

Department of Legislative Services  
 Maryland General Assembly  
 2019 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 1173 (Delegate Rosenberg)  
 Ways and Means

**Baltimore City Police Officers - Incentives for Purchase of Dwelling in Baltimore City**

This bill establishes a Baltimore City Police Officer Down Payment Assistance Program and a Baltimore City Police Officer Deferred Payment Loan Program in the Department of Housing and Community Development (DHCD). The bill also establishes a State income tax credit for eligible Baltimore City police officers for purchasing a dwelling within Baltimore City. The bill authorizes Baltimore City to establish a local property tax credit for eligible police officers. **The provisions relating to the State income tax credit take effect July 1, 2019, and are applicable to all taxable years beginning after December 31, 2018. The provisions relating to the local property tax credit take effect June 1, 2019, and are applicable to all taxable years beginning after June 30, 2019.**

**Fiscal Summary**

**State Effect:** General fund expenditures increase by \$4.6 million in FY 2020, by \$4.2 million in FY 2021, and by an estimated \$692,600 annually thereafter to implement the incentive programs. General fund revenues decrease by \$240,200 in FY 2020 and by increasing amounts thereafter due to the cumulative effects of the tax credit.

(in dollars)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Revenue	(\$240,200)	(\$480,400)	(\$720,600)	(\$960,800)	(\$1,201,000)
GF Expenditure	\$4,633,400	\$4,234,800	\$692,600	\$692,600	\$692,600
Net Effect	(\$4,873,600)	(\$4,715,200)	(\$1,413,200)	(\$1,653,300)	(\$1,893,500)

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** Baltimore City revenues decrease to the extent the city establishes a property tax credit, as discussed below. Expenditures are not directly affected.

**Small Business Effect:** Minimal.

## Analysis

### Bill Summary:

#### *Definitions*

The bill defines a “dwelling” as a house used as the principal residence by a homeowner that is generally occupied for more than six months of a year. An “eligible officer” is a law enforcement officer who is (1) is a sworn member of and employed full-time by the Baltimore City Police Department and (2) has not previously owned a dwelling in Baltimore City.

#### *Baltimore City Police Officer Down Payment Assistance Program*

The bill establishes a Baltimore City Police Officer Down Payment Assistance Program within DHCD. An eligible officer may enter into an agreement with DHCD to save a specified amount of money to be applied toward the down payment and closing costs for the purchase of a dwelling in Baltimore City. For each increment of \$2,500 an eligible officer saves toward the down payment and closing costs of the purchase of a dwelling, DHCD must contribute \$1,500 in matching funds, up to a maximum amount of \$15,000 per eligible officer. DHCD must disburse the matching funds to an eligible officer at the time of settlement.

The bill establishes requirements regarding the components of an agreement. In addition, DHCD must adopt regulations that include (1) an application procedure for the program; (2) standards for eligibility and selection of applicants; and (3) any additional conditions on down payment assistance provided under the program that DHCD considers necessary.

#### *Baltimore City Police Officer Deferred Payment Loan Program*

The bill also establishes a Baltimore City Police Officer Deferred Payment Loan Program within DHCD. DHCD must provide an eligible officer who participates in the program with a deferred payment loan of up to \$20,000 to assist in financing the purchase of a dwelling located in Baltimore City. Payment of the principal on the loan may be deferred until the dwelling is sold, transferred, or otherwise ceases to be the officer’s dwelling.

A deferred payment loan may be secured by a second deed of trust on the dwelling. DHCD may charge interest on the deferred payment loan if the dwelling is sold within five years after the purchase date.

DHCD must adopt regulations that include (1) an application procedure for the program; (2) standards for eligibility and selection of applicants; and (3) any additional conditions under which a deferred payment loan may be made that DHCD considers necessary.

#### *State Income Tax Credit*

An eligible officer who purchases a dwelling in Baltimore City may claim a credit against the State income tax for the taxable year in which the eligible officer purchases the dwelling and for each of the four immediately succeeding taxable years. An eligible officer, however, may not claim the credit for any taxable year in which the eligible officer does not own a dwelling in Baltimore City.

The tax credit for any taxable year may not exceed the lesser of \$2,000 or the State income tax imposed for the taxable year calculated before the application of the tax credit allowed under the bill and under specified provisions of current law, but after the application of any other credit allowed, as specified. The unused amount of the credit may not be carried over to any other taxable year.

DHCD, in consultation with the Comptroller, must adopt regulations that include (1) a process to verify eligibility for the tax credit and (2) any other provision necessary to carry out the bill's income tax credit provisions.

#### *Baltimore City Property Tax Credits*

The Mayor and City Council of Baltimore City may grant a property tax credit against the county property tax imposed on a dwelling owned by an eligible officer in Baltimore City. The property tax credit must equal the amount of county property tax imposed on the dwelling, less the amount of any other credit applicable in that year, multiplied by specified decreasing percentages until the fifth year in which the dwelling qualifies for the tax credit.

The Mayor and City Council of Baltimore City may establish (1) additional eligibility requirements for eligible officers to qualify for the tax credit; (2) procedures for granting a partial tax credit for a dwelling that qualifies for the tax credit for less than a full taxable year; (3) regulations and procedures for the application and uniform processing of requests for the tax credit; and (4) any other provision necessary to carry out these provisions.

**Current Law:** Chapters 558 and 559 of 2016 authorize Baltimore City to grant, by law, a property tax credit for a dwelling owned by a Baltimore City public safety officer if the public safety officer is otherwise eligible for the Homestead Property Tax Credit. The amount of the property tax credit may not exceed \$2,500 per dwelling in any taxable year.

In December 2017, the Mayor of Baltimore signed into law City Council Bill 17-0120, which grants a maximum \$2,500 property tax credit to eligible public safety officers. The tax credit took effect July 1, 2018. In fiscal 2019, the average property tax amount for residential properties in Baltimore City was \$3,967.

**Background:** As of February 2019, there were 2,674 police officers in Baltimore City. Of those police officers, Baltimore City estimates that 294 already own dwellings in the city. Based on a recent analysis, the Comptroller's Office estimates that about 26% of Baltimore City police officers live in the city, including those who already own a home.

Among other responsibilities, DHCD provides financing for the development and maintenance of affordable housing in Maryland. Financing is available for the creation of new residential properties and the maintenance of existing residential properties, in addition to making properties more accessible to those requiring financial assistance. DHCD also provides funding for community revitalization projects.

As introduced, the Governor's proposed fiscal 2020 capital budget includes a mixture of general obligation bonds, general funds, special funds, and federal funds for the following DHCD programs that provide assistance to homebuyers and those facilitating community revitalization in Maryland:

- Baltimore Regional Neighborhoods Initiative (\$12.0 million);
- Community Legacy Program (\$6.0 million);
- Homeownership Programs (\$23.0 million); and
- Housing and Building Energy Programs (\$10.0 million).

**State Fiscal Effect:** General fund expenditures increase by \$4.6 million in fiscal 2020, by \$4.2 million in fiscal 2021, and by an estimated \$692,566 annually thereafter to implement the incentive programs. General fund revenues decrease by \$240,195 in fiscal 2020 and by greater amounts thereafter due to the State income tax credit established by the bill. These effects are discussed in more detail below.

### *Assumptions*

Based in part on information provided by Baltimore City and the Comptroller's Office, this analysis assumes that:

- 26% (695) of current Baltimore City police officers live in Baltimore City, and 294 already own a home, leaving 401 police officers living in the city who are eligible to participate in the programs;

- of the 401 eligible officers who already live in the city, half (200) elect to participate in the incentive programs, with 100 choosing to participate in fiscal 2020 and 100 choosing to participate in fiscal 2021;
- in each year, 1% of Baltimore City police officers who live outside the city (20) purchase a home in the city to take advantage of the incentive programs; and
- in each instance, a participating officer receives the maximum available benefit under the State programs (*i.e.*, \$15,000 from the matching program, \$20,000 from the loan program; and \$2,000 from the income tax credit program).

#### *Costs of the DHCD Matching and Loan Programs*

Based on the above assumptions, general fund expenditures for DHCD increase by \$4.2 million annually in fiscal 2020 and 2021 for the down payment and deferred payment loan programs. General fund expenditures for DHCD increase by \$692,566 annually beginning in fiscal 2022 based on the lower participation levels described above.

The bill defines a deferred payment loan as one in which payment of the principal is deferred until ownership of the house is transferred. This suggests that the recipients of the loans must pay interest payments on the loan, but the bill also says that DHCD may charge interest if the house is sold within five years. Thus, it is not clear if the loan recipients must pay interest if they retain ownership of the house. To the extent that recipients of the deferred payment loan program must pay interest to DHCD on their loans, some of the cost of the program is offset.

#### *Revenue Loss from the State Income Tax Credit*

General fund revenues decrease beginning in fiscal 2020 as a result of the State income tax credit for eligible Baltimore City police officers purchasing dwellings in the city. The decrease in general fund revenues depends on the number of eligible Baltimore City police officers who purchase dwellings in the city in a given year and claim the tax credit. Based on the assumptions above, general fund revenues decrease by \$240,195 in fiscal 2020; as the bill allows eligible officers to claim the credit for five consecutive years, general fund revenue losses continue to accrue each year, reaching \$1.2 million in fiscal 2024.

#### *Implementation Costs for the Comptroller's Office*

The Comptroller's Office advises that it incurs a one-time expenditure of \$400,000 in fiscal 2020 to develop regulations, establish processing systems and necessary programming, and administration of the State income tax credit for eligible police officers. The office also advises that it requires additional contractual support to ensure that only eligible Baltimore City police officers claim the State tax credit.

Therefore, general fund expenditures for the Comptroller’s Office increase by \$429,956 in fiscal 2020, which accounts for a 90-day start-up delay from the effective date of the State income tax credit. In addition to the programming and other costs mentioned above, it reflects the cost of one contractual worker to verify the eligibility of participating Baltimore City police officers for the State income tax credit and to carry out other implementation responsibilities. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Contractual Position	1
Salary and Fringe Benefits	\$24,597
One-time Start-up Costs	400,000
Other Operating Expenses	<u>5,359</u>
<b>FY 2020 Comptroller Expenditures</b>	<b>\$429,956</b>

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State’s implementation of the federal Patient Protection and Affordable Care Act.

Future year expenditures reflect a full salary with annual increases and employee turnover and ongoing operating expenses, and the termination of the contractual position in fiscal 2022, when the reduced volume of tax credits is assumed to be absorbable with existing resources.

*Department of Housing and Community Development Administrative Costs*

DHCD did not respond to repeated requests for information on the costs associated with implementing the bill’s provisions; thus, any administrative costs incurred by DHCD are not reflected in this analysis.

**Local Revenues:** To the extent that Baltimore City enacts legislation to provide eligible Baltimore City police officers with a property tax credit, revenues decrease beginning in fiscal 2020. However, Baltimore City advises that, with the recent enactment of City Council Bill 17-0120, it is unlikely that it will approve additional tax credits.

**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Baltimore City; Comptroller’s Office; State Department of Assessments and Taxation; Department of Legislative Services

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Analysis by: Thomas S. Elder

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510