



PRINCE GEORGE'S COUNTY COUNCIL



PRINCE GEORGE'S COUNTY

**TAX CREDIT
REFORM
COMMISSION**

FINAL REPORT

2018

September 27, 2018

Redis C. Floyd
Clerk of the Council
Prince George's County Council
14741 Governor Oden Bowie Drive
Upper Marlboro, Maryland 20772

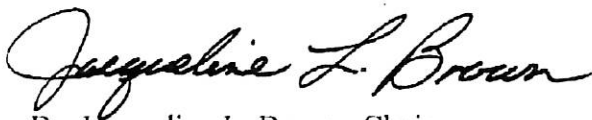
Dear Ms. Floyd:

On behalf of the *Prince George's County Tax Credit Reform Commission* ("The Commission"), I write to submit the Commission's Final Report.

As you are aware, the Commission consists of representatives from business groups, organized labor and the public at-large – a true cross section of the residents of Prince George's County, and I applaud the work done and the time everyone committed to address the task at hand.

Since its creation, we have labored to delve deeply into the County's Tax Credits, both existing and proposed. We worked hard to address the Council's questions. A majority of the Commission reached a consensus that no new real property tax credits should be adopted, and none should be expanded. The Commission feels strongly that the issue of tax credits must be viewed in terms of the County's overall financial viability. It is our hope that the work done by the Commission will enable us to stimulate a broader conversation about tax credits and the County's finances.

Sincerely,

A handwritten signature in cursive script that reads "Jacqueline L. Brown". The signature is written in black ink and is positioned above the typed name.

Dr. Jacqueline L. Brown, Chair

TAX CREDIT REFORM COMMISSION MEMBERS

We would like to thank and acknowledge the following individuals for their service on the Commission:

Commission Chair

Dr. Jacqueline L. Brown
Council Representative

Prince George's County Council Representative

Michael Cerrito

Office of the County Executive

Thomas Himler

Deputy Chief Administrative Officer for Budget, Finance, Economic Development &
Administration

David S. Iannucci

Assistant Deputy Chief Administrative Officer for Economic Development

County Auditor

Turkessa Green, Deputy County Auditor
Prince George's County Council

Office of Management and Budget

Stanley A. Earley, Director

Prince George's County Office of Management and Budget

Office of Finance

Linda V. Allen,
County Treasurer

Representatives from the Public Safety Community

John ("Zeek") Teletchea, President
Fraternal Order of Police, Lodge 89

Andrew Pantelis, President

Prince George's County Professional Fire Fighters & Paramedics Association

Representatives from the Education Community

Theresa Dudley, President
Prince George's County Educators' Association

Christian Rhodes, Chief of Staff
Prince George's County Public Schools

Representatives from the Business Community

David C. Harrington, President
Prince George's Chamber of Commerce

James R. Estep, Director of Operations
Greater Prince George's Business Roundtable

Representative from the Veteran Community

Eric Watson, Member
Prince George's County Commission for Veterans

Representative from the Senior Citizen Community

Agnes Diane Williams, Member
Prince George's County Advisory Committee on Aging

**Representative from the Blue Ribbon Commission on Addressing Prince George's
County's Structural Deficit**

John Tabori, Member

Representative from the 2017-2018 Charter Review Commission

Vacant

ACKNOWLEDGEMENT

The Tax Credit Reform Commission would like to thank and acknowledge the following Prince George's County staff, who without their tireless efforts and support, the Commission would not have been able to complete its important work.

Prince George's County Council

Howard W. Stone
Public Safety and Fiscal Management Committee Director

Colette R. Gresham
Legislative Officer

Maurice Simpson, Jr.
Legislative Aide

Prince George's County Tax Credit Reform Commission Final Report
(September 2018)

The Prince George's County Tax Credit Reform Commission (the "Commission") was established to review and analyze all existing and proposed tax credits in the County to determine their effectiveness, utilization, and efficacy in the County and to recommend reform of tax credit policy. The inaugural meeting of the Commission was held on April 9, 2018 and the Commission subsequently held five additional meetings. A large portion of the meetings was devoted to examining current tax credits, reviewing the tax credits that are not used, as well as, the effects of these tax credits on the County's financial condition. There are approximately 15 business tax credits and 10 residential tax credits (Appendix A). A close analysis of all available tax credits led the Commission to focus on the Homestead Property Tax Credit which limits the annual increase in taxable assessment on owner-occupied residential properties to a fixed percentage; the Homeowner's Tax Credit that is available to all residential homeowners who have a combined household income up to \$60,000 and net assets that do not exceed \$200,000; and the Revitalization Tax Credit – Enterprise Zone which is used to encourage the expansion of existing businesses and the attraction of new business and activity and jobs. These three tax credits equate to the lion's share of tax credits approved in Prince George's County.

The total amount of tax credits approved in the County in Fiscal Year ("FY") 2018 is estimated to be \$62,947,598 (Appendix B). Of that sum the largest tax credit is the Homestead Property Tax Credit which is \$51,559,064, followed by the Homeowners Tax Credit which is \$7,274,096, and then the Revitalization Tax Credit – Enterprise Zone which is \$1,733,655. As far as the proposed tax credits, they are as follows: a tax credit for all public safety officials which is estimated to cost between \$2,447,500 - \$3,187,500; a tax credit for elderly and veterans which is

estimated to cost \$2.8 million (elderly individuals) and \$13.7 million (veterans), each year, for five years. There was also an interest to extend a tax credit to teachers in the Prince George's County Public Schools but the actual amount was not obtainable. The Commission had numerous presentations by Linda Allen, a member of the Commission and the County's Treasurer on the County's Tax Credit Programs and their financial impact. The Commission also heard a presentation from our Economic Development Corporation on our tax credits used for financial inducement and increasing economic development. The Commission also held a public hearing on September 12, 2018 at the Prince George's Community College to gain citizen input. Unfortunately, only three people attended the public hearing which gave us no recommendations or insight, but did allow the Commission to have an educational colloquy with those citizens in attendance.

These presentations led to a very robust discussion that took a deeper dive in the whole issue of tax credits and their purpose. One of the Commissioners posed three questions which really stimulated the Commission's discussion about our tax credit policy. The questions were as follows: 1) what public or social policy are we trying to serve; 2) how does a property tax credit address that policy; and 3) how much of a credit, if any, is needed to address this policy. These questions in and of themselves gave the Commission a great pause in that we realized that the County, which has limitations based on information derived from the *Blue Ribbon Commission on Addressing Prince George's County's Structural Deficit* report, circa January 2017, is being asked to evaluate tax credits that we are not sure are affordable. This is further compounded by the impact of Federal Tax Reform that was enacted at the beginning of this year on State income tax yields and the distribution to Prince George's County. The immediate impact of this analysis is that the growth of income tax dollars received by the County will flatten and possibly even go down. In

the long run, flattening of the income tax yield curve could make it more difficult for the County to (a) keep a balanced budget and; (b) invest in improving public services.

Based on the foregoing, the Commission as responsible citizens determined that the answers were not provided to the three questions above that would support granting or increasing property tax credits and an appropriate source of funds to pay for the tax credits was not available, and therefore concluded that no recommendations for tax credits were feasible.

We recommend that the tax credits that are underutilized which include the Accessibility Features, Arts & Entertainment District, Business Incubator, Conservation Land, Grocery Store and Urban Agriculture tax credits, should be abolished, and that in its future considerations for proposed property tax credits, the County Council should evaluate all such proposals against the three questions outlined above. We unfortunately cannot make any further recommendations.

In summary, a majority of the Commission came to a consensus that, at this time, based on the lack of justification available to us, the uncertainty of federal tax cuts, and concern over the need for offsetting tax increases, we cannot recommend any proposed credits for any group to real property taxes. Therefore, we humbly submit our conclusions for your consideration.

APPENDIX A



Tax Credits Currently Available

Homestead Tax Credit

- Limits the annual increase in taxable assessment on owner-occupied residential properties to a fixed percentage.
- The State taxable assessment increase is limited to 10%.
- For FY18, the County taxable assessment increase is limited to 1%.

Homeowner's Tax Credit

- Available to all residential homeowners who have a combined household income up to \$60,000 and net assets that do not exceed \$200,000.

Enterprise Zones

- State and local incentives and assistance are offered to encourage the expansion of existing businesses and the attraction of new business activity and jobs.
- The program provides real property and state income tax credits for businesses located in the zone.

Commercial Revitalization

- Tax credit on eligible County real property taxes based upon the value of eligible improvements requiring a County building permit.

High Performance

- Tax credit for real property meeting certain Leadership in Energy and Environmental Design (LEED) green building rating system certifications.



Tax Credits Currently Available (continued)

Brownfields

- Brownfield sites (sites known or reported to be contaminated by hazardous waste) may qualify for a real property tax credit equal to 50% of the property tax attributable to the increased value of the site over the assessment of the site before the voluntary cleanup or corrective action plan.
- The credit applies in each of the taxable years immediately following the first revaluation of the brownfields site after completion of a voluntary cleanup, for a total of 5 years.

Alternative Energy

- Tax credit for residential structures that utilize solar energy or geothermal energy devices.

Religious Organizations Leased Property

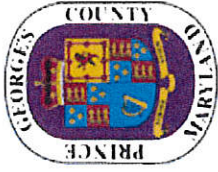
- Tax credit against the property tax imposed on real property for that portion of the property that is leased, occupied, and used by a religious group or organization.

Disabled Veterans

- Full exemption of property tax available for veterans (or surviving spouse of a disabled veteran) who have been declared by the Veteran's Administration to have a permanent 100% service connected disability.
- Surviving spouse must own and occupy the home and has not remarried.

Renters Tax Credit

- Payments to certain renters, in lieu of property tax credits, on the basis of income, age and disability.
- Any elderly or disabled renter who both was eligible for and did receive a previous rent relief payment in the County under the laws repealed by Council Bill 63-1979 shall receive, at a minimum, such rent relief payments as would have been previously available, under the former County program.



Tax Credits Currently Available (continued)

Airparks

- Exempts from the assessment of real property tax certain privately owned airplane landing strips which are open to the public.

Swim Clubs

- Tax credit against property taxes imposed on nonprofit swim clubs that use their facilities exclusively to provide a recreational outlet for a local community.

Green Business

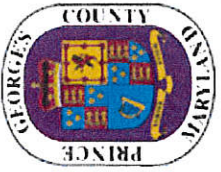
- Tax credit against the property tax imposed on real and personal property that is used for a Prince George's based green business that provides green products.

Historic Preservation

- Credit towards expenses incurred for the restoration and preservation of any structure having historic, architectural, or cultural value, classified as a Historic Site of Historic District on the Adopted and Approved Historic Sites and Districts Plan of Prince George's County, MD.

Agricultural Land

- Tax credit against property taxes imposed on agricultural land subject to State or County agricultural land preservation programs.



Tax Credits Currently Available (continued)

County Residential Revitalization

- Tax credit for certain residential real property to promote community redevelopment and revitalization.
- Credit based upon the value of eligible improvements requiring a County building permit.

Boys and Girls Club

- Tax credit for certain real property owned by a Boys and Girls Club chartered by the Prince George's County Boys and Girls Club, Incorporated.

Fallen Officer

- Tax credit for a dwelling owned by the surviving spouse of a fallen law enforcement officer or rescue worker.

Lake Arbor Foundation

- A credit against the County tax imposed on certain property owned by the Lake Arbor Foundation, Inc.
- The amount of the tax credit is equal to the County property tax and Special District taxes imposed on the property.

Landfill Rebate

- Property tax credit for certain residential real property located in an area adversely impacted by a sanitary landfill.

Deferral for Elderly and Disabled

- Allows eligible elderly and disabled homeowners to defer a portion of the County real property tax under certain circumstances.



Tax Credits Currently Available (continued)

County High Tech Revitalization

- Property tax credit for certain new or expanding manufacturing, fabrication, assembling, or research and development facilities in Prince George's County.

Municipal Leased Property

- Tax credit against certain property taxes imposed on property leased, occupied, and used by a municipal corporation for certain purposes.

New Jobs

- Tax credit against the County property tax imposed on real property owned or leased by business entities, and on personal property owned by business entities, that meet certain requirements related to the creation of new jobs.

Free State Riding

- Tax credit for real property owned by the Free State Riding Club, Inc. that is used only for nonprofit athletic recreation.

Tobacco Barn

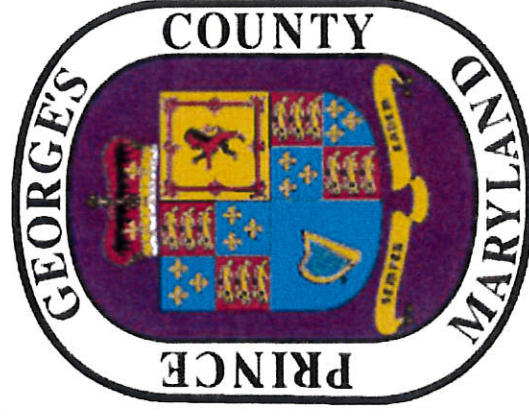
- Tax credit of the County real property tax imposed on any real property improvement used solely as a tobacco barn.

APPENDIX B

Property Tax Credits

PRESENTED TO THE PRINCE GEORGE'S COUNTY
TAX CREDIT REFORM COMMISSION

APRIL 23, 2018





Tax Credits Granted in FY18

(1) Enterprise Zone Tax Credit. The County is reimbursed by the State for ½ of the amount of tax credits granted (\$3,467,309). Therefore, the total cost to the County for FY18 is \$1,733,655.

Homestead Tax Credit	\$51,559,064
Homeowners Tax Credit	\$7,274,096
Revitalization Tax Credit - Enterprise Zone (1)	\$1,733,655
Revitalization Tax Credit - County Commercial	\$618,768
High Performance Building Tax Credit	\$312,351
Brownfield Tax Credit	\$276,941
Disabled Veterans - Retro	\$268,405
Alternative Energy Tax Credit	\$250,000
Religious Organization Leased Building	\$196,907
Renters Tax Credit	\$157,107
Airpark Tax Credit	\$65,050
Swim Club Tax Credit	\$47,458
Green Business Tax Credit	\$47,250
Historic Preservation Tax Credit	\$35,725
Agricultural Land Tax Credit	\$22,952
Revitalization Tax Credit - County Residential	\$18,080
Boys and Girls Club Tax Credit	\$14,840
Fallen Officer Tax Credit	\$14,258
Lake Arbor Foundation Tax Credit	\$14,218
Landfill Tax Credit (Rebate)	\$9,462
High Tech Tax Credit	\$3,543
Municipal Leased Property Tax Credit	\$2,732
New Jobs Tax Credit	\$2,730
Free State Riding Club Tax Credit	\$1,371
Tobacco Farm Tax Credit	\$635
Total	\$62,947,598



Tax Credits Granted in FY18

Business versus Residential

Business Tax Credits

Revitalization Tax Credit - Enterprise Zone	\$3,467,309
Revitalization Tax Credit - County Commercial	\$618,768
High Performance Building Tax Credit	\$312,351
Brownfield Tax Credit	\$276,941
Religious Organization Leased Building	\$196,907
Airpark Tax Credit	\$65,050
Swim Club Tax Credit	\$47,458
Green Business Tax Credit	\$47,250
Boys and Girls Club Tax Credit	\$14,840
Lake Arbor Foundation Tax Credit	\$14,218
High Tech Tax Credit	\$3,543
Municipal Leased Property Tax Credit	\$2,732
New Jobs Tax Credit	\$2,730
Free State Riding Club Tax Credit	\$1,371
Tobacco Farm Tax Credit	\$635
Total	\$5,072,103

Residential Tax Credits

Homestead Tax Credit	\$51,559,064
Homeowners Tax Credit	\$7,274,096
Disabled Veterans - Retro	\$268,405
Alternative Energy Tax Credit	\$250,000
Renters Tax Credit	\$157,107
Historic Preservation Tax Credit	\$35,725
Agricultural Land Tax Credit	\$22,952
Revitalization Tax Credit - County Residential	\$18,080
Fallen Officer Tax Credit	\$14,258
Landfill Tax Credit (Rebate)	\$9,462

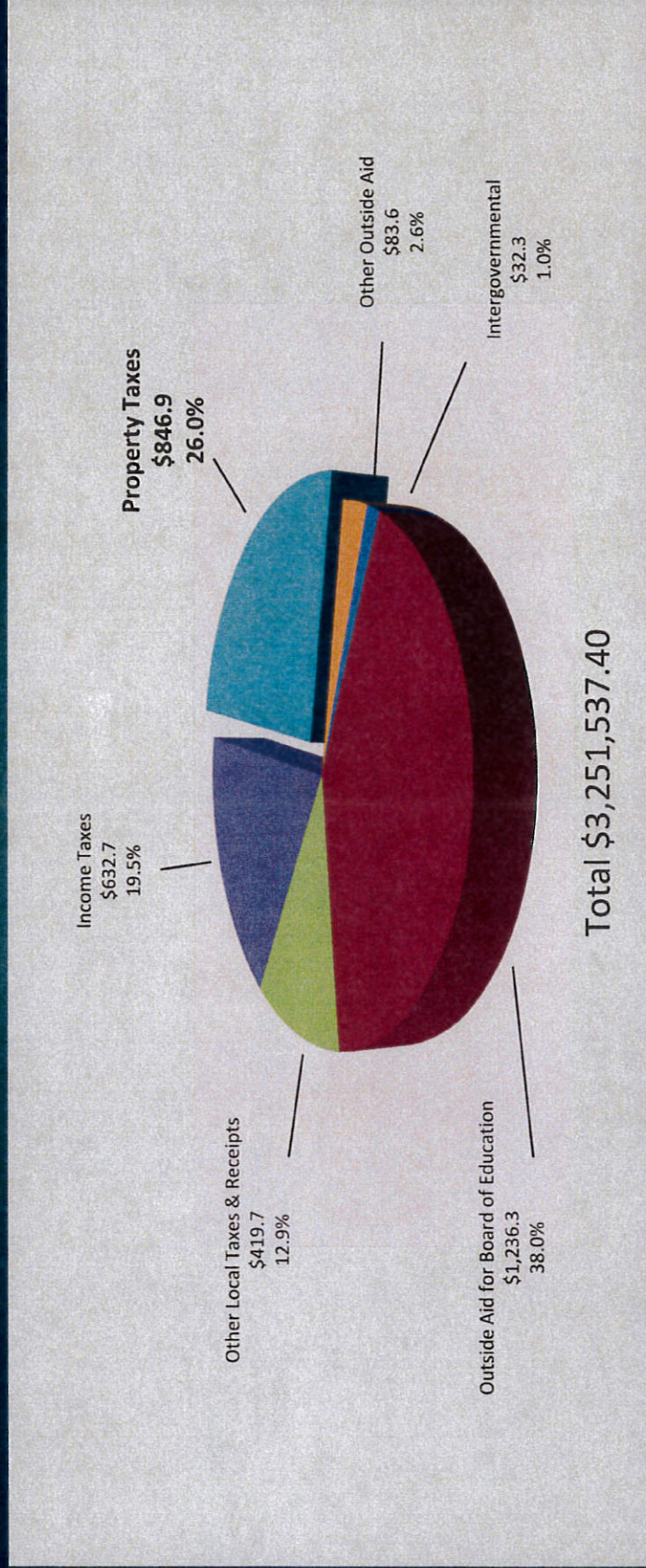
Total

\$59,609,149



General Fund Revenues for Fiscal Year 2018

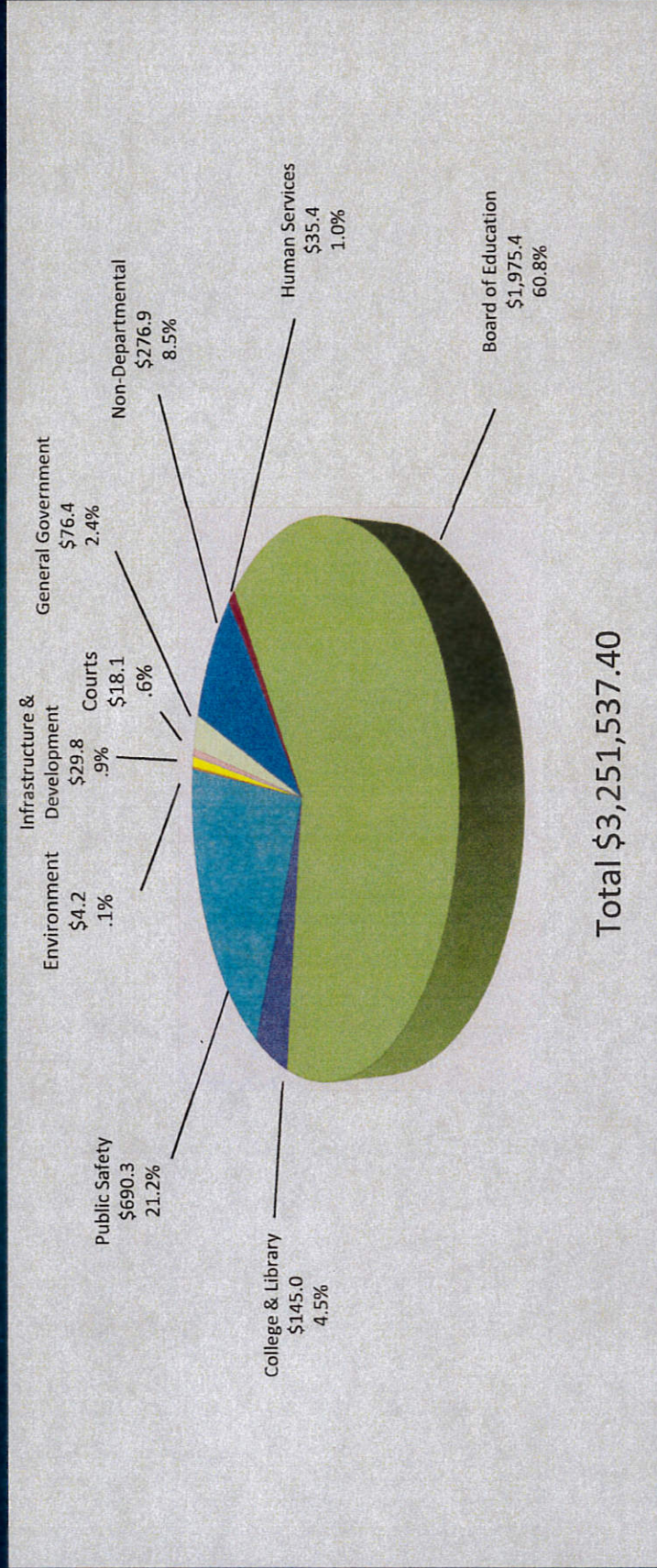
(\$ in millions)





General Fund Expenditures for Fiscal Year 2018

(\$ in millions)





Unused Tax Credits

County Enabling
Legislation

Accessibility feature installed on residential property; must be principal residence; feature must be valued at over \$500. 50% of eligible costs up to \$2,500. May be carried over and/or transferred.

CB-7-2015

Property tax credit against the county or municipal corporation property tax imposed on a manufacturing, commercial, or industrial building that: (1) is located in an arts and entertainment district; and (2) is wholly or partially constructed or renovated to be used by a qualifying residing artist or an arts and entertainment enterprise. Hyattsville, Mount Rainier, Brentwood, and North Brentwood. Municipal corporations. 5 year credit (100%, 80%, 60%, 40%, 20%).

CB-10-2010

Property that is used as the premises for a publicly supported business incubator program in which units of space are leased by multiple early-stage businesses that share physical common space, administrative services and equipment, business management training, mentoring, and technical support. 5 year credit (100%, 80%, 60%, 40%, 20%). Cannot exceed \$250,000.

CB-52-2008

Real property that is subject to a perpetual conservation easement donated to a land trust or the Maryland Environmental Trust on or after July 1, 1991.

CB-101-1998

Primary business is selling food at retail to the general public for off-site consumption; and at least 20% of the gross receipts are derived from the sale of fresh produce, meats, and dairy. Must be located in an economically disadvantaged or underserved area.

CB-18-2014

Urban agricultural property larger than 1/8 of an acre and less than 5 acres; zoned agricultural; not used for any other for-profit reason that would subject the parcel to property tax liability; must produce agricultural products valued at \$2,500 or more per tax year (unless a waiver is granted)

CB-74-2015



Tax Credits – Considerations

Montgomery Tax Credit and Renters Tax Credit

Administered by the State. Annual application. Census and American Community Survey data suggests that there may be many County residents who qualify for these tax credits; yet are not taking advantage of the credit.

Alternative Energy Tax Credit (CB-11-2008)

Cap is \$5,000; funding limit is \$250,000 per year. Since 2010 (2nd year of implementation), the maximum annual credits allowed have been provided and a waiting list has developed. The current waiting list extends to FY2028.

- Montgomery County – suspended program in 2011
- Baltimore County – current program waiting list until 2024
- Howard County – suspended program 2012
- Anne Arundel County – credit up to \$2,500



Tax Credits – Considerations

Homestead Tax Credit

One-time application. Administered by the State.

When property assessments increase significantly, this credit helps to offset the increase in taxes associated with the increased assessment by limiting the dollar value of the assessment that is used to calculate the taxes due. In other words, the homeowner pays no property tax on the market value increase which is above the limit. The State limit is 10%.

Each county also provides a limit on taxable assessment increases. Prince George's County's limit is based on changes in the CPI. The limit for FY18 is 1%, for FY17 the limit was 0%, for FY16 the limit was 2%. The lower the limit, the higher the Homestead credit.

- Montgomery County – 10%
- Baltimore County/City – 4%
- Howard County – 5%
- Anne Arundel County – 2%
- Calvert County – 10%



Tax Credits – Considerations

Business Tax Credits

The Revitalization and/or Enterprise Zone Tax Credit programs have a State and County component, and range from 5-10 years. Each year, the County is reimbursed by the State for half of the total amount of Enterprise Zone tax credits granted. This makes some of the other business tax credits less attractive (e.g. High Tech, Arts & Entertainment, Business Incubator, etc.).

Tax Credits

Questions?

