



*Note: We received an email from Mayor Scott on March 23rd that he forwarded our letter to the Baltimore City Department of Housing & Community Development for review by their Housing Commissioner.*

March 4, 2022

The Honorable Brandon Scott  
Mayor, City of Baltimore  
Office of the Mayor  
250 City Hall, 100 N. Holliday Street  
Baltimore, Maryland 21202

Dear Mayor Scott,

**Baltimore Thrive**, a group of civic-minded professionals, academics and activists, encourages you to exercise your leadership by advocating for a tax shift that, without additional spending or revenue loss, can lead to more affordable housing, more job creation, and infill development. Legislation, **HB 0310**, has been introduced in the Maryland Legislature to make such a tax shift possible for Baltimore. **We hope that you and your colleagues in Baltimore will encourage the State legislature to enact this permissive legislation during the current legislative session.**

The responsibility and challenge for public officials is to harmonize the need for revenue and the need for a healthy, nurturing economy. Our group, Baltimore Thrive, has examined economic research and the experiences of communities using different tax policies. We conclude that *how* a city raises revenue is just as important as *how much* revenue it raises. In particular, most cities tax wages, profits, sales and services. These taxes on privately-created income can often send households and businesses to lower-tax jurisdictions, thereby depriving a city of its economic base.

On the other hand, cities create enormous amounts of land value through the provision of public goods and services. Yet, the lion's share of this publicly-created land value ends up being given away as a windfall to a few owners of prime city real estate. And owners of prime real estate are already among the most affluent and powerful individuals and corporate entities. Thus, this practice of giving away publicly-created land value is one of the engines of growing inequality.

Some cities have successfully addressed this challenge by shifting taxes off of privately-created building values onto publicly-created land values. This tax shift is fair and equitable. Landowners pay in proportion to the value of public goods and services that they receive. This shift tends to reduce tax burdens on low- and middle-income households without creating undue burdens on private businesses (many of whom also benefit from this shift). As a bonus, this tax shift encourages development of high-value land which is typically found in city centers, where infrastructure already exists and where development is most efficient and environmentally benign. Without new spending or any loss of revenue, this tax shift can promote more affordable housing, job creation and infill development that Baltimore desperately needs.

## **BACKGROUND**

Today, many people and businesses do not have firm roots in any community. Businesses come in search of markets and stay when the effort proves profitable. People follow employment opportunities and -- when able to choose -- they look at the other attributes of the places where they might live, work and play.

As a mayor working to retain existing residents and attract new people in, you are certainly aware of the importance of safe neighborhoods, good schools, useable parks, reliable transit, bearable taxation and a welcoming climate for businesses. To a great extent, full employment results when these desired characteristics are present. At the same time, a community must find ways to fund all of the desired amenities. This has been an elusive goal for many cities and towns.

Key members of our team live and work in Baltimore or the city's larger suburban region. They want to stay and make their contribution to the quality of life for our neighbors and our families. That is why we urge you to consider how Baltimore raises revenue to pay for necessary public goods and services.

Historically, many cities raise revenue by taxing just about everything and everyone, but as moderately as possible. Over time, government has imposed taxes on the wages of every working person, on the homes and automobiles and

other personal assets of every resident, on the assets and gross revenue and profits of every business, and on almost every exchange of goods and services. The result for many cities, Baltimore included, has been an ongoing loss of people and commerce.

Declining revenues from production, sales and incomes leads to a dependency on state and federal governments for revenue at a time when state and federal officials are sharing less revenue while calling on communities to solve their own social and financial problems. On the bright side, there is today a recognition that heavy taxation of businesses and working people only serves to drive them away. People who have options will not hesitate to abandon a city or region if government is not doing the right things from their perspective. The responsibility and challenge to our elected representatives is to harmonize the need for revenue and the need for a healthy, nurturing economy.

What cities have to offer most is location. Every location has some rental value in the market place representing what people will pay to control that location. In our cities the most valuable locations are usually in or near the central business districts. Values tend to decline the further away from the center one goes. Location rental values grow or fall independent of what individual owners do with their properties. Location value is created by aggregate public and private investment. As such, this value ought to be -- we would say needs to be -- fully returned to the community and recycled to pay for the public goods and services creating this value.

When, as is largely the case, location rental values are only lightly taxed, the market recognizes the net rental value as imputed income to the holder of the land deed. This income stream is capitalized into a selling price. Here is a simple example. Say a parcel of land could be leased for \$10,000 a year and a market rate of return on investments is 10%. The \$10,000 in rental income is capitalized, at 10%, into a selling price of \$100,000 for that parcel. However, if location rents are rising every year, the owner may try to capture this future increase in income by charging a price greater than current market value would suggest.

The lower the annual tax in relation to location rental value ("land value"), the greater is the imputed income to be capitalized. Thus, a city with a low effective tax rate on land value will experience high levels of land hoarding and speculation. This causes land prices to spiral upwards rapidly and then crash when businesses can no longer afford to absorb the higher costs of doing business triggered by the speculative land market. Strangely, many of us accept these dynamics as the inevitable consequences of a market economy and the business cycle. Baltimore Thrive recommends a rational tax policy to solve this problem at its core.

Our mission is to provide objective and insightful analysis to mayors such as yourself. Therefore, we urge you to take the lead in removing one of the most serious impediments to the economic health of Baltimore. **We recommend that you reduce tax burdens on productive activities and look to publicly-created land values as the primary source of public revenue.**

Taxing (i.e., collecting) land values brings in revenue, discourages land speculation and pressures those who own land parcels to improve them according to highest and best use as dictated by the market. Zoning and planning measures are important factors in these investment decisions, and current thinking is to encourage mixed-use development so that people can live, work and play in the same area, reducing our dependency on the automobile and paving the way to a cleaner environment.

When land owners make investments in homes, office buildings or stores, cities should avoid penalizing these activities. Selective and limited tax abatements have been employed for decades. But selective abatements fail to address the underlying problem (penalizing productive activities) while creating concerns about favoritism and unfairness. Baltimore Thrive recommends exempting all property improvements from taxation. Nobody should be penalized for constructing, improving or maintaining buildings.

The same logic applies to taxes on the wages and salaries of working people and on the sales of goods and services. These forms of taxation started out at very low levels and have been increased over time, often in response to revenue shortfalls. The long-term impact of these measures has been to drive people and businesses to lower (or no) tax geographies. All across the United States, people game the system by living in states with lower real estate and income taxes while shopping in other states (or online) where sales taxes are lower..

Every city or town – Baltimore included -- would benefit, by reducing tax penalties on productive activities while shifting the tax base to publicly-created land values. Those who work, produce and contribute to the economic and social health of Baltimore will be rewarded. Those who enjoy the privilege of controlling the use of the most desirable and potentially profitable locations in the city would pay their fair share for this privilege.

Thank you for your attention to this matter. Please contact us if you have any questions or concerns.

Sincerely,

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