

DW0110
Department of Planning – Capital

Capital Budget Summary

Grant and Loan Programs
(\$ in Millions)

	<i>FY 2012 Approp.</i>	<i>FY 2013 Approp.</i>	<i>FY 2014 Allowance</i>	<i>Percent Change</i>	<i>DLS Recommd.</i>
Sustainable Communities Tax Credit Program*	\$9.000	\$7.000	\$10.000	42.9%	\$8.500
Maryland Historical Trust Revolving Loan Fund	0.100	0.270	0.250	-7.4%	0.250
African American Heritage Preservation Grant Program	1.000	1.000	1.000	0.0%	1.000
Total	\$10.100	\$8.270	11.250	36.0%	\$9.750

*The fiscal 2013 funding for the Sustainable Communities Tax Credit Program is reflected as special funds instead of general funds. This is due to the funding being allocated from the Budget Restoration Fund special fund as part of Chapter 1 of the 2012 First Special Session (Budget Reconciliation and Financing Act of 2012).

Summary of Issues

Prior Year Liability for Tax Credit Program: The Sustainable Communities Tax Credit Program has an estimated liability of \$17.4 million for 45 projects that came in before fiscal 2006 during the pre-budgeted tax credit time period. There is an additional \$25.7 million liability for 51 projects that would be expected to be completed from fiscal 2006 to 2010 but has not been, presumably because of extensions granted by the Maryland Department of Planning (MDP). **The Department of Legislative Services (DLS) recommends that MDP provide the status of outstanding tax credit applications from both the pre-fiscal 2006 and fiscal 2006 to 2010 time periods and comment on the use of its extension policy for projects from the fiscal 2006 to 2010 time period. DLS also recommends that the budget committees consider whether legislation establishing deadlines for utilizing the credits is necessary to address the estimated liability of \$17.4 million from pre-fiscal 2006 tax credit applications.**

Summary of Updates

Patterson Center Historic Structures Report and Building Status: The market feasibility analysis has been completed for the collection of six historic buildings at Jefferson Patterson Park and Museum in Calvert County. The report on the necessary treatment of the buildings has been delayed again, with a new anticipated completion date of February 2013. Funding is still planned for fiscal 2015 and 2016, but the buildings continue to deteriorate.

Summary of Recommended PAYGO Actions

	<u>Funds</u>
1. Historical Preservation – Capital Appropriation	
Concur with Governor's allowance.	
2. Sustainable Communities Tax Credit	\$1,500,000 GF
Reduce the Governor's allowance for the Sustainable Communities Tax Credit Program.	
Total Reductions	\$1,500,000

Summary of Recommended Bond Actions

1. African American Heritage Preservation Program

Approve \$1,000,000 in general obligation bond authorization for the African American Heritage Preservation Grant Program.

2. Maryland Historical Trust Capital Loan Fund

Approve \$150,000 in general obligation bond authorization for the Maryland Historical Trust Revolving Loan Fund.

Program Description

The mission of MDP Preservation Services program is to preserve historical and archeological resources by providing financial incentives to property owners and enforcing regulations. MDP currently has four capital programs that serve to preserve historical and archeological resources: the Maryland Sustainable Communities Tax Credit Program, the Maryland Historic Trust (MHT) Revolving Loan Fund, the MHT Capital Grant Fund, and the MHT African American Heritage Preservation Grant Program. All four programs seek to promote the acquisition and rehabilitation of historic properties by providing low-interest loan funds, tax credits, or grants, depending on the program.

- **Maryland Sustainable Communities Tax Credit Program** – The Maryland Sustainable Communities Tax Credit Program was created by the Sustainable Communities Act of 2010 (Chapter 487 of 2010) as an extension and alteration of the existing Heritage Structure Rehabilitation Tax Credit Program – a budgeted tax credit. The program has a commercial and a residential component, but only the commercial component is a budgeted tax credit. The tax credits offered are generally equal to 20% of qualified rehabilitation expenditures, not to exceed \$3 million for commercial rehabilitations and \$50,000 for a single-family, owner-occupied residence. The tax credit is increased to 25% for a commercial rehabilitation that meets specified energy efficiency standards. The credit is also available to qualified rehabilitated (nonhistoric) commercial buildings located in a Main Street Maryland Community or a sustainable community. The credit for these qualified rehabilitated structures is equal to 10% of qualified rehabilitation expenses; no more than 10% of commercial credits awarded in each fiscal year may be awarded to these qualified rehabilitated structures. Funding for the program is required for the commercial credit in fiscal 2011 through 2014, and MHT is authorized to award an unlimited amount of residential credits to applications received through June 30, 2014.
- **MHT Revolving Loan Fund** – The MHT Revolving Loan Fund provides loans to nonprofit organizations, local jurisdictions, business entities, and private individuals for the purpose of acquiring, rehabilitating, or refinancing all categories of real property listed in or eligible for listing in the Maryland Register of Historic Properties. Short-term financing (up to two years) may also be available for pre-development work required or recommended by MHT that is to be undertaken in advance of a construction project being funded with federal or State monies. The program may also be used to fund the cost of rehabilitation of historic property owned by MHT and for the acquisition of historic property by MHT. In return for loans, most recipients must convey to MHT a perpetual historic preservation easement on the property.
- **MHT African American Heritage Preservation Grant Program** – The MHT African American Heritage Preservation Grant Program was created by the African American Heritage Preservation Program (Chapters 278 and 279 of 2010) to identify and preserve buildings, communities, and sites of historical and cultural importance to the African American experience in Maryland. The program is administered by MHT in partnership with the Commission on African American History and Culture. Beginning in fiscal 2012, the

Governor must include \$1 million in the annual capital budget submission for program grant projects. Grants may be made to a business entity, individual, political subdivision, or nonprofit organization. Factors considered in granting applications include the public necessity and urgency of a project; the need for additional sources of funding for a project; the estimated cost and timeliness of executing a project; the viability of matching funds for a project; and geographic diversity. Nonprofit organizations are not required to provide matching funding, but for all other recipients, the grant funding requires a match from any combination of federal, county, municipal, or private sources, and State participation must not exceed 50% of the total project cost. Unless waived by the Secretary of MDP as infeasible, grantees must enter into an agreement to preserve and maintain the property. If the property is historic real property, then the agreement must be a recordable historic preservation easement.

- **MHT Capital Grant Fund** – The MHT Capital Grant Fund provides grants to nonprofit organizations, local jurisdictions, business entities, and individuals to assist with acquisition, rehabilitation, or restoration of properties listed on, or eligible for listing on, the National Register of Historic Places. Nonprofit organizations and local jurisdictions may also receive funding for pre-development costs directly associated with a project to rehabilitate or restore historic properties. Successful applicants must give MDP a perpetual preservation easement prior to the receipt of funds. The maximum grant offered is \$50,000.

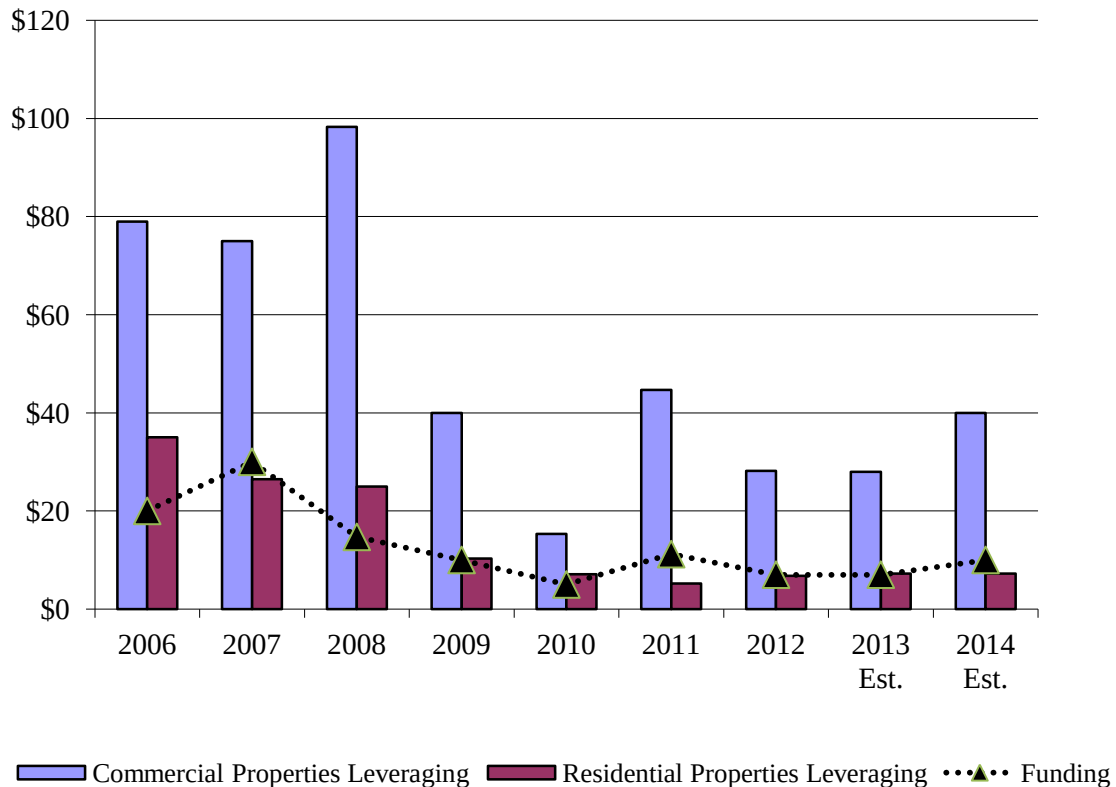
Program Performance Measures and Outputs

Sustainable Communities Tax Credit Program

As shown in **Exhibit 1**, the Administration anticipates an increase in commercial property rehabilitations expenditures leveraged by the tax credit in fiscal 2014 due to the proposed \$3 million increase in the appropriation, which is roughly commensurate with the fiscal 2011 funding.

MDP has not developed separate Managing for Results (MFR) measures for the Sustainable Communities Rehabilitation Tax Credit in order to capture the 10% credit for nonhistoric buildings and the 25% credit for historic properties that qualify as high performance structures. MDP notes that to date no projects have been approved for the 10% credit; therefore, an additional measure showing the 90% leverage in private investment has not been incorporated into its MFR measures.

Exhibit 1
Sustainable Communities Tax Credit
Measure of Private Investment and Program Funding
Fiscal 2006-2014
(\$ in Millions)



Note: No commercial tax credits were authorized in fiscal 2005. The former Maryland Heritage Structure Rehabilitation Tax Credit was first budgeted in the State budget as a tax credit in fiscal 2006 and became the Maryland Sustainable Communities Tax Credit Program on June 1, 2010.

Source: Governor's Budget Books, Fiscal 2006-2014

For the 25% credit, which is a 5% additional credit applied to historic projects that are seeking Leadership in Energy and Environmental Design (LEED) Gold certification, no projects have yet submitted a Part 3 application with the certification, which is required in order to achieve the 25% credit. In fiscal 2011, four projects were approved for the 25% credit at the Part 2 application stage. However, only two of these projects stand to benefit from the 25% credit because their credit allocation at the 20% level is less than the \$3 million per project cap. For fiscal 2012, one project was approved for the 25% credit at the Part 2 application stage. In fiscal 2013, four projects have been approved for the 25% credit at the Part 2 application stage. One of these projects will receive no

additional benefit from the 25% credit because the credit allocation at the 20% level exceeds the \$3 million per project cap. Due to the time lag between pre-selection for the 25% credit and the actual submission of LEED Gold certification, MDP suggests that an appropriate MFR measure would be to show projects that reserved a credit of 25% at the time of the Part 2 application approval. As of January 2013, no Part 3 certifications for projects reserving the credit at the time of the Part 2 application approval have yet been submitted for review.

MHT Revolving Loan Fund

While not formally included in its MFR measures, MDP does report on the types of projects served by the MHT Revolving Loan Fund. In the past, MDP has indicated that tight commercial lending conditions have made the MHT Revolving Loan Fund desirable, and it has not had trouble finding recipients for loans. Therefore, funding constraints appear to limit the amount of loans provided.

Exhibit 2 shows the breakdown of properties executed by category of acquired, rehabilitated, and refinanced properties. As can be seen, the Revolving Loan Fund averages about 1.7 projects per year between fiscal 2005 and the fiscal 2014 estimate, most of which are properties that are rehabilitated. For fiscal 2011 and 2012, all approved projects have been executed, which has not necessarily been the case in prior years.

Exhibit 2
Historic Properties Preserved
Fiscal 2005-2014
(\$ in Millions)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Est.</u> <u>2013</u>	<u>Est.</u> <u>2014</u>
Approved Projects	3	1	3	2	4	2	2	2	2	2
Types of Projects Executed										
Historic Properties Acquired	1	0	0	0	1	0	1	0	1	0
Historic Properties Rehabilitated	1	0	1	2	1	1	1	2	1	2
Historic Properties Refinanced	0	0	1	0	0	0	0	0	0	0
Projects Executed	2	0	2	2	2	1	2	2	2	2

Source: Maryland Department of Planning

African American Heritage Preservation Grant Program

MDP does not report MFR measures for the African American Heritage Preservation Grant Program. MDP has noted that it usually treats non-State investment that is leveraged by a program as

a performance measure, but that the African American Heritage Preservation Grant Program does not require nonprofit applicants to provide matching funds. Instead, MDP has suggested that the match provided by local governments might be an appropriate alternative measure and that a potential objective would be to leverage a non-State match of more than 50% for each grant awarded to local government applicants.

Exhibit 3 shows three trends: (1) a decline in the number of applications from fiscal 2013 (24) to fiscal 2014 (16); (2) a decline in the amount of non-State matching funds leveraged between fiscal 2013 (\$170,960) and 2014 (\$135,565), and (3) relatively few local government applicants in the first three years of the program as shown by the low numbers of applicants required to provide non-State matching funds. MDP notes that applications may have declined due to limited available matching funds and capacity of sponsoring organizations. For instance, some multi-phase projects have not come in for the next phase of funding because the applicants are working to expend available funds to show concrete progress before reapplying. The difference between the non-State matching funds leveraged and the non-State matching funds leveraged by local governments reflects nonprofit organization funds that are leveraged but are not required to be provided as matching funds.

Exhibit 3
African American Heritage Preservation Grant Program Measures
Fiscal 2012-2014
(\$ in Millions)

<u>Performance Measures</u>		<u>2012</u>	<u>2013 Est.</u>	<u>2014 Est.</u>
Input:	Applications received	27	24	16
Output:	Grants awarded	16	15	12
Input:	Funds requested	\$2.07	\$1.97	\$1.48
Output:	Grants awarded	\$1.00	\$1.00	\$1.00
Output:	Non-State matching funds leveraged	\$0.48	\$0.17	\$0.14
Output:	Applicants required to provide non-State matching funds	3 ¹	1 ²	0
Output:	Non-State matching funds leveraged by local government applicants	\$0.16	\$0.05	\$0
Outcome:	Percent of non-State investment leveraged by local government applicants compared to total project cost	50%	50%	n/a

¹Two local governments and one business entity.

²One local government.

Source: Department of Budget and Management; Maryland Department of Planning

Capital Improvement Program

Grant and Loan Capital Improvement Program (\$ in Millions)

<i>Program</i>	<i>2012 Approp.</i>	<i>2013 Approp.</i>	<i>2014 Request</i>	<i>2015 Estimate</i>	<i>2016 Estimate</i>	<i>2017 Estimate</i>	<i>2018 Estimate</i>
Sustainable Communities Tax Credit Program	\$7.000	\$7.000	\$10.000	\$0.000	\$0.000	\$0.000	\$0.000
Maryland Historical Trust Revolving Loan Fund	0.100	0.270	0.250	0.350	0.300	0.300	0.300
African American Heritage Preservation Grant Program	1.000	1.000	1.000	1.000	1.000	0.000	0.000
Total	\$8.100	\$8.270	\$11.250	\$1.350	\$1.300	\$0.300	\$0.300

Note: No out-year funding is projected for the Maryland Sustainable Communities Tax Credit Program since the tax credit is not included in the 2013 *Capital Improvement Program*. The legislation altering and extending the tax credit requires the Governor to include an appropriation to the commercial program through fiscal 2014, but no amount is specified.

<i>Fund Source</i>	<i>2012 Approp.</i>	<i>2013 Approp.</i>	<i>2014 Request</i>	<i>2015 Estimate</i>	<i>2016 Estimate</i>	<i>2017 Estimate</i>	<i>2018 Estimate</i>
PAYGO GF	\$7.000	\$0.000	\$10.000	\$0.000	\$0.000	\$0.000	\$0.000
PAYGO SF	0.100	7.120	0.100	0.200	0.150	0.150	0.150
GO Bonds	1.000	1.150	1.150	1.150	1.150	0.150	0.150
Total	\$8.100	\$8.270	\$11.250	\$1.350	\$1.300	\$0.300	\$0.300

Note: The fiscal 2013 appropriation of \$7.12 million in special funds reflects \$7.0 million for the Sustainable Communities Tax Credit Program from the Budget Restoration Fund.

Budget Overview

Three of MDP's four historic preservation programs are funded in the fiscal 2014 operating and capital budgets.

- **Maryland Sustainable Communities Tax Credit Program** – The fiscal 2014 allowance includes \$10 million in general funds, which is \$3 million more than the fiscal 2013 working appropriation. The Maryland Sustainable Communities Tax Credit Program is not included in the 2013 *Capital Improvement Program* (CIP) since the Administration considers it a financing mechanism and not a pay-as-you-go capital program.
- **MHT Revolving Loan Fund** – The fiscal 2014 allowance includes \$100,000 in special funds and \$150,000 in general obligation (GO) bonds, for a total appropriation of \$250,000. This reflects a \$20,000 decrease in special fund appropriation relative to the fiscal 2013 appropriation but is consistent with the 2012 CIP. The current fiscal 2013 project is a loan of up to \$239,920 to Alice Estrada for the Hammond and Polly Dorsey Cottage. For fiscal 2014, an application has been received for a loan of up to \$151,000 to the Bolton Hill Nursery, Inc. for the Rolando-Thom House.
- **MHT African American Heritage Preservation Grant Program** – The fiscal 2014 capital budget bill includes \$1 million in GO bonds for the African American Heritage Preservation Grant Program, which is level with the fiscal 2013 authorization and consistent with the 2012 CIP. For fiscal 2014, the following projects are receiving multi-phase project funding that includes funding in fiscal 2013: Christ Rock Methodist Episcopal Church Renovation (Dorchester County), Sandy Springs Odd Fellows Lodge Renovation (Montgomery County), Kennard High School Restoration (Queen Anne's County), Asbury Methodist Episcopal Church Restoration (Talbot County), and Charles H. Chipman Center Improvement (Wicomico County).
- **MHT Capital Grant Fund** – No funding was provided in fiscal 2014, which is level with the zero appropriation in fiscal 2013 and consistent with the 2012 CIP. MDP has noted in the past that it needs additional staffing to support the program. Funding is projected to be provided next in fiscal 2018 according to the 2013 CIP, which is a delay of one year relative to the 2012 CIP.

Issues

1. Prior Year Liability for Tax Credit Program

The Sustainable Communities Tax Credit Program has two main time periods in which projects would be expected to be completed but have not been. The two time periods are as follows:

- **Pre-fiscal 2006** – There are 45 projects that have an estimated credit of \$17.4 million that have not been completed. This is during the pre-budgeted tax credit era when there was no annual appropriation capping the amount of the credit, and there was no limitation on how long a project could take.
- **Fiscal 2006 to 2010** – There are 51 projects that have an estimated credit of \$25.7 million that have not been completed. This is during the budgeted tax credit era when there was an annual appropriation that capped the amount of the credit, and a requirement was that a project had to begin within 18 months and be completed in 30 months. However, the MHT Director is allowed to extend the project period beyond the 30 months.

DLS recommends that MDP provide the status of outstanding tax credit applications from both the pre-fiscal 2006 and fiscal 2006 to 2010 time periods and comment on the use of its extension policy for projects from the fiscal 2006 to 2010 time period. DLS also recommends that the budget committees consider whether legislation establishing deadlines for utilizing the credits is necessary to address the estimated liability of \$17.4 million from pre-fiscal 2006 tax credit applications.

Updates

1. Historic Structures Report Phase II Status

The Patterson Center is the collective term for the six historic buildings at Jefferson Patterson Park and Museum in Calvert County including the main house, pool house, greenhouse, garage, gardener's cottage, and beach house. The buildings require renovation to address safety and Americans with Disabilities Act accessibility concerns. The commissioning of a two-part Historic Structures Report has been initiated in order to determine the significance of the Patterson Center through a market feasibility study (Phase I) and to determine the conditions and necessary treatment (Phase II). The market feasibility study was completed in May 2012.

MDP issued the request for proposals for Phase II of the Historic Structures Report on January 20, 2012, with a closing date of March 13, 2012. A deficiency appropriation was included in the Governor's fiscal 2012 budget for \$150,000 in federal funds from the National Park Service's Save America's Treasures funding for this purpose. The report is expected to be completed in February 2013.

Currently, the 2013 CIP slates the Patterson Center to receive planning funding of \$250,000 in fiscal 2015 to be followed with \$50,000 in planning funding and \$4.5 million in construction funding in fiscal 2016.

MDP indicates that the buildings continue to deteriorate as follows:

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- **Main House** – Old deteriorated flashing on the roof and damaged gutters have led to water infiltration from the roof, dormers, and chimneys, and the basement needs to be sealed because it floods. The maintenance team has temporarily redirected water from the foundation to address the basement flooding. MDP has sought Federal Emergency Management Agency and Maryland Emergency Management Agency funding for repairs that can be attributed to the June 2012 derecho event and Hurricane Sandy.
- **Pool House** – The underground power line has shorted out, the asbestos roof tiles continue to degrade, and the bathrooms have flooded, possibly due to roots growing into the drain lines. Neither the underground power line nor the asbestos roof tiles have been addressed. A plumber “snaked” the drain but could not resolve the flooding issue.
- **Beach House** – The maintenance team has repaired some exterior siding that was broken.
- **Gardener’s Cottage** – Mold, asbestos, and exterior peeling paint are concerns, none of which have been addressed. The maintenance team repaired a post damaged by rot.

PAYGO Recommended Actions

1. Concur with the Governor's allowance of \$100,000 in special funds for the Maryland Historical Trust Revolving Loan Fund.

**Amount
Reduction**

2. Reduce the Governor's allowance for the Sustainable Communities Tax Credit Program to allow for a measured increase in the funding level. \$1,500,000 GF

Total General Fund Reductions \$1,500,000

GO Bond Recommended Actions

1. Approve \$1,000,000 in general obligation bond authorization for the African American Heritage Preservation Grant Program.
2. Approve \$150,000 in general obligation bond authorization for the Maryland Historical Trust Revolving Loan Fund.

Fiscal 2014 African American Heritage Preservation Grant Program Projects

<u>Subdivision</u>	<u>Project Title</u>	<u>Estimated Cost</u>	<u>2014 Amount</u>	<u>Total State Share (%)</u>
Baltimore	Louis S. Diggs Research Center for African-American History Improvements	\$100,000	\$100,000	100.0%
Baltimore	Samuel and Ida Torsell Mini Museum Improvements	69,000	69,000	100.0%
Dorchester	Christ Rock Methodist Episcopal Church Renovation	100,000	100,000	100.0%
Frederick	Bartonsville Community Cemetery Improvements	13,000	13,000	100.0%
Kent	Charles Sumner Post #25 Improvements	143,000	100,000	69.9%
Montgomery	Sandy Spring Odd Fellows Lodge Renovation	100,000	100,000	100.0%
Queen Anne's	Kennard High School Restoration	142,000	100,000	70.4%
Somerset	St. James Methodist Episcopal Church Improvements	100,000	100,000	100.0%
St. Mary's	Sotterley Plantation Improvements	128,000	100,000	78.1%
Talbot	Asbury Methodist Episcopal Church	100,000	100,000	100.0%
Talbot	Bethel African Methodist Episcopal Church Improvements	18,000	18,000	100.0%
Wicomico	Charles H. Chipman Center Improvements	100,000	100,000	100.0%
Total		\$1,113,000	\$1,000,000	

Fiscal 2013 Sustainable Communities Tax Credit Projects

<u>Project Name</u>	<u>County</u>	<u>Description</u>	<u>Credit Amount</u>
Centre Theatre	Baltimore City	Convert vacant commercial building to multi-user art center and restaurants	\$3,000,000
Baltimore Traction Company Car Bar and Power House	Baltimore City	Convert former cable car powerhouse to office space for technology incubator hub	\$2,820,722
Eastern Shore Conservation Center	Talbot	Convert former industrial laundry to conservation-oriented office spaces	\$875,000
Warfield “G” Cottage	Carroll	Convert former institutional dormitory to office space	\$246,619
Bakery Lofts	Anne Arundel	Convert former bakery to commercial office and apartment units	\$50,000
Total			\$6,992,341

Note: Fiscal 2014 applications are expected to be due on August 31, 2013, with funding announcements made in fall 2013.