

DW0110
Department of Planning – Capital

Capital Budget Summary

State-owned Capital Improvement Program
(\$ in Millions)

Projects	Prior Auth.	2017 Est.	2018 Est.	2019 Est.	2020 Est.	2021 Est.	Beyond CIP
Patterson Center Renovations	\$0.500	\$0.327	\$0.000	\$2.930	\$2.929	\$0.000	\$0.000
St. Leonard's Creek Shoreline Erosion Control and Public Access	0.360	3.091	0.000	0.000	0.000	0.000	0.000
Maryland Archaeological Conservation Laboratory – Expansion and Renovation	0.000	0.000	0.000	0.000	0.332	2.518	2.460
Total	\$0.860	\$3.418	\$0.000	\$2.930	\$3.261	\$2.518	\$2.460

Fund Source	Prior Auth.	2017 Est.	2018 Est.	2019 Est.	2020 Est.	2021 Est.	Beyond CIP
GO Bonds	\$0.761	\$3.418	\$0.000	\$2.930	\$3.261	\$2.518	\$2.460
Nonbudgeted Funds	0.099	0.000	0.000	0.000	0.000	0.000	0.000
Total	\$0.860	\$3.418	\$0.000	\$2.930	\$3.261	\$2.518	\$2.460

CIP: Capital Improvement Program
GO: general obligation

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

Program	2015 Approp.	2016 Approp.	2017 Request	2018 Est.	2019 Est.	2020 Est.	2021 Est.
Sustainable Communities Tax Credit Program	\$9.000	\$9.000	\$9.000	\$0.000	\$0.000	\$0.000	\$0.000
Maryland Historical Trust Revolving Loan Fund	0.350	0.300	0.300	0.300	0.300	0.300	0.300
African American Heritage Preservation Grant Program	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Maryland Historical Trust Capital Grant Fund	0.000	0.000	0.000	0.600	0.600	0.600	0.600
Total	\$10.350	\$10.300	\$10.300	\$1.900	\$1.900	\$1.900	\$1.900

Fund Source	2015 Approp.	2016 Request	2017 Est.	2018 Est.	2019 Est.	2020 Est.	2021 Est.
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PAYGO GF	\$9.000	\$9.000	\$9.000	\$0.000	\$0.000	\$0.000	\$0.000
PAYGO SF	0.200	0.300	0.150	0.150	0.150	0.150	0.150
GO Bonds	1.150	1.000	1.150	1.750	1.750	1.750	1.750
Total	\$10.350	\$10.300	\$10.300	\$1.900	\$1.900	\$1.900	\$1.900

GF: general funds
GO: general obligation
PAYGO: pay-as-you-go
SF: special funds

Note: No out-year funding is projected for the Maryland Sustainable Communities Tax Credit Program since the tax credit is not included in the 2016 *Capital Improvement Program*. Chapter 601 of 2014 (Sustainable Communities Tax Credit Program – Extension and Alteration) altered and extended the tax credit through fiscal 2019 but did not specify an amount. SB 759 and HB 939 have been introduced in the 2016 session to re-authorize the Sustainable Communities Tax Credit Program.

Summary of Issues

Staffing Shortage Appears to Be Ongoing: The Maryland Historical Trust (MHT) Sustainable Communities Tax Credit Program website still posts a notice that residential and small commercial tax credit programs are unstaffed, effective September 1, 2015. MHT indicated in September 2015 that the application review time has only slipped to 30 to 60 days from the 30 to 40 days standard review time when fully staffed. However, it was noted that the overtime work by staff may not be sustainable over the long term. **The Department of Legislative Services (DLS) recommends that the Maryland Department of Planning (MDP) comment on the status of staffing the residential and small commercial tax credit programs and the current application review time.**

Maryland Historical Trust Revolving Loan Fund Expenditure: The MHT Revolving Loan Fund's fiscal 2015 projects included an expenditure to fund the stabilization and rehabilitation of the Gardener's Cottage Rehabilitation project at Jefferson Patterson Park and Museum. However, this use of funding permanently reduced the amount of funding revolving in the fund and is likely to make the need for increased capitalization of the fund with general obligation (GO) bonds more critical than would otherwise be the case. **DLS recommends that MDP comment on the impact of the expenditure for the Gardener's Cottage on the capitalization schedule for the MHT Revolving Loan Fund.**

Sustainable Communities Tax Credit Program Status: On February 1, 2016, the Tax Credit Evaluation Committee met to determine whether the Sustainable Communities Tax Credit should be continued. The committee voted to extend the credit and legislation has been introduced in the 2016 legislative session to effectuate the committee's decision. **DLS recommends that MDP and MHT comment on the outreach efforts to increase credit participation in jurisdictions that have been historically underrepresented in the award of tax credits; how creating, enhancing, supporting, and revitalizing sustainable communities fits into existing and new strategies to take advantage of federal and State infrastructure investment opportunities; and the process for reviewing rehabilitation activity and preventing fraudulent claims and whether the review process is sufficient to detect and deter potential fraud.**

Summary of Updates

African American Heritage Preservation Grant Program Re-authorized: Chapter 371 of 2015 (African American Heritage Preservation (AAHP) Program – Reestablishment and Revisions) reestablished, with alterations, and made permanent the AAHP Program. For each fiscal year, the Governor must include in the annual operating or capital budget an appropriation of \$1 million to the AAHP Grant Fund, a special fund established by the bill. The more significant alterations to the existing program include changing the application date (to be decided by MHT and the Commission on African American History and Culture), requiring grant applications to be considered competitively, creating an emergency grant process, changing a reporting date, and modifying the easement waiver authority.

Summary of Recommended PAYGO Actions

1. Concur with Governor's allowance of \$150,000 in special funds for the Maryland Historical Trust Revolving Loan Fund.
2. Concur with Governor's allowance of \$9,000,000 in general funds for the Sustainable Communities Tax Credit Program.

Summary of Recommended Bond Actions

1. Patterson Center Renovation

Approve the \$327,000 general obligation bond authorization for the Patterson Center Renovations.
2. St. Leonard's Creek Shoreline Erosion Control

Approve the \$3,091,000 general obligation bond authorization for the St. Leonard's Creek Shoreline Erosion Control project.
3. African American Heritage Preservation Grant Program

Approve the \$1,000,000 general obligation bond authorization for the African American Heritage Preservation Grant Program.
4. Historical Preservation Loan Fund

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

Program Description

The mission of the 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 MHT Revolving Loan Fund, the MHT Capital Grant Fund, and the MHT AAHP 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. In addition to funding for three of the four capital grant and loan programs, there is funding programmed in the five-year 2016 *Capital Improvement Program* (CIP) for several State-owned projects administered by MDP including the St. Leonard's Creek Shoreline Erosion Control and Public Access project, the Patterson Center Renovations project, and the Maryland Archaeological Conservation Laboratory – Expansion and Renovation project.

- **Maryland Sustainable Communities Tax Credit Program** – The Maryland Sustainable Communities Tax Credit Program was created by the Sustainable Communities Act of 2010 (Chapter 487) as an extension and alteration of the existing Heritage Structure Rehabilitation Tax Credit Program – a budgeted tax credit. Chapter 601 of 2014 (Sustainable Communities Tax Credit Program – Extension and Alteration) altered and extended the program. The program has a commercial budgeted tax credit and both a small commercial and residential nonbudgeted tax credit. The small commercial nonbudgeted tax credit has a \$4 million overall cap for the fiscal 2015 through 2017 time period, the qualified rehabilitation expenditures cannot exceed \$500,000 per project, and the structure must be located within a sustainable community. 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 both single-family, owner-occupied residences and small commercial projects. The tax credit is increased to 25% for a commercial rehabilitation that meets specified energy efficiency standards. The tax credit is no longer available for qualified rehabilitated (nonhistoric) commercial buildings located in a Main Street Maryland Community or a sustainable community. Funding for the program is required for the commercial credit in fiscal 2015 through 2017. MHT is authorized to award an unlimited amount of residential credits to applications received through June 30, 2017.
- **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 predevelopment 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.

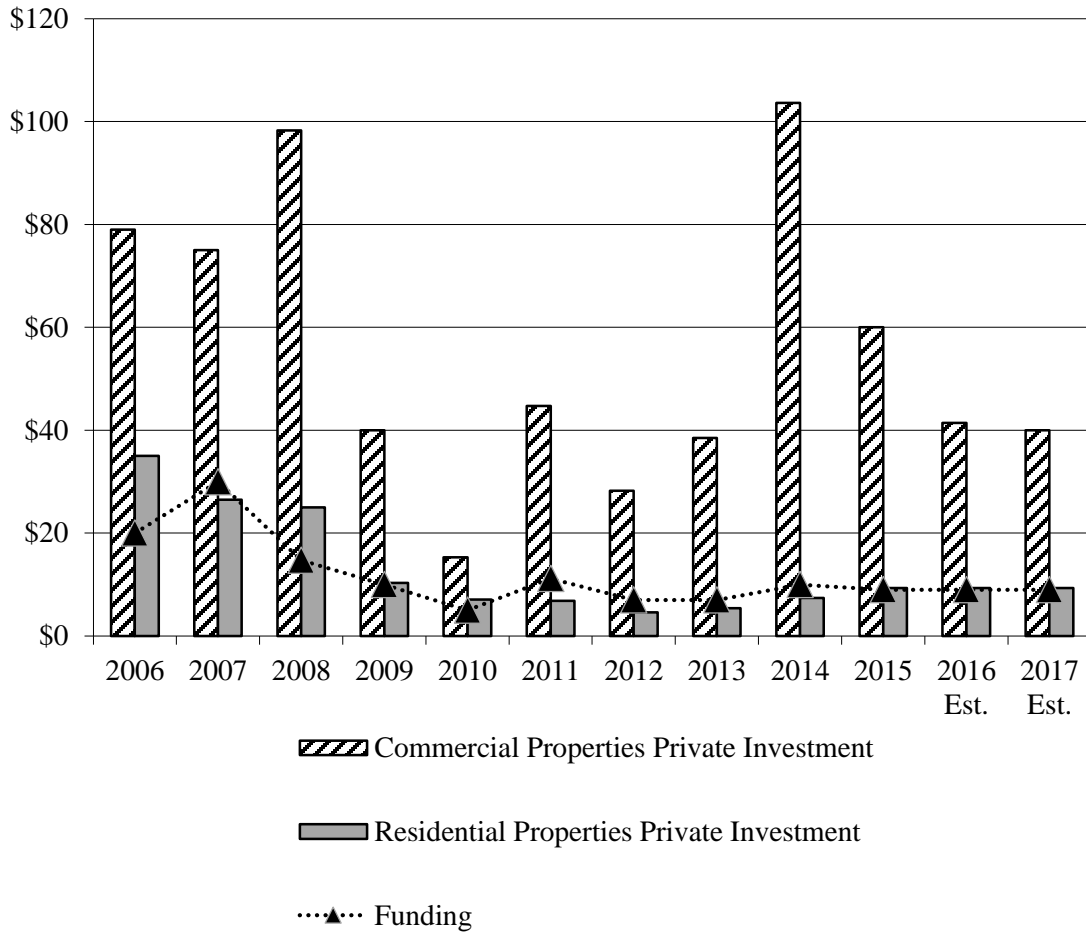
- **MHT AAHP Grant Program** – The MHT AAHP Grant Program was created by the AAHP Program (Chapters 278 and 279 of 2010) to identify and preserve buildings, communities, and sites of historical and cultural importance to the African American experience in Maryland. The program is administered by MHT in partnership with the Commission on African American History and Culture. Chapter 371 of 2015 (AAHP Program – Reestablishment and Revisions) reestablished, with alterations, and made permanent the AAHP Program. For each fiscal year, the Governor must include in the annual operating or capital budget an appropriation of \$1 million to the AAHP Grant Fund, a special fund established by the bill. Grant applications may be submitted by a date established annually by the MHT and the Commission on African American History and Culture and grants may be made to a business entity, individual, political subdivision, or nonprofit organization. In general, grant applications are considered competitively against all other grant applications submitted during the same fiscal year. 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. Up to 20% of the money available in the AAHP Grant Fund may be awarded to eligible emergency AAHP Projects not otherwise applied for during the regular application cycle. Unless waived by the director of the Maryland Historical Trust 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, or eligible for listing, on the National Register of Historic Places. Nonprofit organizations and local jurisdictions may also receive funding for predevelopment 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.

Performance Measures and Outputs

Sustainable Communities Tax Credit Program

As shown in **Exhibit 1**, there was a substantial increase between fiscal 2013 and 2014 in the private investment for both rehabilitation of historic commercial properties and historic owner-occupied residential properties. For the commercial properties, the private investment increased from \$38.5 million to \$103.6 million, or 169%; residential properties' private investment increased from \$5.4 million in fiscal 2013 to \$7.4 million in fiscal 2014, or 37%. MDP has noted that the substantial increase in commercial property private investment between fiscal 2013 and 2014 is due to two large projects that had project costs in excess of the \$15.0 million in costs eligible for the credit under the \$3.0 million per project cap: Baltimore Trust Company Building, with an estimated cost of \$75.0 million; and the Clipper Mill Project, with an estimated cost of \$17.3 million. The fiscal 2015 data reflects the return to a lower level of private investment with even more conservative estimates for fiscal 2016 and 2017.

Exhibit 1
Sustainable Communities Tax Credit
Measure of Private Investment and Program Funding
Fiscal 2006-2017 Est.
(\$ 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 2009-2016; Maryland Department of Planning

MHT Revolving Loan Fund

While not formally included in its Managing for Results (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 – both the amount of funding and the fact that only loans are available – appear to limit the amount of loans provided.

The Revolving Loan Fund averaged about 1.4 projects per year between fiscal 2005 and 2015, most of which are properties that were rehabilitated. For fiscal 2011 to 2015, all approved projects have been executed, which has not necessarily been the case in prior years. In terms of fiscal 2016 projects, MHT notes that it is in the process of evaluating a loan application for \$235,000 received on January 15, 2016, for a refinancing project in Baltimore City. The first step in the process is to receive additional information about the project and then the project backers will need to seek approval from the MHT Board of Trustees in March 2016.

AAHP Grant Program

MDP does not report MFR measures for the AAHP 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 AAHP 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.

The MDP project application deadline for fiscal 2017 is July 15, 2016, which reflects the new authority of MDP to select a date as provided for in the reauthorization legislation and means that no projects were solicited in calendar 2015. As a result, the CIP does not yet show projects for the AAHP Grant Program. **Exhibit 2**, which includes information about estimated fiscal 2017 projects, shows two trends: (1) a decline in the amount of non-State matching funds leveraged between fiscal 2012 (approximately \$480,000) and the fiscal 2017 estimate (approximately \$70,000); and (2) relatively few local government applicants in the five years of the program, as shown by the low numbers of applicants required to provide non-State matching funds. MDP has noted in the past that it encourages applications for funding through outreach efforts such as conversations both one-on-one and in grant workshops, relationships formed with African American heritage-orientated organizations, and by responses to public inquiries. Fiscal 2015 was the first year in which an online application was introduced.

Exhibit 2
African American Heritage Preservation Grant Program Measures
Fiscal 2012-2017 Est.
(\$ in Millions)

<u>Performance Measures</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Est. 2017</u>
Input: Applications received	27	24	16	27	34	30
Output: Grants awarded	16	15	12	14	13	14
Input: Funds requested	\$2.07	\$1.97	\$1.48	\$2.29	\$2.96	\$2.30
Output: Grants awarded	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Output: Non-State matching funds leveraged	\$0.48	\$0.17	\$0.11	\$0.13	\$0.04	\$0.07
Output: Applicants required to provide non-State matching funds	3 ¹	1 ²	0	2 ³	0	1

¹ Two local governments and one business entity.

² One local government.

³ Two local governments.

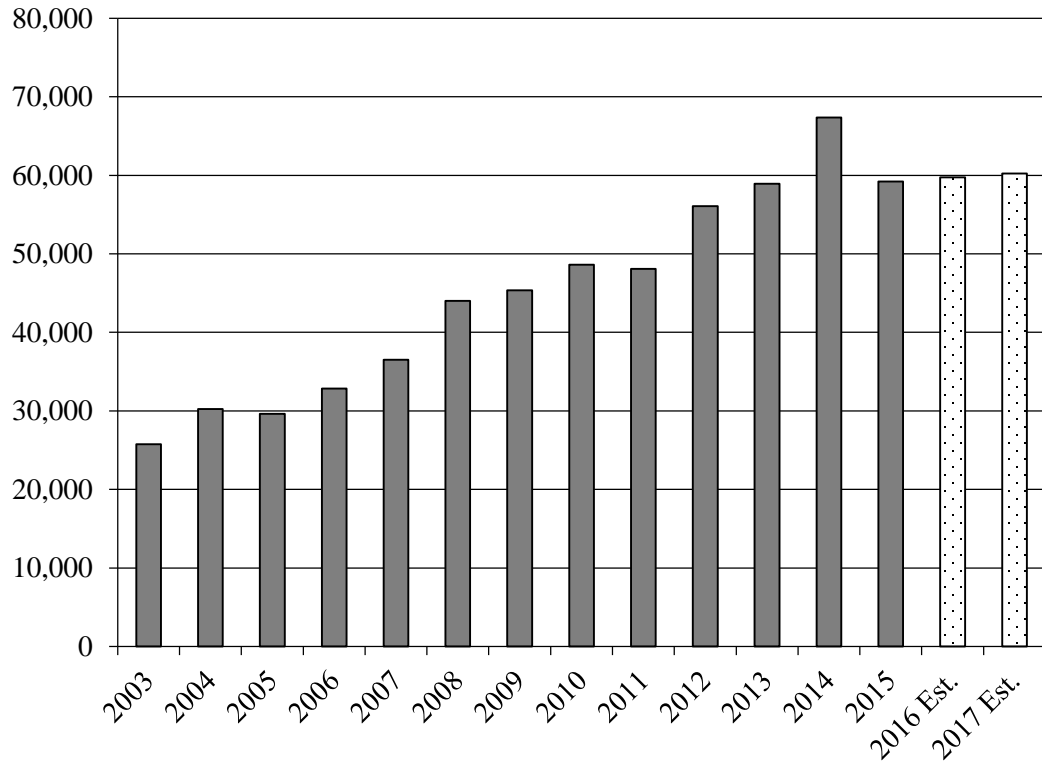
Source: Maryland Department of Planning

Patterson Center Renovations

Attendance is the primary performance measure for the Jefferson Patterson Park and Museum. As shown in **Exhibit 3**, attendance steadily increased from 48,075 in fiscal 2011 to 67,378 in fiscal 2014 but leveled off to 59,203 in fiscal 2015. MDP has attributed the overall increase over the time period shown to the following.

- **Availability** – There has been a recent focus on keeping the park grounds open seven days a week for 52 weeks a year, which has increased trail use and thus attendance.
- **Improved Events** – The three days of War of 1812 activities, including a two-day Bicentennial celebration, in fiscal 2014 were key draws. Educational programs such as a Children’s Day on the Farm have been improved, summer camps have been expanded, and groups such as the Center for Talented Youth have been attracted.
- **Marketing** – MDP has developed a closer relationship with local media outlets and has marketed rental facilities through certain channels.

Exhibit 3
Jefferson Patterson Park and Museum Attendance
Fiscal 2003-2017 Est.



Source: Governor’s Budget Books, Fiscal 2003-2014; Department of Budget and Management, Fiscal 2015-2017

Budget Overview

Fiscal 2017 Proposed Budget

Grant and Loan Programs

Three of the four MDP historic preservation programs are funded in the fiscal 2017 operating and capital budgets.

- **Maryland Sustainable Communities Tax Credit Program** – The fiscal 2017 allowance includes \$9 million in general funds, which is level with the fiscal 2016 working appropriation. The Maryland Sustainable Communities Tax Credit Program is not included in the 2016 CIP since the Administration considers it a financing mechanism and not a pay-as-you-go capital program. SB 759 and HB 939 have been introduced in the 2016 legislative session in order to effectuate the recommendations of the Tax Credit Evaluation Committee, which evaluated the Maryland Sustainable Communities Tax Credit Program. The six projects that received \$9,040,646 in tax credit funding in fiscal 2016 on November 16, 2015, are shown in the projects section at the end of this analysis.
- **MHT Revolving Loan Fund** – The fiscal 2017 allowance includes a total of \$300,000: \$150,000 in special funds and \$150,000 in GO bond authorization that capitalizes the fund. This funding level equals the amount and fund mix programmed in the 2015 CIP for fiscal 2017 and equals the amount in the fiscal 2016 working appropriation but reflects \$150,000 less in special funds and \$150,000 more in GO bonds relative to the fiscal 2016 working appropriation. Capitalization funding of \$150,000 in GO bonds is programmed in the 2016 CIP for every year through the end of the five-year planning period.
- **MHT AAHP Grant Program** – The fiscal 2017 capital budget bill includes \$1 million in GO bonds for the AAHP Grant Program, which is level with the fiscal 2016 authorization but is not consistent with the 2016 CIP because the Administration determined that the funding mandate ended in fiscal 2016. Chapter 371 of 2015 (AAHP Program – Reestablishment and Revisions) reestablished, with alterations, and made permanent the AAHP Program and required the Governor to include in the annual operating or capital budget an appropriation of \$1 million to the AAHP Grant Fund. Based on the mandate, the 2016 CIP reflects funding for the program through the end of the five-year planning period.

State-owned Projects

The fiscal 2017 capital budget bill includes \$3,091,000 in GO bonds for construction of the St. Leonard's Creek Shoreline Erosion Control and Public Access project and \$327,000 for planning the Patterson Center Renovations. The project details are as follows.

- **St. Leonard’s Creek Shoreline Erosion Control and Public Access Project** – Fiscal 2017 funding of \$3,091,000 completes the design and fully funds construction of the project. The project schedule has slipped by five months with design now starting in March 2016 instead of June 2015. This is somewhat mitigated by a modification to the construction schedule, which is anticipated to be two months shorter than previously planned. The overall project consists of shoreline erosion control protection and the construction of a pier and boardwalk. The shoreline erosion control portion of the project is necessary due to the 25-foot high bluffs along St. Leonard’s Creek being undercut by wind and wave action after Hurricane Isabel in September 2003. Shoreline erosion has increased to two feet a year since Hurricane Isabel, in contrast to the minimal shoreline erosion along the Jefferson Patterson Park and Museum shoreline that already has living shoreline erosion control measures in place. In addition, high and low marsh plant habitat are in danger of being lost that would otherwise support nesting terrapin and horseshoe crabs. The project is intended to almost eliminate shoreline erosion, which will also help to protect historic and cultural resources such as Native American, early colonial, and War of 1812 artifacts. A \$50,000 grant received from a combination of the Chesapeake Bay Trust, National Oceanic and Atmospheric Administration, and the Maryland Department of the Environment for design of a 2,000-linear-foot living shoreline was used to inform the project design. The pier and boardwalk portion of the project is necessary because there is no public boat access on St. Leonard Creek, and the boating public has made numerous enquiries about how to access Jefferson Patterson Park and Museum. The construction of a pier and boardwalk will provide water access to students and other visitors, such as the boating public. Of note, there was \$99,000 in nonbudgeted funds provided in fiscal 2016 from the Waterway Improvement Program for the boardwalk and pier component of the project.
- **Patterson Center Renovations** – Fiscal 2017 funding of \$327,000 in GO bonds will complete design of the project. The project has been delayed since the design services were not procured until November 2015 and are now expected to run through the end of fiscal 2017. This requires the rescheduling of construction funds from what was programmed in the 2015 CIP – splitting construction over fiscal 2017 and 2018 – but now the 2016 CIP does not schedule construction funding until fiscal 2019 and 2020. This delay leaves a one year gap following completion of design. While the total project cost estimate of \$6.686 million is down from the \$7.0 million estimated in the 2015 CIP, at this stage the project cost estimate is not informed by architectural and engineering efforts and will likely be revised as the design progresses to 100% construction documents. The Patterson Center Renovations project consists of renovating three buildings at Jefferson Patterson Park and Museum in Calvert County – the main house, pool house, and garage – in order to fulfill the function of a house museum. Renovations include remediating structural failures; upgrading to meet current codes for fire, electrical, and the Americans with Disabilities Act; and landscaping. **DLS recommends that MDP comment on the current income potential plans for the property given the Historic Structures Report completed for the property, which included a building reuse (market feasibility) study.**

Issues

1. Staffing Shortage Appears to Be Ongoing

The MHT Sustainable Communities Tax Credit Program website still posts a notice that residential and small commercial tax credit programs are unstaffed, effective September 1, 2015. The notice indicates that MHT will accept complete Part 1 and Part 2 applications for the programs but will not initiate review of the applications until the programs are fully staffed, which the notice indicates that MHT was in the process of doing. Upon further inquiry, MHT indicated in September 2015 that the application review time has only slipped to 30 to 60 days from the 30 to 40 days standard review time when fully staffed. This mitigation of delays was due to the reassignment of existing staff with program experience and the willingness of staff to work overtime. However, it was noted that the overtime work by staff may not be sustainable over the long term. **DLS recommends that MDP comment on the status of staffing the residential and small commercial tax credit programs and the current application review time.**

2. Maryland Historical Trust Revolving Loan Fund Expenditure

The MHT Revolving Loan Fund's fiscal 2015 projects included an expenditure to fund the stabilization and rehabilitation of the Gardener's Cottage Rehabilitation project at Jefferson Patterson Park and Museum. The project was approved for the \$175,000 expenditure on the February 18, 2015, Board of Public Works agenda and involved extensive interior and exterior rehabilitation of the property and restored the project since it was taken out of the plan for the Patterson Center Renovations project. However, this use of funding permanently reduced the amount of funding available for future use since it was provided as a grant. While capitalization funding of \$150,000 in GO bonds has been planned for the out-years since at least the 2014 CIP, the expenditure is likely to make the need for increased capitalization of the fund with GO bonds more critical than would otherwise be the case. **DLS recommends that MDP comment on the impact of the expenditure for the Gardener's Cottage on the capitalization schedule for the MHT Revolving Loan Fund.**

3. Sustainable Communities Tax Credit Program Status

Chapters 568 and 569 of 2012 (Tax Credit Evaluation Act) established a legislative process for evaluating certain tax credits. The legislative evaluation committee created by the Act is required to evaluate the sustainable communities' tax credit by July 1, 2016. To assist the tax credit evaluation committee, DLS is required to evaluate the credit on a number of factors, including (1) the purpose for which the tax credit was established; (2) whether the original intent of the tax credit is still appropriate; (3) whether the tax credit is meeting its objectives; (4) whether the goals of the tax credit could be more effectively carried out by other means; and (5) the cost of the tax credit to the State and local governments.

On February 1, 2016, the Tax Credit Evaluation Committee met to determine whether the Sustainable Communities Tax Credit should be continued. The committee voted to extend the credit, and legislation has been introduced in the 2016 legislative session to effectuate the committee's decision. **Exhibit 4** shows a comparison of the draft tax credit evaluation recommendations and the re-authorization bill provisions. The proposed bill generally follows the tax credit evaluation recommendations with the exception of not including the following: increasing the current 60% geographic limitation to a higher percentage or completely eliminating the limitation; and prohibiting residential tax credits if the assessed value of the property is greater than 150% of the county's median home price. In addition to making substantive recommendations to the program, the tax credit evaluation included three areas on which MDP or MHT or both should comment. **DLS recommends that MDP and MHT comment on the outreach efforts to increase credit participation in jurisdictions that have been historically underrepresented in the award of tax credits; how creating, enhancing, supporting, and revitalizing sustainable communities fits into existing and new strategies to take advantage of federal and State infrastructure investment opportunities; and the process for reviewing rehabilitation activity and preventing fraudulent claims and whether the review process is sufficient to detect and deter potential fraud.**

Exhibit 4
Tax Credit Evaluation Recommendations
Compared to Re-authorization Bill Provisions

<u>Finding</u>	<u>Recommendation</u>	<u>Bill Provision</u>
Credit reforms have successfully increased fiscal certainty and served as a model for subsequent tax credit programs.	Maintain the commercial tax credit as a budgeted tax credit subject to an aggregate limitation each year and maintain the \$3 million cap on the maximum value of the commercial tax credit.	Adopted. No change in statute is necessary.
Using a competitive process to award commercial project credits has been effective.	Maintain the competitive process used to award commercial tax credits and consider implementing competitive processes for other State tax credits, such as the biotechnology investment incentive tax credit and the One Maryland tax credit.	Adopted. No change in statute is necessary.
Commercial credit reporting requirements are more detailed than for other similar tax credit programs.	Maintain MHT's current reporting requirements for commercial tax credits and consider implementing comparable reporting requirements for other State tax credits.	Adopted. No change in statute is necessary.
Federal grants qualify as credit expenditures and can limit private investment.	Prohibit any federal funds from qualifying as expenditures for purposes of the State credit.	Adopted. Bill modifies the definition of qualified rehabilitation expenditure to include any amount that is not funded, financed, or otherwise reimbursed by any federal grant.

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Finding

Statutory criteria designed to ensure geographic diversity of projects may not achieve desired results and can impact the overall quality of projects receiving credits.

Commercial and residential credit projects in Baltimore City generally occur in different parts of the city, with residential projects skewed to neighborhoods with higher incomes and housing values.

Despite efforts to increase geographic diversity, Baltimore City continues to have a large majority of commercial and residential credit projects.

Sustainable community revitalization efforts should be coordinated with other federal and State infrastructure investment programs.

Claims for fraudulent rehabilitation expenditures may occur even with a detailed certification process.

Recommendation

Consider increasing the current 60% geographic limitation to a higher percentage or completely eliminating the limitation; and eliminate the criterion of scoring points on geographic underrepresentation or require MHT to develop a new scoring metric to better capture the inventory of eligible properties in historically underrepresented jurisdictions.

Consider prohibiting residential tax credits if the assessed value of the property is greater than 150% of the county's median home price, which could better target credits to residential properties in neighborhoods in need of revitalization instead of simply rehabilitating properties in neighborhoods with high market values.

Have MHT comment on its outreach efforts to increase credit participation in jurisdictions that have been historically underrepresented in the award of tax credits.

Have MDP and MHT comment on how creating, enhancing, supporting, and revitalizing sustainable communities fits into existing and new strategies to take advantage of federal and State infrastructure investment opportunities.

Have MHT comment on its process for reviewing rehabilitation activity and preventing fraudulent claims and whether its review process is sufficient to detect and deter potential fraud and also have MHT consider taking additional steps to detect fraud, such as calculating the cost per square foot for projects, and performing additional review if this calculation exceeds a certain threshold.

Bill Provision

Partially adopted. Bill strikes the criterion of scoring points on geographic representation, but maintains the 60% geographic limitation.

Not adopted.

Not applicable.

Not applicable.

Not applicable.

MDP: Maryland Department of Planning
MHT: Maryland Historical Trust

Source: Department of Legislative Services

Updates

1. African American Heritage Preservation Grant Program Re-authorized

Chapter 371 of 2015 (AAHP Program – Reestablishment and Revisions) reestablished, with alterations, and made permanent the AAHP Program. For each fiscal year, the Governor must include in the annual operating or capital budget an appropriation of \$1 million to the AAHP Grant Fund, a special fund established by the bill. The more significant alterations to the existing program are discussed below.

- **Fund** – Creates the AAHP Grant Fund, administered by MHT, as a special, nonlapsing fund that may be used only for African American Heritage Grants. The AAHP Grant Fund consists of (1) money appropriated in the State budget; (2) investment earnings; (3) any other money from any other source; and (4) money received from the sale of State GO bonds.
- **Application Date** – Changes the date by which an application for an AAHP Grant may be submitted from July 15 each year to a date established annually by MHT and the Commission on African American History and Culture. MDP has noted that flexibility in establishing an application date will allow for a date to be set that is closer to the beginning of the new fiscal year, thus allowing applicants to access funding more quickly.
- **Criteria** – Requires MHT and the commission, except under limited circumstances, to consider a grant application competitively against all other grant applications submitted during the same fiscal year, requires MHT and the commission to consider other criteria MHT and the commission deem relevant when making their recommendations to the Secretary of Planning regarding each grant application, and creates a procedure and establishes requirements for the Secretary of Planning to review and consider grant applications.
- **Emergency Grants** – Creates a procedure and establishes requirements for the award of emergency grants by the Secretary of Planning and authorizes the Secretary to reserve up to 20% of the money available in the AAHP Grant Fund to award grants to eligible emergency AAHP Projects not otherwise applied for during the regular application cycle. MDP has noted that this provision is in keeping with the guidelines for its existing MHT Capital Grant Fund program and is necessary to be able to address emergencies quickly such as stabilizing damaged structures after fire, flood, or other disasters.
- **Report Date** – Changes the date, from October 1 of each year to December 31 of each year, by which MHT and the commission must report to the Governor on the financial status and activities of the program (and fund) for the prior fiscal year.
- **Easement Waiver Authority** – Specifies that the director of MHT, instead of the Secretary of Planning, may waive an easement or an agreement to preserve and maintain the property for

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which the grant was awarded if the director determines that the easement or agreement is impracticable, infeasible, or not necessary under the circumstances.

Operating Budget Impact Statement

Executive’s Operating Budget Impact Statement – State-owned Projects (\$ in Millions)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
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St. Leonard’s Creek Shoreline Erosion Control and Public Access					
Estimated Operating Cost	\$0.000	\$0.005	\$0.008	\$0.008	\$0.008
Estimated Staffing	0	0	0	0	0

Patterson Center Renovations					
Estimated Operating Cost	\$0.000	\$0.252	\$0.278	\$0.540	\$0.427
Estimated Staffing	0	2	2	4	4

Total Operating Impact					
Estimated Operating Cost	\$0.000	\$0.257	\$0.286	\$0.548	\$0.435
Estimated Staffing	0	2	2	4	4

The operating budget impact statement reflects the need for the two State-owned capital projects as follows.

- **St. Leonard’s Creek Shoreline Erosion Control** – Funding needs include a 0.1 full-time equivalent to open up and close the facility; electricity for security and safety lights; maintenance and repairs by outside contractors; and supplies and materials for maintenance and repair of the boardwalk, pier, and shoreline erosion protection areas.
- **Patterson Center Renovations** – Funding needs include positions that increase from 2.0 in fiscal 2018 to 4.0 in fiscal 2020 (administrator II, horticulturalist, maintenance chief, and education specialist); communications to facilitate public programs; travel, fuel, and utilities due to increased use of the property; movers at the beginning and end of the construction period to transport household effects; supplies and materials; both new and replacement equipment for three buildings; and insurance.

Consolidated Administrative Expenses – All Programs

	FY 2015 Actual	FY 2016 Estimated	FY 2017 Estimated
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Sources:			
General Funds			
Sustainable Communities Tax Credit Program	\$0	\$12,000	\$23,627
<i>Subtotal – General Funds</i>	<i>\$0</i>	<i>\$12,000</i>	<i>\$23,627</i>
Special Funds			
Sustainable Communities Tax Credit Program	\$298,884	\$323,048	\$305,838
Maryland Historical Trust Revolving Loan Fund	46,927	44,444	43,790
African American Heritage Preservation Grant Program	0	0	0
<i>Subtotal – Special Funds</i>	<i>\$345,811</i>	<i>\$367,492</i>	<i>\$349,628</i>
Total Funds	\$345,811	\$379,492	\$373,255

Uses:			
Direct Expenses	\$345,811	\$379,492	\$373,255
Indirect Expenses (legal, marketing, asset management)	0	0	0
Total Direct and Indirect Expenses	\$345,811	\$379,492	\$373,255

MDP notes that salaries and operating costs are charged to the Sustainable Communities Tax Credit Program and the MHT Revolving Loan Fund and that recent increases are due to cost-of-living adjustments and increments. Other costs that might fluctuate from year to year include travel and contractual services.

MDP notes that one position staffs the MHT Revolving Loan Fund, the Capital Grant Program, and the AAHP Grant Program, so the costs for the AAHP Program are included in the costs for the Revolving Loan Fund.

Summary of Other Projects in the Capital Improvement Program

MHT Capital Grant Fund

The 2016 CIP programs \$600,000 in GO bonds beginning in fiscal 2018 and annually thereafter for the MHT Capital Grant Fund. This is the first funding the program is scheduled to receive since it was last authorized \$700,000 in fiscal 2009.

Maryland Archaeological Conservation Laboratory

The Maryland Archaeological Conservation Laboratory is an archaeological research, conservation, and curation facility housed at Jefferson Patterson Park and Museum. It is a clearinghouse for archaeological collections associated with land-based and underwater projects conducted by State and federal agencies and for major collections acquired through private donation.

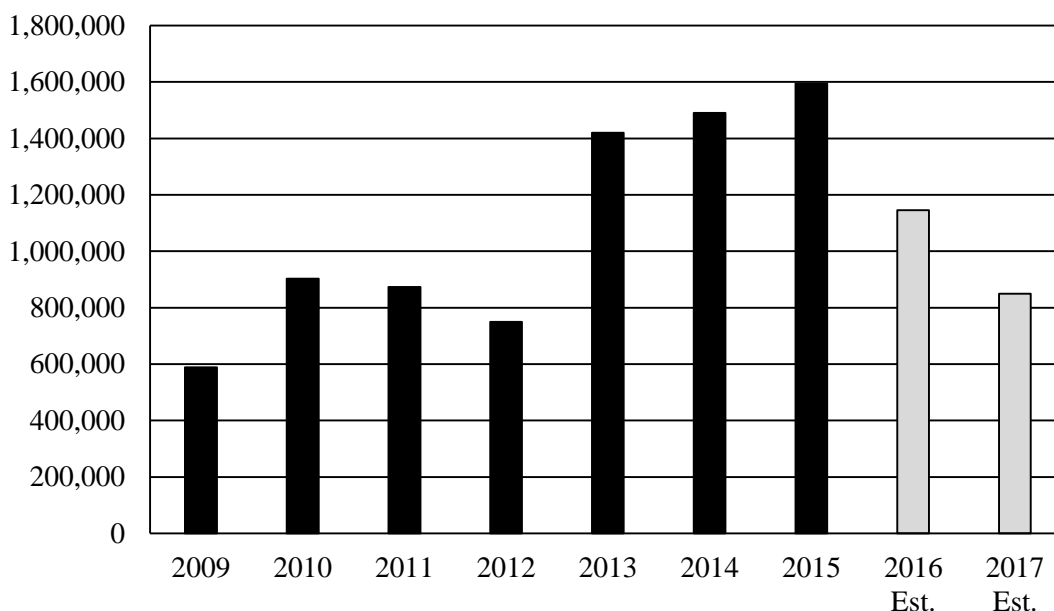
The 2016 CIP programs funding to make improvements to the Maryland Archaeological Conservation Laboratory including the expansion of archival storage capacity and upgrades to the heating, air conditioning, and ventilation and humidity controls. Design funding would commence in fiscal 2020 with construction funding phased over two years in fiscal 2021 and 2022 with fiscal 2022 being beyond the scope of the five-year 2016 CIP. Overall the plan is consistent with what was programmed in the 2015 CIP with respect to the commencement and timing of design and construction funding. Very preliminary estimates put the total project cost at \$5.3 million, which is down from the \$5.8 million estimate in the 2015 CIP. Of note, the fiscal 2017 State budget includes \$1.6 million in Facilities Renewal Program funding to address a recurring mold problem. The scope of the Maryland Archaeological Conservation Laboratory project will be adjusted based on the fiscal 2017 work and a building assessment being performed.

The project entails the following: (1) create additional and more efficient storage space for artifact collections and archives; (2) provide additional workspace for cleaning artifacts as they come in from the field; (3) correct health and safety deficiencies in work areas; (4) correct equipment inefficiencies and improve function to reduce repairs and permit increased capability in treatment of artifacts; (5) provide separate and larger isolation area for fumigation to reduce hazards to health and safety; (6) upgrade the security system; and (7) upgrade the heating, ventilation, and air conditioning system. MDP has noted in the past that the project can wait until fiscal 2020 because staff have been diligent about maximizing the amount of space for archaeological collections, but that the Maryland Archaeological Conservation Laboratory is expected to be full by fiscal 2020 and thus, the expansion should be postponed no longer. **DLS recommends that MDP comment on the impact on the Maryland Archaeological Conservation Laboratory if construction is not completed until fiscal 2022.**

As shown in **Exhibit 5**, the number of artifacts and documents accessed and treated at the Maryland Archaeological Conservation Laboratory peaked over the time period shown in fiscal 2015 at 1,595,204 and is anticipated to decline to 850,000 in the fiscal 2017 estimate. MDP notes that

between fiscal 2010 and 2015, the Smith St. Leonard Site – the home lot of an early eighteenth century tobacco plantation in Calvert County – has generated approximately 900,000 artifacts per year. However, in fiscal 2016 and 2017, excavation at the Smith St. Leonard Site will be reduced as a result of a State Highway Administration project and other projects, which thus reduces the number of artifacts and documents accessed and treated at the Maryland Archaeological Conservation Laboratory.

Exhibit 5
Maryland Archaeological Conservation Laboratory Artifacts and Documents
Accessed and Treated
Fiscal 2009-2017 Estimated



Source: Department of Budget and Management

The number of artifacts and documents accessed and treated annually at the Maryland Archaeological Conservation Laboratory raises the question of how much storage capacity remains at the facility. MDP notes that the overall collections storage area capacity of the Maryland Archaeological Conservation Laboratory consists of the following:

- **Compactible Shelving** – Holds 10,352 boxes and is currently at 8,194 boxes, or 79% of the limit.
- **Oversize Shelving** – Holds 784 square feet and is currently near the limit.
- **Floor Space** – Holds 1,404 square feet (54 feet by 26 feet) and is currently at the limit.

As noted previously, the available storage space is expected to last no longer than five years. This projection is based on the routine accession of approximately 190 boxes per year to which is added the following collections over the next five years: Coursey project (400 boxes), Smith St. Leonard (250 boxes), Archaeological Society of Maryland (150 boxes), and the University of Maryland (50 boxes). In order to handle the increased storage needs, MDP has taken or is considering taking the following measures.

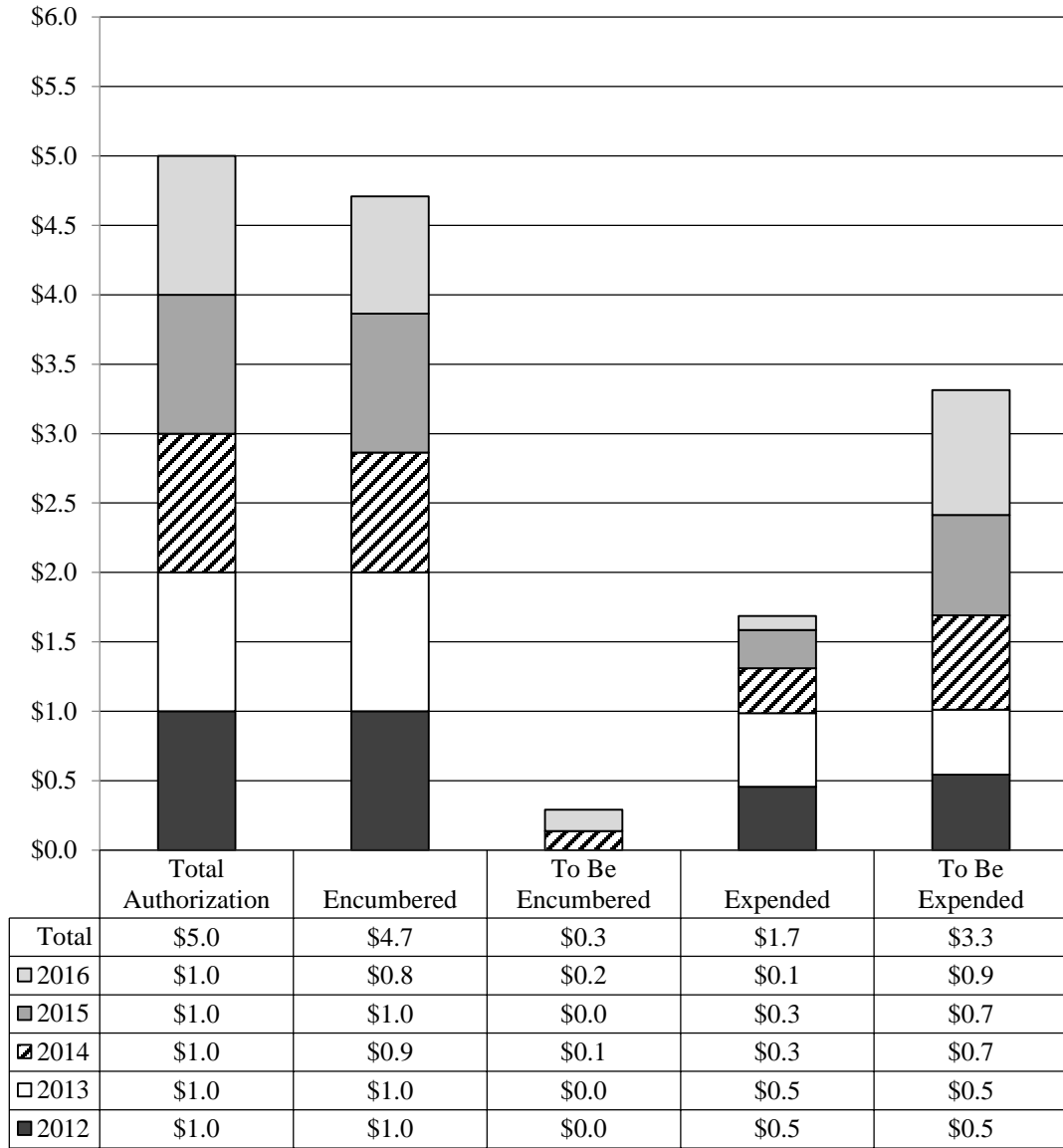
- **Box Consolidation** – Consolidated several large collections in fiscal 2011.
- **Removal of Non-archaeological Collections** – Removed Banneker-Douglas Museum (765 square feet or about 560 boxes) and the Louis Goldstein Collection (250 square feet of oversized shelving).
- **Deaccessioning** – Exploring the idea of deaccessioning collections, but there are very few appropriate objects.

MDP noted in its fiscal 2017 operating budget testimony that there are economic, research, and practical reasons that digital scanning cannot be used to allow for deaccessioning of artifacts.

Encumbrances and Expenditures

Exhibit 6 reflects the encumbrance and expenditure schedule for the AAHP Grant Program. As can be seen, the majority of funding to be encumbered is from the fiscal 2016 authorization, while the amounts to be expended are relatively evenly spread over the first four years the program has received funding. The \$3.3 million still to be expended is rather sizeable given the relatively short period of the program's existence. In response, MDP has noted in the past that projects are normally given a two-year window but that very few projects meet this schedule due to the following possibilities: inexperience on the part of the nonprofit applicants, lack of design team involvement, limited available qualified preservation contractors, and the time required to convey an historic preservation easement to MHT. MDP noted in last year's analysis that if a project is clearly not moving forward, then it has the option to cancel a grant or not to extend the project completion date on the grant agreement and that under the revisions to the program outlined in the re-authorization bill, MHT would have greater flexibility in reusing funds from canceled projects, which will provide an incentive to be more aggressive in canceling grants. **DLS recommends that MDP comment on what provisions in Chapter 371 of 2015 (African American Heritage Preservation Program – Reestablishment and Revisions) provided additional flexibility in reusing funds from canceled projects.**

Exhibit 6
African American Heritage Preservation Grant Program
Program Inception through January 2016
(\$ in Millions)



Source: Department of Budget and Management

PAYGO Recommended Actions

1. Concur with Governor's allowance of \$150,000 in special funds for the Maryland Historical Trust Revolving Loan Fund.
2. Concur with Governor's allowance of \$9,000,000 in general funds for the Sustainable Communities Tax Credit Program.

GO Bond Recommended Actions

1. Approve the \$327,000 general obligation bond authorization to complete design of renovations to the Patterson Center at Jefferson Patterson Park and Museum.
2. Approve the \$3,091,000 general obligation bond authorization to design and construct shoreline erosion control measures and other improvements along St. Leonard's Creek at Jefferson Patterson Park and Museum.
3. Approve the \$1,000,000 general obligation bond authorization for the African American Heritage Preservation Grant Program to assist in the protection of properties with cultural and historical significance to the African American community.
4. Approve the \$150,000 general obligation bond authorization for the Maryland Historical Trust Revolving Loan Fund for the protection of historic property.

Fiscal 2016 African American Heritage Preservation Grant Program Projects

<u>Subdivision</u>	<u>Project Title</u>	<u>Estimated Cost</u>	<u>2016 Amount</u>	<u>Total State Share (%)</u>
Baltimore City	Ebenezer A.M.E. Church and Parish House	\$100,000	\$100,000	100.0%
Baltimore County	Pine Grove United Methodist Church and School House	107,000	100,000	93.5
Calvert	Kings Landing Park/Camp Mohawk	73,000	73,000	100.0
Caroline	Community Civic League of Federalsburg/Laurel Grove Road School	98,000	98,000	100.0
Carroll	Sykesville Colored Schoolhouse	15,000	15,000	100.0
Charles	Old Pomonkey High School	95,000	95,000	100.0
Dorchester	Christ Rock Methodist Episcopal Church	100,000	100,000	100.0
Dorchester	Stephen E. W. Camper House	100,000	14,000	14.0
Frederick	Bartonsville Community Cemetery	13,000	13,000	100.0
Frederick	Catoctin Furnace African American Cemetery	114,688	87,000	75.9
Kent	Asbury United Methodist Church	95,000	95,000	100.0
Prince George's	Frederick Douglass Square at the University of Maryland	100,000	100,000	100.0
Somerset	John Wesley Methodist Episcopal Church	40,000	40,000	100.0
Talbot	Asbury Methodist Episcopal Church	100,000	100,000	100.0
Talbot	Bethel African Methodist Episcopal Church	100,000	100,000	100.0
Wicomico	Charles H. Chipman Cultural Center	78,000	78,000	100.0
Total		\$1,328,688	\$1,208,000	

Fiscal 2016 Sustainable Communities Tax Credit Projects

<u>Project Name</u>	<u>County</u>	<u>Description</u>	<u>Estimated Project Costs</u>	<u>Credit Amount</u>
Hoen Lithograph	Baltimore City	Restore and convert the historic Hoen Lithography Company building into a mixed use development including food production kitchen, brewery, office space for start-ups and nonprofits, and market rate apartments for health care workers.	\$18,000,000	\$3,000,000
Footer’s Dye Works	Allegheny	Restore and expand the Footer’s Dye Works building for a mix of rental housing units, restaurant/brewery, and commercial office space.	7,500,000	1,875,000
Hearn Building	Dorchester	Restore and repurpose the building to house rental residential apartments and retail spaces.	4,795,172	959,034
St. Michael’s Church Complex	Baltimore City	Restore the St. Michael’s Church Complex with a mix of commercial uses and rental residential apartments.	18,700,000	2,861,112
Academy School	Dorchester	Restore the Academy School building’s exterior and repurpose it as a senior living apartment building.	1,150,000	287,500
Sykesville Hotel	Carroll	Restore the Sykesville Hotel building’s exterior including restoration of the siding, reopening of historic windows and doors, and reconstruction of the missing porches.	290,000	58,000
Total			\$50,435,172	\$9,040,646