

Council Agenda Report

Date: June 20, 2016

Prepared by: Brandon Hesson, Associate Director, Economic Development

Submitted by: Odie Wheeler, Director, Public Works

SUBJECT: Ordinance No. 1087 An Ordinance of the Commissioners of Cambridge, Maryland for the Purpose of Establishing Standards for the Granting of Partial Abatements of Real Property Taxes for Vacant Commercial Structures Under Certain Conditions; Specifying the Duration and Extent of the Abatement; and Establishing Eligibility Requirements.

Recommendation that Council:

- A. Introduce, by reading of title only, Ordinance No. 1087, and
- B. Schedule June 20, 2016 for second reading, public hearing and adoption

Discussion:

The City has a surplus of vacant commercial structures, and the Economic Development Division and Economic Development Advisory Committee see an opportunity to offer property tax abatement as an incentive to job-creating businesses, for the purpose of utilizing these deteriorating structures. This partial property tax abatement would be structured as follows:

- a. Years 1-3: 100 % of City taxes on the original qualifying increase is abated.
- b. Year 4: 80% of City taxes on the original qualifying increase is abated.
- c. Year 5: 60% of City taxes on the original qualifying increase is abated.
- d. Year 6: 40% of City taxes on the original qualifying increase is abated.
- e. Year 7: 20% of City Taxes on the original qualifying increase is abated.
- f. Year 8: Abatement expires. Full taxes are due and payable.

The City currently offers a Downtown Development District Tax Credit to property owners completing more than \$50,000 in building improvements. However, this is limited to the Downtown/Waterfront Development District.

The City of Cambridge is also a HUB Zone and Enterprise Zone, which offers incentives to larger businesses. Some of these incentives are tax abatements on real property and personal income tax, but have a job creation requirement of 25 full-time positions.

There is an opportunity to offer a tax abatement incentive for large and small businesses outside of the Downtown/Waterfront Commercial District, and staff believes this proposed structure provides that, while still requiring a minimum of (2) permanent, full-time positions.

Fiscal Impact:

The proposed tax abatement is applied to the difference between the new and old assessment, slowly phasing in to full value. There is no more impact on the city tax revenues than leaving the vacant building untouched. The intent is for this to serve as incentive to create more tax revenue over time, on improved buildings which would have remained vacant.

Economic Development staff maintains applications and records of similar programs, and has the systems and resources in place to administer this program efficiently.

Approved by: Sandra Tripp-Jones, City Manager 

ORDINANCE NUMBER 1087

AN ORDINANCE OF THE COMMISSIONERS OF CAMBRIDGE, MARYLAND FOR THE PURPOSE OF ESTABLISHING STANDARDS FOR THE GRANTING OF PARTIAL ABATEMENTS OF REAL PROPERTY TAXES FOR VACANT COMMERCIAL STRUCTURES UNDER CERTAIN CONDITIONS; SPECIFYING THE DURATION AND EXTENT OF THE ABATEMENT; AND ESTABLISHING ELIGIBILITY REQUIREMENTS.

WHEREAS, Section 3-34 of the Charter of the City of Cambridge provides for the abatement and exemption of municipal real property taxes for such duration and under such conditions as the City Council may determine; and

WHEREAS, the City has numbers of commercial properties that are vacant and/or underutilized that are in need of renovation, rehabilitation or demolition in order to make them marketable for lease or sale; and

WHEREAS, the Cambridge Economic Development Steering Committee has recommended a partial real property tax abatement for such structures to facilitate renovation/rehabilitation and occupancy; and

WHEREAS, after due consideration, the City Council has determined that a partial property tax abatement for renovated vacant and underutilized commercial structures would constitute a useful incentive to facilitate occupancy of and job creation in such structures.

NOW, THEREFORE, BE IT RESOLVED by the City Commissioners of Cambridge Maryland, that the following be added to the City Code as follows.

Chapter 1. General Provisions.

Section 1-17. Tax Abatements for Vacant and Underutilized Commercial Structures.

(a) Definitions:

- (1) "New permanent full time position" means a position that is:
 - a. of indefinite duration requiring at least 1680 hours of individual time averaging at least 48 weeks in a 12-month period; or
 - b. a contractual position of definite duration of at least 1680 hours lasting a least 12 months with an unlimited renewal option;
 - c. newly created as the result of establishment of a business entity in an improved, renovated or rehabilitated vacant structure; and

d. filled.

(2) A “new permanent full time position” does not include a position that:

- a. was created through a change in ownership of a trade or business or through a consolidation, merger or restructuring of a business entity or its affiliates if the position does not represent a new net job in the City of Cambridge;
- b. is filled for a period less than 48 weeks.

(3) “Business entity” means a person or enterprise that conducts or intends to conduct a trade or business in the City of Cambridge and establishes a place of business therein.

(4) “Vacant” means a commercial structure of which fifty percent (50%) or more of the gross square footage has been free of occupants, inhabitants, activity or use for a period at least twelve months immediately preceding the filing of the application for abatement.

(b) Eligibility for tax abatement.

The owner of the Qualified Structure is eligible for a partial real property tax abatement under the following conditions:

(1) the assessed value, as determined by the State Department of Assessments and Taxation of the real commercial property after renovation or rehabilitation must have increased by a minimum of \$50,000;

(2) only the amount of the original increase in assessment is eligible for the real property tax abatement;

(3) a minimum of two (2) new permanent full time jobs must be created by a business entity in the previously vacant and now improved, renovated or rehabilitated property;

(4) the subject property must not have received any abatement, tax credit or exemption from real property taxes from the City in the prior five (5) years from the date of application;

(5) the applicant must be the property owner;

(6) the property must be current and not in arrears on all City and County property taxes owed; and

(7) the property is in full compliance with all City building, fire, zoning and development related ordinances.

(8) the property owner shall not be indebted to the City or County for any sums, including, but not limited to: real property taxes, personal property taxes, corporate taxes, municipal citations, and any other miscellaneous fees or fines.

(c) Mixed Use structures; eligibility.

Structures containing a City permitted mix of commercial and residential uses are eligible for the tax abatement provided the entire ground floor area is devoted exclusively to commercial use, and all other conditions are met.

(d) Unimproved parcels.

Improvements to unimproved parcels of real property are not eligible for an abatement under this section, except as follows:

- (1) A new commercial structure(s) constructed on a parcel that previously contained a structure used for commercial purposes, which structure had been razed;
- (2) One or more new commercial structures erected on a vacant parcel which parcel comprises part of a single commercial development/site plan of which at least one-half of the total square footage of the existing structures within the development/site plan qualify as "Vacant" as defined herein;
- (3) All other conditions set forth herein.

(e) Application requirements.

- (1) The application for the abatement shall be made on a form prescribed by the City and submitted to the City Manager.
- (2) The application must be submitted by May 1 in the same calendar year following the increase in assessment as a result of the renovation or rehabilitation of the structure and the employment of the two new permanent full-time positions.
- (3) Applicants shall make a bono fide effort to hire Cambridge residents;
- (4) The application shall include the position titles of the new permanent full-time positions and a certification that the business entity employing the new full time positions intends to continue to employ these positions for the remainder of the fiscal year for which any tax abatement approval is granted.
- (5) The application shall include the Maryland State Department of Assessments and Taxation identifying form or forms for the property to enable a

determination of the increase in assessment applicable to the renovation, rehabilitation or improvement.

- (6) The City Manager may request any additional information from the applicant which in his or her judgment is necessary to make a preliminary determination as to the eligibility of the property for the tax abatement.

(e) Approval and effective date.

- (1) Upon recommendation of the City Manager, the City Council may approve the abatement which, if so approved, shall take effect on July 1 of the Fiscal Year following the application date.

- (2) The abatement, at the discretion of the City, may be reflected in the property owner's tax bill or may be remitted to the owner as a separate check by the City.

- (3) Following the initial approval by the City Council, the City Manager is authorized to approve each subsequent year's tax abatement in accordance with the schedule in (f) below provided the applicant has submitted information by May 1 prior to the commencement of the new Fiscal Year verifying continued compliance with the provisions of subsections (b) (3),(7) and (8) above.

(f) Duration and amount of abatement; transferability.

- (1) The maximum real property tax abatement on the increased assessment of the structure shall be as follows:

- a. Years 1-3: 100 % of City taxes on the original qualifying increase;
- b. Year 4: 80% of City taxes on the original qualifying increase;
- c. Year 5: 60% of City taxes on the original qualifying increase;
- d. Year 6: 40% of City taxes on the original qualifying increase;
- e. Year 7: 20% of City Taxes on the original qualifying increase;
- f. Year 8: Abatement expired. Full taxes are due and payable.

- (2) In the event of an increase in the City tax rate on real property in any subsequent fiscal year following the first year of the abatement, the amount of the abatement shall be computed based on the tax rate existing in year 1.

- (3) The abatement is non-renewable but is transferable to a subsequent owner of the property provided proper application is made pursuant to subsection (e) (3) above and all other provisions of this Section are in compliance.

(g) Revocation; waiver

- (1) The failure to adhere to all the conditions and requirements specified in this Section shall result in the permanent revocation and non-renewal of the tax abatement.

- (2) The City Manager may grant a temporary waiver of short duration for temporary noncompliance with the requirements of subsection (b)(3) above if the reason for noncompliance is due to difficulty in recruiting replacement employees for the new permanent full time positions and he or she determines, in his or her sole discretion, that good faith efforts to replace same have been made on the part of the applicable business entity and that achieving compliance is imminent and likely to be maintained.

This ordinance shall become effective within 30 days of adoption. Adopted this day, _____, 2016.

ATTEST:

THE COMMISSIONERS OF CAMBRIDGE

Sandra Tripp-Jones
City Manager

Commissioner Donald Sydnor
Acting Mayor

Introduced the _____ day of _____, 2016

Approved the _____ day of _____, 2016.