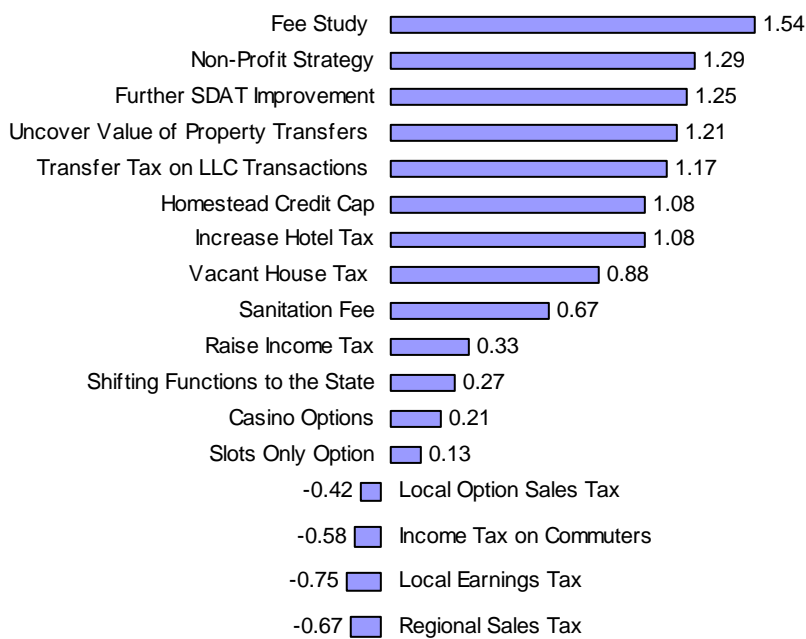
While the included charts only show values as averages of all responses, a table is included that shows the mode and median values as well. These different statistical representations can help to illustrate cases in which responses were widely distributed versus cases in which the Committee was largely in agreement.

The next two graphs show the results separately by overall support and feasibility, again as averages of the responses.

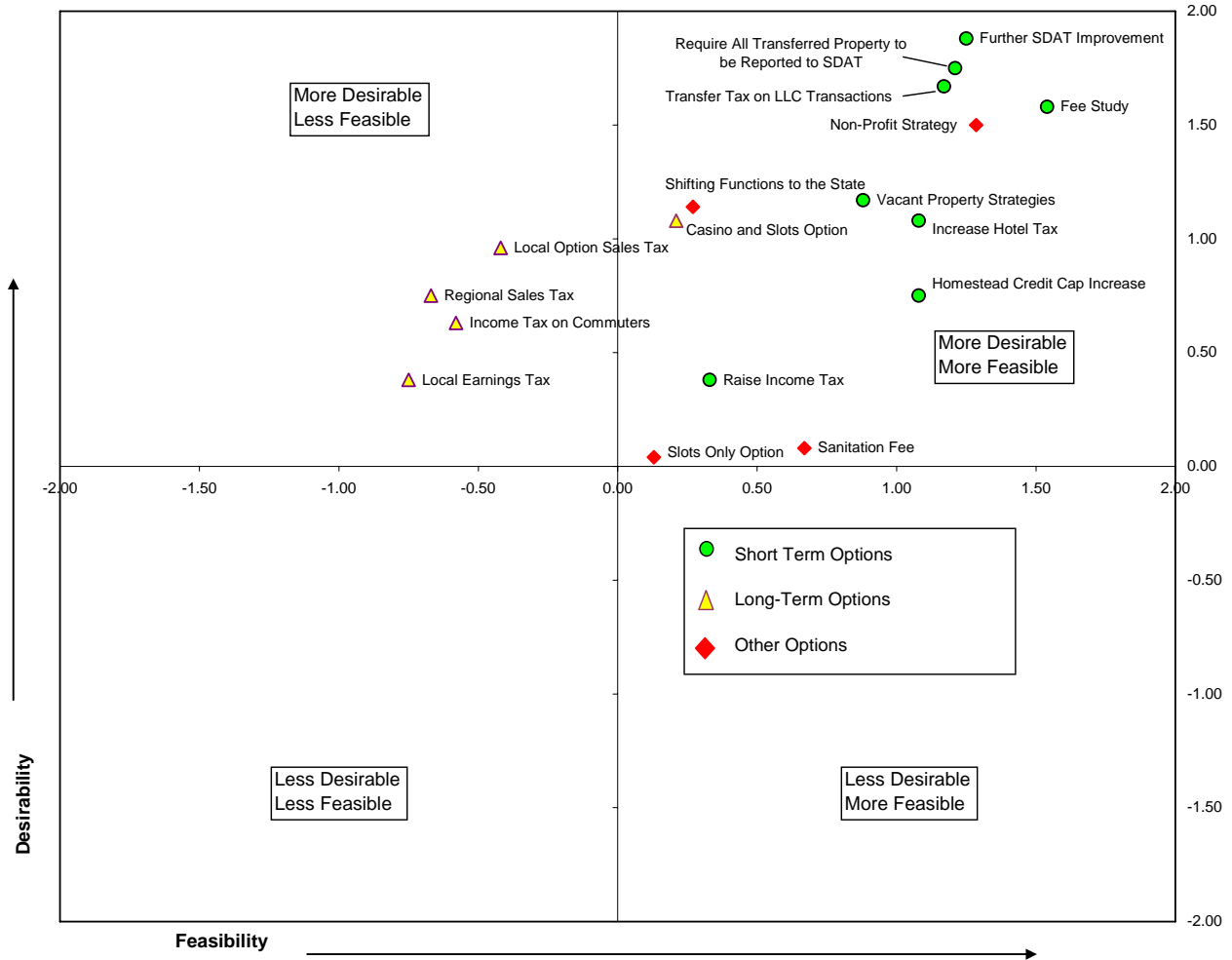
Average Support Rankings



Average Feasibility Rankings



The following matrix plots the results of both desirability and feasibility. The upper right quadrant contains those options that the Committee believed to have both positive desirability and positive feasibility. Note that the no option had an average desirability rating below zero.



Note: Initially, a distinction was made between "Slots Options" and "Casino Options." Committee members on average preferred pursuing an option in which table gaming was included along with slots, rather than a slots-only venue. This preference is reflected in the results of the poll. In its final deliberations, the Committee clarified that if gaming comes to Maryland, it prefers a combined slots and table gaming facility, as described in Option 11.

Complete Results

Option	Description	How easily can this be done?					Do you support or oppose this option? (check one)				
		Very Unfeasible	Somewhat Unfeasible	Unsure/ Undecided	Somewhat Feasible	Very Feasible	Strongly Opposed	Somewhat Opposed	Unsure/ Undecided	Somewhat In Favor	Strongly In Favor
		-2	-1	0	1	2	-2	-1	0	1	2
Increase Homestead Credit Cap	Raise the cap incrementally above the current 4% to as much as 10%	Average: 1.08 Median: 1.5 Mode: 2					Average: 0.75 Median: 1 Mode: 2				
Raise Income Tax	Increase current rate for City residents from 3.05% to 3.20%	Average: 0.33 Median: 1 Mode: 2					Average: 0.38 Median: 0.5 Mode: 2				
Increase Hotel Tax	Raise current hotel tax rate from 7.5% to 10%	Average: 1.08 Median: 1 Mode: 1					Average: 1.08 Median: 2 Mode: 2				
Undertake Comprehensive Fee Study and Update Fee Structure	Review current fees and charges for full cost recovery, regional and national comparables, commit to regular inflationary adjustments	Average: 1.54 Median: 2 Mode: 2					Average: 1.58 Median: 2 Mode: 2				
New Sanitation Fee	Fund residential solid waste collection from a fee rather than property tax	Average: 0.67 Median: 1 Mode: 1					Average: 0.08 Median: 0.5 Mode: 1				
New Local Option Sales Tax	1% tax on sales in Baltimore City only	Average: -0.42 Median: -1 Mode: -1					Average: 0.96 Median: 1.5 Mode: 2				
New Regional Sales Tax	1% tax on regional sales, implemented in lieu of a local option sales tax	Average: -0.67 Median: -1 Mode: -2					Average: 0.75 Median: 1 Mode: 1				
New Local Earnings Tax	An additional 1% tax on wages earned in the City. This would be a statewide option for all counties. The 1% income tax would be deducted from an individual's "piggyback" income tax paid to his or her county of residence.	Average: -0.75 Median: -1 Mode: -2					Average: 0.38 Median: 1 Mode: 1				
Income Tax on Commuters	1% tax on the wages of those who work in the City, but do not live in Baltimore	Average: -0.58 Median: -1 Mode: -2					Average: 0.63 Median: 1 Mode: 2				
Slots Options	Secure local revenue from slot machine gambling	Average: 0.13 Median: 0 Mode: 1					Average: 0.04 Median: 0 Mode: 2				
Casino Options	Secure local revenue from casino gaming	Average: 0.21 Median: 0.5 Mode: 1					Average: 1.08 Median: 2 Mode: 2				
Impose Transfer Tax on LLC Transactions	Make property transfers between LLCs subject to the transfer tax	Average: 1.17 Median: 1 Mode: 2					Average: 1.67 Median: 2 Mode: 2				
Uncover Value of Property Transfers Currently Unrecorded	Require LLC property transfers to be publicly recorded and available to SDAT, City	Average: 1.21 Median: 1.5 Mode: 2					Average: 1.75 Median: 2 Mode: 2				
Further SDAT Improvement	Reduce time to register real estate transactions; provide additional staff and expert resources to SDAT	Average: 1.25 Median: 2 Mode: 2					Average: 1.88 Median: 2 Mode: 2				
Vacant House Tax or Fee	A tax or fee on vacant homes	Average: 0.88 Median: 1 Mode: 2					Average: 1.17 Median: 2 Mode: 2				
Non-Profit Strategy	Meet periodically with nonprofit organizations to discuss and negotiate payments; improve the Live Near Your Work Program	Average: 1.29 Median: 1.5 Mode: 2					Average: 1.50 Median: 2 Mode: 2				
Shift Functions to the State	State's Attorney's Office; Courts	Average: 0.27 Median: 0.5 Mode: 1					Average: 1.14 Median: 1.5 Mode: 2				

After reviewing the results of the poll, the Committee grouped the options into three categories as follows:

1. Options to be pursued in the short term to provide significant, more immediate property tax relief with minimal action required from the State;
2. Longer-term options to create large new sources of revenue;
3. Other possible strategies for property tax relief and stimulation of the tax base.

Short Term Strategy

The Committee specifically identified eight options that could be implemented over a period of one to two years that would reduce the property tax rate by an estimated \$0.251 per \$100 of assessed value (while most could be implemented in one year, the earliest the Homestead Credit Option could be implemented is FY2010).

With two exceptions, the options presented in the following Short Term Scenario are steps the City can take on its own without approval from the State. If state action is requested to allow further and more significant rate reductions, it is important for the City to demonstrate maximum effort before asking for additional assistance. The exceptions are the two options dealing with transfers of controlling interests, both of which require changes to State law. Of all options reviewed by the Committee that require state action, these are believed to already have the strongest support in the Maryland General Assembly. In addition, the State's projected budget deficit of approximately \$1.7 billion provides an incentive for implementation of both options, as they would generate significant state revenue.

While not every Committee member supported each separate option individually, the Committee agreed that a package of multiple options affecting different stakeholders was needed to achieve meaningful and fair property tax reduction. Each option has potential benefits and drawbacks that were outlined in the body of this report. However, by clustering a set of options together, the Committee wished to demonstrate that a significant property tax cut *is* possible if there is a firm commitment from the City, its legislative representatives, and its citizens and businesses.

**Short Term Scenario
\$0.251 Reduction in One to Two Years**

Option	Revenue Potential (\$ millions)	Rate Reduction (per \$100)	Location in Report
Increase the Homestead Credit Cap to 10%	\$24.2	\$0.092	p. 43
Raise the Income Tax Rate to 3.20%	\$12.1	\$0.045	p. 49
Continue 2-Cent Reduction through FY2010 (two additional years)	\$0.0	\$0.040	p. 5
Transfer Tax on Transfers of Controlling Interests	\$4.7	\$0.020	p. 80
Require All Controlling Interest Transfers to be Reported to SDAT	\$4.0	\$0.015	p. 82
Further Coordination Between the City and SDAT, Other Improvements to the Assessment Process	\$4.0	\$0.015	p. 84
Increase the Hotel Tax Rate to 10%	\$4.1	\$0.016	p. 52
Comprehensive Fee Analysis	\$1.0	\$0.004	p. 55
Aggressive Vacant Property Fee	\$0.8	\$0.004	p. 88
Total	\$54.90	\$0.251	
Current Real Property Tax Rate		\$2.268	
New Real Property Tax Rate		\$2.017	

Other Major Revenue Options

In addition to the options outlined above, the Committee also examined other longer-term alternatives that the City can pursue to provide substantial additional property tax reduction when adopted in combination with the short term options. The following list contains five such options that require State action and might take some time to implement, but would allow significant rate reduction. There was not a clear consensus among Committee members in favor of these options, in part because they were seen as difficult to implement. However, they do represent potentially large sources of revenue needed to help the City meet its property tax reduction goal:

Other Major Revenue Options

Option	Revenue Potential (\$ millions)	Rate Reduction (per \$100)	Location in Report
1% Local Option Sales Tax	\$64.4	\$0.236	p. 62
1% Regional Sales Tax	\$63.1	\$0.230	p. 66
1% Tax on Commuter Wages	\$75.7	\$0.240	p. 74
1% Local Earnings Tax	\$47.4	\$0.162	p. 69
Gaming Revenue	\$45.9	\$0.170	p. 76
Total	296.5	\$1.038	

Note: It is likely that only one of the sales tax options and one of the commuter/local earnings taxes could be implemented at one time, and they were considered mutually exclusive by the Committee.

Long Term Scenario

To show the potential impact of these longer-term revenue options, the Committee developed a second scenario that adds two of the foregoing additional options to the Short Term Scenario presented earlier. Both of these – a local option sales tax and additional revenue generated by casino and slots gaming located in the City – require new state legislation. Of the five long-term options considered by the Committee, these two received the strongest support. Because both options could take some time before they are implemented, this set of options can be considered a long-term scenario for property tax relief. If all of the options listed in the Long-Term Scenario below were to be implemented, Baltimore’s property tax rate could be reduced by \$0.653 to \$1.611 – a 28.8 percent decrease.

Long Term Scenario \$0.653 Reduction Over Several Years

Option	Revenue Potential (\$ millions)	Rate Reduction (per \$100)	Location in Report
Increase the Homestead Credit Cap to 8%	\$24.2	\$0.092	p. 43
Raise the Income Tax Rate to 3.20%	\$12.1	\$0.045	p. 49
Continue 2-Cent Reduction (2 years)	\$0.0	\$0.040	p. 5
Transfer Tax on Transfers of Controlling Interests	\$4.7	\$0.020	p. 80
Require All Controlling Interest Transfers to be Reported to SDAT	\$4.0	\$0.015	p. 82
Further Coordination Between the City and SDAT, Other Improvements to the Assessment Process	\$4.0	\$0.015	p. 84
Increase the Hotel Tax Rate to 10%	\$4.1	\$0.016	p. 52
Comprehensive Fee Analysis	\$1.0	\$0.004	p. 55
Aggressive Vacant Property Fee	\$0.8	\$0.004	p. 88
Local Option Sales Tax	\$64.4	\$0.236	p. 62
Gaming Revenue	\$45.9	\$0.170	p. 76
Total	\$165.20	\$0.657	
New Real Property Tax Rate		\$1.611	

Other Options

In addition to the options presented above, the Committee considered other alternatives. The remaining three options, discussed at length in the body of this report, are:

- Transfer additional functions to the State of Maryland (p. 91).
- Charge a fee for solid waste collection (p. 57).
- Develop a new strategy for tax-exempt property (p. 59).

The first two options, transferring additional functions to the State and charging a solid waste collection fee, were not included in either scenario because they did not receive a great deal of support from the Committee. The third option, developing a new strategy for tax-exempt

property, was not included because the estimated revenue impact (and corresponding rate reduction) cannot be quantified. It did however receive substantial support from the Committee, and specific strategies outlined in the body of this report should also be considered as potential options to increase the City's real property base and lower the property tax rate.

In addition, the Committee recommends that the Mayor appoint an independent group, similar to this Blue Ribbon Committee, to investigate the potential for cost cutting, operational changes and program consolidations that will permit the City to reduce expenditures and further assist the effort to reduce the City tax rate.