

MEMORANDUM

September 19, 2016

TO: County Council

FROM: Robert H. Drummer, Senior Legislative Attorney 

SUBJECT: **Public Hearing/ADDENDUM:** Bill 31-16, Taxation – Urban Agricultural Tax Credit – Established

The Office of Management and Budget (OMB) and the Department of Finance sent the Fiscal and Economic Impact Statement after the publication of the Public Hearing packet. See ©1. OMB noted that there are approximately 36,300 taxable properties between ½ and 5 acres that are not zoned as agricultural properties. However, OMB could not determine how many of these properties are currently used for “urban agricultural purposes.” If each of these properties qualified for the tax credit, which is unlikely, the total loss of tax revenue could be \$436.4 million in FY17. The large potential tax credit discussed in the FEIS points out the need to better define and possibly limit the eligibility for the tax credit.

This packet contains:

Circle #

Fiscal and Economic Impact Statement

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ROCKVILLE, MARYLAND

MEMORANDUM

September 16, 2016

TO: Nancy Floreen, President, County Council

FROM: Jennifer A. Hughes, Director, Office of Management and Budget
Alexandre A. Espinosa, Director, Department of Finance

SUBJECT: FEIS for Council Bill 31-16, Taxation – Urban Agricultural Tax Credit -
Established

Please find attached the fiscal and economic impact statements for the above-referenced legislation.

JAH:mc

cc: Bonnie Kirkland, Assistant Chief Administrative Officer
Lisa Austin, Offices of the County Executive
Joy Nurmi, Special Assistant to the County Executive
Patrick Lacefield, Director, Public Information Office
Alexandre A. Espinosa, Director, Department of Finance
Mike Coveyou, Department of Finance
Jane Mukira, Office of Management and Budget
Naeem Mia, Office of Management and Budget

Fiscal Impact Statement
Bill 31-16, Taxation – Urban Agricultural Tax Credit - Established

1. Legislative Summary

Provides for a real property tax credit for “urban agricultural” property, defined as properties that are not agriculturally zoned, that are between ½ and 5 acres, that are used for “urban agricultural purposes” and that are in State-defined Priority Funding Areas.

2. An estimate of changes in County revenues and expenditures regardless of whether the revenues or expenditures are assumed in the recommended or approved budget. Includes source of information, assumptions, and methodologies used.

Using the 2016 billing data from the County’s property tax database, there are over 36,300 real property tax accounts that are: (1) taxable; (2) between ½ and 5 acres; and (3) are not zoned as agricultural properties. Most of these properties are likely located in Priority Funding Areas, as most of the County’s parcels are located in Priority Funding Areas. There is no data on how many of these properties are currently used for “urban agricultural purposes.” Additionally, the bill does not articulate whether each property must be used in whole for agricultural purposes, or if the bill applies to a property if any part of that property is used for agricultural purposes. The total amount of County taxes billed for these 36,300+ accounts is over \$436.4 million dollars for FY17. Some portion of this amount of tax will be credited, but it is not possible to reliably estimate how many properties will be eligible for the credit.

Since the bill is vague as to what is defined as urban agricultural purpose, a very broad level and array of activities could qualify a property for this proposed tax credit. Therefore, the potential FIS, is the total tax revenue associated with these properties - \$436.4 million.

This legislation requires that the Department of Finance (Finance) administer the bill. However, Finance does not have expertise to determine whether a property is used for an “urban agricultural purpose.” Therefore, Finance would have to hire additional staff with expertise in “urban agricultural purposes” including crop production activities, environmental mitigation activities, and community development activities. Further, Finance would have to hire additional staff to make site visits to determine if a property has a temporary produce stand on it. The required number of new Finance staff cannot be determined at this time because it is unknown how many property owners would be eligible and apply for the credit. However, with 36,300 eligible properties, the workload would be significant since it would require not only initial verification, but periodic checks to ensure the agricultural use continues.

3. Revenue and expenditure estimates covering at least the next 6 fiscal years.

See #2 above. As noted above, there is the potential for a broad array of activities to be eligible for this tax credit. If all 36,300+ properties qualified, the annual fiscal impact could be approximately \$436.4 million annually or \$2.6 billion over six years.

Additionally, there will be more personnel expenditures for additional County staff in the Department of Finance, but that cannot be estimated at this time.

4. An actuarial analysis through the entire amortization period for each bill that would affect retiree pension or group insurance costs.

Not Applicable.

5. An estimate of expenditures related to County's information technology (IT) systems, including Enterprise Resource Planning (ERP) systems.

Not Applicable.

6. Later actions that may affect future revenue and expenditures if the bill authorizes future spending.

Not Applicable.

7. An estimate of the staff time needed to implement the bill.

Unknown at this time, but significant due to the number of potential properties eligible.

8. An explanation of how the addition of new staff responsibilities would affect other duties.

This bill cannot not be administered by current Finance staff. Additional staff would be required.

9. An estimate of costs when an additional appropriation is needed.

See #2 above.

10. A description of any variable that could affect revenue and cost estimates.

See #2 and #3 above.

11. Ranges of revenue or expenditures that are uncertain or difficult to project.

All revenue and expenditures are uncertain for this legislation.

12. If a bill is likely to have no fiscal impact, why that is the case.

Not Applicable.

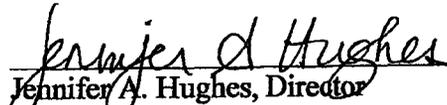
13. Other fiscal impacts or comments.

None.

14. The following contributed to and concurred with this analysis:

Mike Coveyou, Finance

Jane Mukira, Office of Management and Budget



Jennifer A. Hughes, Director
Office of Management and Budget

9/15/16
Date

Economic Impact Statement
Bill 31-16, Taxation – Urban Agricultural Credit – Established

Background:

Bill 31-16 provides for a real property tax credit for “urban agricultural” property, defined as properties that are not agriculturally zoned, that are between ½ and 5 acres, that are used for “urban agricultural purposes” and that are in Priority Funding Areas.

A property owner must conduct at least 2 urban agricultural purposes on the property. The term of the credit would be 5 years. The credit would equal the property tax otherwise due on the property.

1. The sources of information, assumptions, and methodologies used.

Finance estimated for the fiscal impact of the bill that there are over 36,300 real property tax accounts that are (1) taxable; (2) between ½ and 5 acres; and (3) are not zoned as agricultural properties using 2016 billing data from the County’s property tax database. Most of these properties are likely located in Priority Funding Areas, as most of the County’s parcels are located in Priority Funding Areas.

Since there are no data on how many of these properties are used for “urban agricultural purposes” it is not possible to estimate with specificity the total potential loss of property taxes to the County. The total amount of County taxes billed for these 36,300 plus accounts is over \$436.4 million dollars for FY17. Some portion of this amount of tax will be credited, but it is not possible to reliably estimate how many properties will be eligible for the credit.

Finance estimates the average County-only tax for the 36,300 plus properties in question is slightly more than \$12,000 for FY17—the median tax is over \$5,800 for FY17. For each 1% of participation, based on the average tax, the credit would cost approximately \$4.4 million.

As noted in the fiscal impact statement for the bill, since the proposed language is vague as to what is defined as urban agricultural purpose, a very broad range of activities could qualify a property for this credit. Therefore, the potential fiscal impact, according to the Fiscal Impact Statement, is \$436.4 million or the total tax revenue associated with these properties.

2. A description of any variable that could affect the economic impact estimates.

Urban agricultural land potentially benefits the County through eliminating blight and improving access to healthy food. The primary variables that would affect the County’s economy positively would be potential increases in property values as neighborhoods are improved. Given the limited scope of the bill from an acreage perspective, sites with large assessed value will be excluded from the credit. Since the current language of the bill includes such a broad range of activities that could qualify for the credit, the primary variable in determining the economic impact of the bill is the number of properties that ultimately qualify for the credit.

Economic Impact Statement
Bill 31-16, Taxation – Urban Agricultural Credit – Established

- 3. The Bill's positive or negative effect, if any on employment, spending, savings, investment, incomes, and property values in the County.**

Given a lack of specificity of data regarding both current properties used for urban agricultural purposes and those intended to be used in the future, it is difficult to accurately quantify with any degree of precision the total economic impact to the County as a result of this bill.

- 4. If a Bill is likely to have no economic impact, why is that the case?**

This legislation will have an economic impact. See paragraph #3

- 5. The following contributed to or concurred with this analysis:** David Platt, Dennis Hetman, and Robert Hagedoorn, Finance.



Alexandre A. Espinosa, Director
Department of Finance

9/16/16

Date