

**D40W11**  
**Department of Planning – PAYGO**

***Pay-As-You-Go Capital Budget Summary***

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(\$ in Millions)

	<i>FY 2007 Approp.</i>	<i>FY 2008 Approp.</i>	<i>FY 2009 Allowance</i>	<i>Percent Change</i>	<i>DLS Recommd.</i>
Maryland Historical Trust Revolving Loan Fund	\$0.352	\$0.200	\$0.450	125.0%	\$0.450
Maryland Heritage Structure Rehabilitation Tax Credit Program	30.000	14.700	14.700	0.0%	14.700
<b>Total</b>	<b>\$30.352</b>	<b>\$14.900</b>	<b>\$15.150</b>	<b>1.7%</b>	<b>\$14.900</b>
<b>Fund Source</b>					
General	\$30.000	\$14.700	\$14.950	1.7%	\$14.950
Special	0.352	0.200	0.200	0.0%	0.200
<b>PAYGO Total</b>	<b>\$30.352</b>	<b>\$14.900</b>	<b>\$15.150</b>	<b>1.7%</b>	<b>\$15.150</b>

***Summary of Recommended Actions***

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1. Concur with Governor's allowance.

## Overview

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The Maryland Department of Planning (MDP) assumed responsibility for two capital programs as a result of Chapter 440 of 2005: the Maryland Historical Trust Revolving Loan Fund and the Maryland Heritage Structure Rehabilitation Tax Credit Program. These two capital programs seek to promote the acquisition and rehabilitation of historic properties by providing low interest loan funds and tax credits.

MDP reports that costs associated with administering the tax credit program are \$230,000 at a minimum. However, as shown in the Consolidated Administrative Expenses table below, the tax credit program is estimated to receive only \$161,544 in revenue for fiscal 2009. This revenue figure is derived by taking 1% of the tax credit allocation, which is 1% of \$14.7 million or \$147,000, plus the revenue generated by the residential tax credit of \$14,544. This sum is only \$161,544 and thus leaves MDP with a \$68,456 operating expense gap. **The Department of Legislative Services recommends that MDP brief the committees on how MDP plans to address this issue.**

### Consolidated Administrative Expenses – All Programs

	FY 2007 Actual	FY 2008 Estimated	FY 2009 Estimated
<b>Sources:</b>			
Tax Credit Program			
General Funds	\$0	\$0	\$0
Special Funds	203,068	252,653	161,544
Federal Funds	0	0	0
Loan Program Special Funds	40,792	30,000	30,000
<b>Total Funds</b>	<b>\$243,860</b>	<b>\$282,653</b>	<b>\$191,544</b>
<b>Uses:</b>			
Direct Expenses	\$243,860	\$282,653	\$191,544
Indirect Expenses	0	0	0
<b>Total Expenses</b>	<b>\$243,860</b>	<b>\$282,653</b>	<b>\$191,544</b>

***Maryland Historical Trust Revolving Loan Fund (Statewide)***

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PAYGO GF	\$250,000	Recommendation: Approve
PAYGO SF	\$200,000	

**Program Description:** The Maryland Historical Trust (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) also may 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 also may 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.

**Program Performance Analysis:** One of the primary goals for this program is the protection of historic properties eligible for listing on the Maryland Register of Historic Properties through assisting in the acquisition and rehabilitation of those properties. As shown in **Exhibit 1**, demand for loans from this program has dropped due in part to the availability of low commercial loan rates and the reluctance of property owners to grant permanent easements to MHT.

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**Exhibit 1**  
**Total Number of Historic Properties Preserved**  
**Fiscal 2003-2009**

	<u>2003</u> <u>Actual</u>	<u>2004</u> <u>Actual</u>	<u>2005</u> <u>Actual</u>	<u>2006</u> <u>Actual</u>	<u>2007</u> <u>Actual</u>	<u>2008</u> <u>Est.</u>	<u>2009</u> <u>Est.</u>
# of Historic Properties Acquired	0	1	2	0	0	0	0
# of Historic Properties Rehabilitated	0	2	1	0	1	2	2
# of Historic Properties Refinanced	0	0	0	0	1	0	0
<b>Total</b>	<b>0</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>2</b>

Source: Maryland Department of Planning

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Currently, this program appeals to nonprofits and local governments who are not reluctant to grant historic preservation easements as a condition of the loan. If commercial interest rates rise, demand for this program may increase. MDP’s loans to business entities and individuals bear interest at

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a fixed annual rate 0.125% higher than the most recently sold State general obligation bonds. Loans to nonprofit organizations and political subdivisions may bear interest at a rate not to exceed that for business entities or individuals. Even at this low loan rate, the loan fund is not well situated to compete with commercial banks because of the permanent easement requirement. An additional challenge is that the loan program stipulates that loans to individuals and business entities may be made only when private financing cannot otherwise be obtained.

MDP states that it has worked to market the revolving loan fund more aggressively and has granted an exception for the perpetual easement in order to improve loan performance. MDP has marketed the revolving loan fund statewide – both with the tax credit program and through Preservation Maryland. MDP lifted the perpetual easement requirement on properties deemed to have lost their interior historical integrity under the condition that a property is situated in a locally designated historic district that still protects the exterior of the property.

**Comments:** The fiscal 2009 allowance provides \$250,000 in general funds and \$200,000 in special funds for this program. Although no loans are currently lined up for either fiscal 2008 or 2009, one loan is under consideration in fiscal 2008 – the acquisition of a fire-damaged building, at 444-448 Race Street in Cambridge that would be rehabilitated. MDP notes that the cost of acquisition will be at least \$230,000 in fiscal 2008 and that the cost of rehabilitation could be \$2 million to \$3 million.

The 2008 *Capital Improvement Program* (CIP) alters this program's recommended funding sources and the total funding amount relative to what was included in the 2007 CIP. The 2008 CIP includes for fiscal 2009 \$250,000 in general funds instead of \$250,000 in general obligation (GO) bonds. The use of general funds instead of GO bond funds is projected through the entire five-year planning horizon of the 2008 CIP. In addition, the 2008 CIP reduces the overall program funding level by \$100,000 in fiscal 2010 and then by \$50,000 through fiscal 2012 relative to the 2007 CIP which reflects lower special fund revenue availability.

In recent years, the revolving loan fund has had significant difficulty encumbering and expending funds in a timely manner. As shown in **Exhibit 2**, however, the program has improved the amount it has expended between 2003 and 2007 to 48% of the total authorization. This is an improvement upon the 25% level of expenditures as of this time last year. Approximately \$0.9 million in prior year (fiscal 2003 through 2007) revenue remains unexpended. **The Department of Legislative Services (DLS) recommends that MDP comment on how it can improve its expending of funds.**

For fiscal 2007, the budget committees recognized that the loan program did not have a pipeline of potential projects for which loans could be made during the fiscal year. As such, the proposed \$450,000 special fund appropriation was deleted, and budget language authorizing a special fund budget amendment up to \$450,000 in special funds was added to the fiscal 2007 budget bill. MDP subsequently brought in a budget amendment for \$352,000 in special funds to cover two loans: one loan to Crisfield Heritage Foundation, Inc. for \$152,000 to refinance the J. Millard Tawes House and the other loan to Peerless Rockville Historic Preservation, Ltd. for \$200,000 to acquire Frieda's Cottage at Chestnut Lodge.

**Exhibit 2**  
**Maryland Historical Trust Revolving Loan Fund**  
**Past and Current Activity**

<b><u>Fiscal Year</u></b>	<b><u>Total Authorized</u></b>	<b><u>Amount Encumbered</u></b>	<b><u>Amount Expended</u></b>
2003	\$250,000	\$153,500	\$69,629
2004	700,000	580,000	202,781
2005	200,000	208,000	128,983
2006	450,000	0	32,372
2007	352,000	352,000	501,837
<b>Subtotal</b>	<b>\$1,952,000</b>	<b>\$1,293,500 (66%)</b>	<b>\$935,602 (48%)</b>
2008	200,000	0	0
<b>Total</b>	<b>\$2,152,000</b>	<b>\$1,293,500 (60%)</b>	<b>\$935,602 (43%)</b>

Note: The entirety of the fiscal 2006 \$450,000 appropriation was cancelled.

Source: Maryland Department of Planning

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***Maryland Historical Trust Revolving Loan Fund Data***

**Fund History**

	<i>FY 2007 Actual</i>	<i>FY 2008 Estimated</i>	<i>FY 2009 Estimated</i>
Beginning Balance	\$669,730	\$361,163	\$233,550
<b>Revenue</b>			
General Funds	\$0	\$0	\$250,000
Loan Repayments and Interest	84,225	102,387	134,769
Cancelled Encumbrances	0	0	0
<b>Total Revenue</b>	<b>\$84,225</b>	<b>\$102,387</b>	<b>\$384,769</b>
<b>Total Available</b>	<b>\$753,955</b>	<b>\$463,550</b>	<b>\$618,319</b>
<b>Encumbrances</b>			
Loans	\$352,000	\$200,000	\$450,000
Operating Expenses	40,792	30,000	30,000
<b>Total Encumbrances</b>	<b>\$392,792</b>	<b>\$230,000</b>	<b>\$480,000</b>
<b>Ending Balance</b>	<b>\$361,163</b>	<b>\$233,550</b>	<b>\$138,319</b>

DHCD: Department of Housing and Community Development

(\$ in Millions)

<i>Description</i>	<i>2007 Approp.</i>	<i>2008 Approp.</i>	<i>2009 Request</i>	<i>2010 Estimate</i>	<i>2011 Estimate</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>
PAYGO GF	\$0.000	\$0.000	\$0.250	\$0.300	\$0.300	\$0.300	\$0.300
PAYGO SF	0.352	0.200	0.200	0.100	0.150	0.150	0.150
<b>Total</b>	<b>\$0.352</b>	<b>\$0.200</b>	<b>\$0.450</b>	<b>\$0.400</b>	<b>\$0.450</b>	<b>\$0.450</b>	<b>\$0.450</b>

## ***Recommended Actions***

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1. Concur with Governor's allowance.

## ***Fiscal 2009 Proposed Projects***

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MDP has no fiscal 2009 proposed projects at this time.

## ***Fiscal 2008 Project Status***

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<b><u>Project</u></b>	<b><u>Location</u></b>	<b><u>Amount</u></b>	<b><u>Status</u></b>
444-448 Race Street, Cambridge	Dorchester County	At least \$230,000 for acquisition; more would be needed for rehabilitation in fiscal 2009	Initial stages

Note: The Maryland Department of Planning has not decided how it will proceed in terms of the limitation of its \$200,000 fiscal 2008 appropriation.

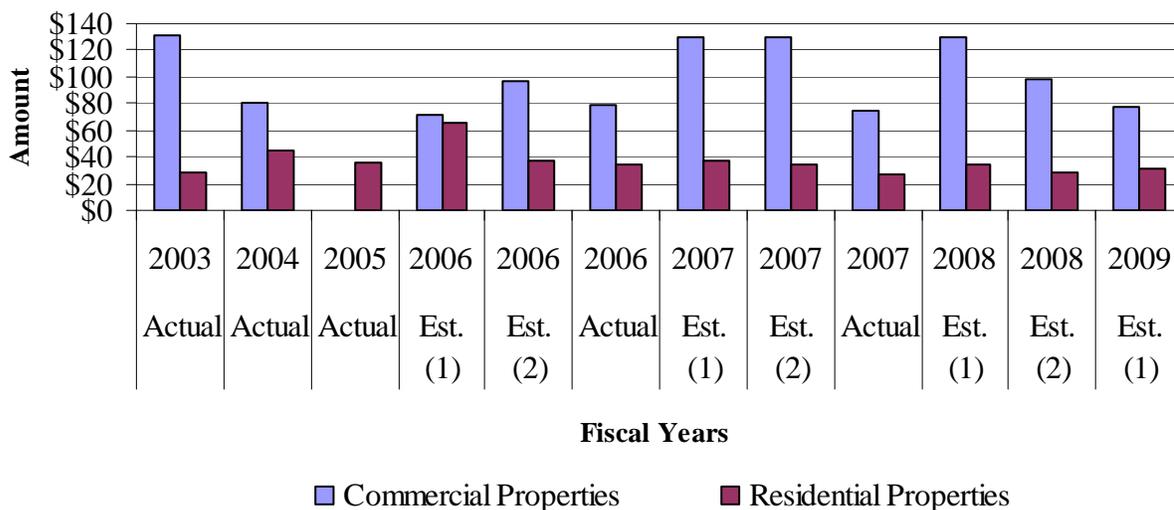


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- eliminated the requirement that at least 10% of all commercial credits be awarded to nonprofit organizations;
- extended the rehabilitation deadline for a commercial project from the end of the fiscal year following the fiscal year of issuance to 30 months after the issuance of the certificate;
- altered the coverage of the fee charged to certify projects to include residential rehabilitations;
- required MHT to adopt criteria that are consistent with the rehabilitation standards of the United States Secretary of the Interior; and
- eliminated the limitation of a January 1 to March 31 application window for each fiscal year.

**Program Performance Analysis:** As shown in **Exhibit 3**, MDP appears to have been overly optimistic with its fiscal 2007 estimate for the amount of private funding leveraged by the tax credit for the restoration and preservation of historic properties. MDP states that the 50% cap on the amount of tax credits any one jurisdiction could receive, and insufficient applications from other parts of the State meant that the full fiscal 2007 tax credit appropriation of \$30 million could not be used in fiscal 2007, which in turn reduced the amount of private investment that could be leveraged.

**Exhibit 3**  
**Private Investment Leveraged by the State Rehabilitation Tax Credit**  
**(\$ in Millions)**



Note: No commercial tax credits were authorized in fiscal 2005.

Source: Governor’s Budget Books, Fiscal 2006-2008

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**Comments:** The \$14.7 million fiscal 2009 allowance is level with the fiscal 2008 working appropriation but is \$15.3 million less than the fiscal 2007 actual of \$30.0 million. The fiscal 2009 allowance is consistent with statute which does not specify a funding amount. The Maryland Department of Planning's (MDP) fiscal 2009 performance information estimates that this funding would be dedicated to 37 commercial projects, down from the 45 project estimate for fiscal 2008. MDP anticipates that there will be 425 residential projects in fiscal 2009, which is also down from the fiscal 2008 estimate of 530 residential projects.

MDP states that it has seen changes in the mix of tax credit projects it has received for fiscal 2008 but that this is not necessarily related to Chapters 566 and 567 of 2007. In fiscal 2008, more commercial tax credit projects from outside Baltimore City have been submitted; MDP says this could be due to an increase in the number of National Register Districts in other parts of the State, an increase in the number of eligible buildings for developers within those districts, or the increased awareness of developers about the tax credit program.

The tax credit program activity level is expected to decline due to the reduction in the tax credit appropriation. However, the fiscal 2008 appropriation of \$14.7 million is augmented by \$10 million from a non-lapsing fund balance that was left over from fiscal 2007. MDP has obligated the entirety of its fiscal 2008 commercial tax credit appropriation of \$14.7 million plus the \$10 million from the non-lapsing fund balance.

## **Maryland Heritage Structure Rehabilitation Tax Credit Fund Data**

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### Fund History

	<i>FY 2007 Actual</i>	<i>FY 2008 Estimated</i>	<i>FY 2009 Estimated</i>
Beginning Balance	\$328,744	\$10,039,685	\$61,490
<b>Revenue</b>			
General Funds	\$30,000,000	\$14,700,000	\$14,700,000
1% fee Special Funds	203,068	252,653	161,544
<b>Total Revenue</b>	<b>\$30,203,068</b>	<b>\$14,952,653</b>	<b>\$14,861,544</b>
<b>Total Available</b>	<b>\$30,531,812</b>	<b>\$24,992,338</b>	<b>\$14,923,034</b>
<b>Encumbrances</b>			
Credits Approved	\$20,289,059	\$24,678,195	\$14,750,000
Operating Expenses	203,068	252,653	161,544
<b>Total Encumbrances</b>	<b>\$20,492,127</b>	<b>\$24,930,848</b>	<b>\$14,911,544</b>
<b>Ending Balance</b>	<b>\$10,039,685</b>	<b>\$61,490</b>	<b>\$11,490</b>

(\$ in Millions)

<i>Description</i>	<i>2007 Approp.</i>	<i>2008 Approp.</i>	<i>2009 Request</i>	<i>2010 Estimate</i>	<i>2011 Estimate</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>
<b>PAYGO GF</b>	<b>\$30.000</b>	<b>\$14.700</b>	<b>\$14.700</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>

Note: The Department of Budget and Management does not consider the Heritage Structure Rehabilitation Tax Credit as a capital appropriation. Therefore, five-year estimates for funding are not included in the *Capital Improvement Program*.

## ***Recommended Actions***

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1. Concur with Governor’s allowance.

## ***Fiscal 2009 Proposed Projects***

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MDP has not received any commercial tax credit applications for fiscal 2009. The program now allows for applications to be received year-round; although, May 31, 2008, functions as an informal deadline; therefore, MDP expects to receive a significant number of applications at the end of March in anticipation of the May 31 deadline. MDP reports that residential tax credits will start to come in around July 1, 2008.

## ***Fiscal 2008 Project Status***

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As of January 2008, MDP had approved 74 commercial tax credit projects totaling \$24.7 million (see the following list) and 20 residential credits representing \$97,273. However, MDP estimates 400 residential projects in total for fiscal 2008 representing \$7.2 million.

### **Fiscal 2008 Commercial Tax Credit Projects**

<b><u>Recipient (Company or Individual Name)</u></b>	<b><u>County</u></b>	<b><u>Project Name</u></b>	<b><u>Credit Amount</u></b>
Alco Towers LLC	Allegany	Allegany Towers	\$751,400
Taylor Architects	Allegany	311 Decatur Street	80,000
	Anne Arundel	Judge John Brice House	200,000
Annapolis Business Park, Inc.	Anne Arundel	180 Main Street	83,557
Jubilee Baltimore, Inc.	Baltimore City	24 South Carrollton Street	25,000
	Baltimore City	The Green Pig	160,000
John Milner Architects, Inc.	Baltimore City	The Inn at Penn Station	1,815,000
Midtown Development Corp.	Baltimore City	205 East North Avenue	54,000
	Baltimore City	Home of the Friendless	800,000
David H. Gleason Associates, Inc. Architects	Baltimore City	1808-1812 Saint Paul Street	340,000
David H. Gleason Associates, Inc. Architects	Baltimore City	108 West Lexington Street	140,000
	Baltimore City	The Keyser Building/Hotel Indigo	3,000,000
Midtown Development Corporation	Baltimore City	Red Roof Inn and Suites	640,000
Midtown Development Corporation	Baltimore City	209 East North Avenue	54,000
Midtown Development Corporation	Baltimore City	207 East North Avenue	54,000
	Baltimore City	St. Michael the Archangel Condominiums	900,000

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<b><u>Recipient (Company or Individual Name)</u></b>	<b><u>County</u></b>	<b><u>Project Name</u></b>	<b><u>Credit Amount</u></b>
	Baltimore City	1418 West Pratt Street	\$70,000
Parks and People Foundation	Baltimore City	Superintendent’s House, Druid Hill Park	400,000
EHT Traceries, Inc.	Baltimore City	Title Guarantee and Trust Building/ Quality Inn	2,200,000
Gant Hart Brunnett Architects	Baltimore City	The Register	240,000
O’Connell and Associates	Baltimore City	1506 Brentwood Avenue	50,000
O’Connell and Associates	Baltimore City	1039 West Lanvale Street	60,000
O’Connell and Associates	Baltimore City	3201 Noble Street	90,000
O’Connell and Associates	Baltimore City	2900 Keswick Road	50,000
O’Connell and Associates	Baltimore City	1710 Barclay Street	75,000
	Baltimore City	Klein’s Hardware	105,000
John Milner Architects Inc.	Baltimore City	The B & O Central Building	1,392,601
Stone Mansion, LLC	Baltimore City	Ruscombe	190,000
O’Connell and Associates	Baltimore City	1310 West Lexington Street	23,211
O’Connell and Associates	Baltimore City	53 South Carrollton Avenue	20,000
O’Connell and Associates	Baltimore City	51 South Carrollton Avenue	20,000
O’Connell and Associates	Baltimore City	1806 Guilford Avenue	75,000
O’Connell and Associates	Baltimore City	1812 Guilford Avenue	75,000
O’Connell and Associates	Baltimore City	1703 Barclay Street	75,000
O’Connell and Associates	Baltimore City	Westside Lofts	1,060,000
O’Connell and Associates	Baltimore City	Morgan Millworks Condominiums	566,325
O’Connell and Associates	Baltimore City	803-807 Washington Boulevard	255,000
O’Connell and Associates	Baltimore City	760 Clifford Street	140,000
O’Connell and Associates	Baltimore City	923-937 Washington Boulevard	960,000
O’Connell and Associates	Baltimore City	1504 Brentwood Avenue	50,000
O’Connell and Associates	Baltimore City	422 East Lanvale Street	36,000
O’Connell and Associates	Baltimore City	1516 Brentwood Avenue	50,000
O’Connell and Associates	Baltimore City	1514 Brentwood Avenue	50,000
O’Connell and Associates	Baltimore City	1522 Brentwood Avenue	50,000
O’Connell and Associates	Baltimore City	1526 Brentwood Avenue	50,000
O’Connell and Associates	Baltimore City	1528 Brentwood Avenue	50,000
O’Connell and Associates	Baltimore City	1524 Brentwood Avenue	50,000
O’Connell and Associates	Baltimore City	1512 Brentwood Avenue	50,000
O’Connell and Associates	Baltimore City	1518 Brentwood Avenue	50,000
O’Connell and Associates	Baltimore City	1520 Brentwood Avenue	50,000
O’Connell and Associates	Baltimore City	1508 Brentwood Avenue	50,000
O’Connell and Associates	Baltimore City	1510 Brentwood Avenue	50,000
O’Connell and Associates	Baltimore City	439 East Lanvale Street	40,000
O’Connell and Associates	Baltimore City	Sunrise Grill	50,000
O’Connell and Associates	Baltimore City	638 Melvin Drive	30,000
O’Connell and Associates	Baltimore City	15 South Carey Street	14,855
O’Connell and Associates	Baltimore City	17 South Carey Street	14,855
O’Connell and Associates	Baltimore City	3327 Noble Street	16,712
O’Connell and Associates	Baltimore City	3300 Noble Street	36,000
O’Connell and Associates	Baltimore City	3304 Noble Street	16,712
Caroline County Council of Arts	Caroline	401 Market Street	41,600
Denton Development Corporation	Caroline	Old Caroline High School	180,000
	Carroll	Wilson’s Inheritance	84,000
Traditional Builders, Inc.	Carroll	Winemiller Family Farm	160,000
Macrostie Historic Advisors, LLC	Carroll	Warfield Cottage	748,872
Macrostie Historic Advisors, LLC	Carroll	Austin Crothers Cottage	772,527

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<b><u>Recipient (Company or Individual Name)</u></b>	<b><u>County</u></b>	<b><u>Project Name</u></b>	<b><u>Credit Amount</u></b>
	Carroll	Philip Jones House	\$10,000
Cambridge Main Street Partners, LLC	Dorchester	501-505 Poplar Street	100,000
Cambridge Main Street Partners, LLC	Dorchester	427-433 Race Street	300,000
303 High Street, LLC	Dorchester	The High Spot	220,000
JMA Architects	Kent	Wickes	356,967
O’Connell and Associates	Prince George’s	Langley Park (McCormick-Goodhart Mansion)	1,200,000
Bucher/Borges Group, LLC	Talbot	Tidewater Inn	1,800,000
Paula S. Reed and Associates	Washington	John L. Nicodemus House	560,000
<b>Total</b>			<b>\$24,678,195</b>

\* Of this amount, \$17,029,272 has been provided for projects in Baltimore City.

**Fiscal Summary  
Department of Planning – PAYGO**

<u>Program/Unit</u>	<u>FY07 Actual</u>	<u>FY08 Wrk Approp</u>	<u>FY09 Allowance</u>	<u>Change</u>	<u>FY08-FY09 % Change</u>
11 Historical Preservation – Capital	\$ 352,000	\$ 200,000	\$ 450,000	\$ 250,000	125.0%
12 Heritage Structure Rehabilitation Tax Credit	30,000,000	14,700,000	14,700,000	0	0%
<b>Total Expenditures</b>	<b>\$ 30,352,000</b>	<b>\$ 14,900,000</b>	<b>\$ 15,150,000</b>	<b>\$ 250,000</b>	<b>1.7%</b>
General Fund	\$ 30,000,000	\$ 14,700,000	\$ 14,950,000	\$ 250,000	1.7%
Special Fund	352,000	200,000	200,000	0	0%
<b>Total Appropriations</b>	<b>\$ 30,352,000</b>	<b>\$ 14,900,000</b>	<b>\$ 15,150,000</b>	<b>\$ 250,000</b>	<b>1.7%</b>

Note: The fiscal 2008 appropriation does not include deficiencies.