Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE
Revised

House Bill 1 (Delegate Taylor, et al.)
Economic Matters   Referred to Budget and Taxation

Heritage Preservation and Tourism Areas

This enrolled bill establishes the Maryland Heritage Areas Authority as an independent unit of the executive branch located within the Department of Housing and Community Development (DHCD). The authority is a 17-member body, with staff provided by DHCD in accordance with the State budget. Other units of State government may detail staff or technical assistance on request of the authority. Local jurisdictions may submit proposals to the authority for the designation of recognized heritage areas. Once a “management plan” has been proposed by the local jurisdiction and approved by the authority, the recognized heritage area becomes a certified heritage area. The authority must adopt regulations that specify criteria and procedures for designating recognized heritage areas and for adopting management plans. Up to two certified heritage areas may be designated per fiscal year. The Canal Place Historic Preservation District is the initial certified heritage area.

Certified heritage areas are eligible for acquisition, development, and programming assistance in the form of loans and grants from the State as well as tax incentives. The authority may issue specified tax-exempt bonds to assist a certified heritage area.

Fiscal Summary

State Effect: Administrative expenditures would increase by $87,500; special fund expenditures could increase by an indeterminate but significant amount for grants, loans and debt obligations. General and special fund revenues would be affected by an indeterminate amount due to tax credits, bond issuances, and loan repayments. To the extent that this bill spurs economic and employment development, tax revenues could increase. Special funds of $1 million would be reallocated from Program Open Space to the authority.

Local Effect: Potential significant increase in expenditures; indeterminate effect on revenues.

Fiscal Analysis

Bill Summary: For each recognized heritage area, the sponsoring local jurisdiction must prepare a management plan; localities are eligible for matching grant assistance for the development of management plans.

An individual or a business may claim a State income tax credit that does not exceed 25% of qualified rehabilitation expenditures on certified heritage structures. The rehabilitation credit may be applied against the insurance premium tax, the financial institution franchise tax, or the public service company franchise tax. Both wage and rehabilitation credits can be carried over for the next taxable year if they exceed the current year's income tax. The bill eliminates the current amortization deduction for eligible historic structures.

State Effect:

Allocation of Program Open Space Funds

The bill allocates $1 million to the Maryland Heritage Areas Financing Fund from Program Open Space (POS). Up to 10% of these funds can be used for operating expenditures and up to 50% can be used for debt service.

Staff Support for the Authority

DHCD advises that general fund expenditures could increase by an estimated $121,438 in fiscal 1997, to hire one Administrator IV, one Administrator II, one Research and Conservation Specialist II, and one Office Secretary III to fulfill the staffing requirement as outlined in the legislation. The bill specifies that DHCD must dedicate administrative staff to the authority. Assuming that DHCD would have the authority to hire staff under this provision, the Department of Fiscal Services advises that only two professional and one support staff would be needed for fiscal 1997. After an accurate assessment is made of program demand and workload measures, DHCD can determine future staffing needs. General fund expenditures would increase by $87,500 in fiscal 1997, which reflects the bill's October 1, 1996 effective date. It includes salaries of $64,683, fringe benefits, and ongoing operating expenditures.

Salaries and Fringe Benefits	$87,260
Operating Expenses	225
Total FY 1997 Personnel Expenditures	**$87,485**

Future year expenditures below reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 2% annual increases in ongoing operating expenses.

FY 1998	$117,395
FY 1999	$121,798
FY 2000	$126,371
FY 2001	$131,121

The certification requirement for rehabilitation credits would generate project application review activity. It is assumed that the certification responsibilities could be undertaken by one of the personnel listed above.

The bill also establishes the right to appeal certain decisions and actions of the authority through the Office of Administrative Hearings (OAH). Since OAH receives reimbursable funds from the various agencies depending upon the portion of time spent on cases for that agency, DHCD expenditures would increase if a significant number of cases result from this provision.

Loan and Grant Assistance and Bond Issuing Authority

The bill provides that matching funds will be provided for localities developing a management plan for a designated heritage area. A similar plan for Canal Place recently cost approximately $230,000, while one completed five years ago for St. Mary's City cost $60,000. However, certain projects could be narrower in scope than either of these examples. State expenditures for funding 50% of the cost of a single management plan could range from $15,000 to $125,000. While the number of certified heritage areas is capped at two per year, there is no specific limit on the number of recognized heritage areas that would qualify for matching funds.

The authority may award loans or grants for acquisition, development, and programming of State designated heritage areas. Expenditures for these activities could be significant, but would depend upon the number and type of awards given. Should loans be awarded, interest and principle payments would increase special fund revenues to the authority.

The authority may issue bonds that are payable solely from the authority's own property or receipts. It is assumed that administrative costs for bond issuance will be written into the bond proposals. Since the magnitude of any bond issuances is not known at this time, the impact on revenues and expenditures cannot be determined.

As stated before, up to 50% of the $1 million allocated from POS funds will be used to finance any debt obligations incurred, as well as directly fund grants or matching funds through the program. Other revenues may also become available to fund these activities to the extent that any public or private contributions are received.

Tax Credit Program

The Certified Heritage Structure Rehabilitation Credit replaces the current subtraction modification for rehabilitating historic structures. The new credit is much broader, and extends the credit to businesses that own depreciable property which is not currently eligible. According to the most recently available figures (1991-1992), the current subtraction modification amounted to approximately $1.5 million per year. At a 5% tax rate, this translates to roughly $75,000 per year. The rehabilitation credit allows taxpayers to claim a credit of up to 25% of expenditures, which would cost $375,000 for the same $1.5 million in rehabilitation expenditures. Therefore this credit would cost the State an additional $300,000 per year for the same pool of eligible taxpayers. However, the effect will be significantly larger due to the expansion in eligibility for the credit.

The rehabilitation credit may be applied against the insurance premium tax, the financial institution franchise tax, or the public service company franchise tax. Therefore these changes in revenues may not all impact the income tax figures, but may be reflected in these other revenue sources instead. Any credit applied to corporate income taxes will affect both general and special fund revenues, since approximately 23% of this tax is allocated to the Gasoline and Motor Vehicle Revenue Account (GMVRA); these special funds are then distributed 70/30 to the Transportation Trust Fund and to the local governments.

The Comptroller reports that one-time programming changes to the return processing and imaging systems would incur costs of $118,000 in fiscal 1997. The Department of Fiscal Services advises that if other legislation is also enacted changing the Maryland income tax calculation, economies of scale regarding programming costs could be realized. This could reduce computer programming costs associated with this bill and other tax legislation.

The benefit to the State in terms of increased tax revenue resulting from the effect of the tax incentive program as well as the establishment of these heritage areas cannot be estimated at this time, but could be significant. To the extent that rehabilitation activities will occur regardless of these incentives, revenues will decline.

State Activities in Certified Areas

The bill's provision that a State agency that conducts or supports activities affecting a certified heritage area must carry out activities consistent with the management plan for the area may cause additional workload for regulatory agencies. Personnel would need to become familiar with the management plans for all designated heritage areas. This requirement could possibly be absorbed by the existing resources of the various agencies.

Local Effect: Local governments that choose to propose sites to be recognized/certified as heritage preservation areas could incur an increase in expenditures. In addition to any costs associated with the proposal and subsequent implementation, the local jurisdiction is responsible for half of the cost of the required management plan.

Tax Credit Programs

Local governments will have a revenue gain resulting from the replacement of the current subtraction modification for historic rehabilitations by the Certified Heritage Structure Rehabilitation Credit. If all of the current subtraction modifications were converted to credits, local governments as a whole would gain approximately $40,875. This is because the subtraction modification affects the amount of the piggyback tax, whereas the rehabilitation tax credit would not. However, corporate tax revenues distributed to the local governments through the GMVRA will possibly decrease.

Additionally, the legislation enables local governments to expand local property tax incentives for historic rehabilitations to include heritage area properties. Should local governments take advantage of this authority, their revenues could be affected. Any benefit to local governments due to any increase in future tax revenues due to rehabilitation activities caused by this incentive as well as the establishment of these heritage areas cannot be estimated at this time but could be significant. To the extent that such rehabilitation activities will occur regardless of these incentives, revenues will decline.

Information Source(s): Department of Housing and Community Development, Office of the Comptroller, Baltimore City, Department of Assessments and Taxation, Department of Fiscal Services

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