

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 990 (Delegates Rosenberg and Hecht)
Ways and Means

Lead-Safe Housing - Income Tax Credit

This bill establishes a tax credit program for qualifying property owners who complete an approved lead hazard reduction project. Owners of registered rental property, child care centers, and owner-occupied housing that meet specified requirements are eligible for the program. Each fiscal year, a taxpayer may submit to the Department of Housing and Community Development (DHCD) a proposal for a lead hazard reduction project; this proposal must be submitted in writing before the commencement of the project. DHCD must approve or disapprove the project within 60 days after receiving a completed application. DHCD may approve up to \$5 million in tax credits per fiscal year.

In order to qualify, all lead hazard reduction activities must be performed in accordance with MDE standards and procedures. Once the project has been completed and meets all the criteria specified, MDE must issue a certificate indicating that the property owner is eligible for the credit. Tax credits may be carried over for ten years, and are not allowable for costs for which the taxpayer has received a lead hazard reduction loan or grant.

The bill is effective July 1, 1997 and applies to all taxable years beginning after December 31, 1997.

Fiscal Summary

State Effect: General and special fund revenues could decrease by up to \$5 million in FY 1998 and annually thereafter; indeterminate effect on general fund expenditures. Potential increase in revenues and expenditures due to the bill's penalty provision.

Local Effect: Indeterminate decrease in local revenues and expenditures. Potential increase in revenues and expenditures due to the bill's penalty provision.

Small Business Effect: Potential meaningful impact on small businesses as discussed below.

Fiscal Analysis

Bill Summary: Both registered rental property and owner-occupied property must have at least three bedrooms to qualify for the tax credit program. In the chart below, the maximum tax credits available are outlined according to the type of housing or facility that is cleaned up. For the purposes of the chart, Rental Property A is property rented to a family in which at least one child has an elevated blood lead level of 20 mg/dl or higher. Rental Property B is all other qualifying rental property.

Property Type	% of Direct Cost	Maximum Credit per Unit	Maximum Credit per Taxpayer
Rental Property A	100%	\$5,000	\$20,000
Rental Property B	70%	\$3,500	\$14,000
Child Care Center	60%	--	\$15,000
Owner-Occupied	85%	--	\$8,500

In order to qualify for the credit, properties must:

- satisfy the “full risk reduction” standard;
- have a walk-off floor mat for all exterior entryways;
- not have any exterior surfaces with chipping, peeling, or flaking paint;
- have lead-safe windows in all specified living areas; and
- pass the lead-contaminated dust test.

Any person who knowingly makes a false statement in applying for the tax credit is guilty of a misdemeanor and subject to a penalty provision (up to \$50,000 fine and/or up to two years imprisonment).

State Effect:

Tax Credits for Lead-Safe Housing

MDE advises that there are approximately 159,100 pre-1950 rental units in Maryland. Of these, 50,600 have registered with MDE under the Lead Poisoning Prevention Program. Under this program, property owners are required to perform the minimum Risk Reduction Treatment. However, under the bill, in order to qualify for the tax credit, property owners

must complete a more stringent Lead Safe Standard which can include window replacement. Approximately 1,800 children are reported to have blood lead levels of 20 mg/dl or higher. It is not known how many pre-1950 owner-occupied housing units could be affected. However, according to the Maryland Office of Planning, using 1950 Census data, there were 360,700 owner-occupied dwelling units in 1950.

Current costs for the minimum Risk Reduction Treatment are generally between \$500 and \$1,200 for the initial treatment and between \$100 and \$500 for subsequent treatments. In a few instances, large frame individual family homes may require substantial paint stabilization and repainting if the exterior paint has been severely neglected; this could cost between \$5,000 to \$10,000. The Lead Safe Standard can include window replacement which adds an additional \$175 to \$200 per window to the total cost. Townhouses generally have between six and eight windows and individual family homes have between 8 and 15 windows. A lower cost treatment can also be performed at approximately \$100 per window that reduces lead paint only at friction points.

Given these costs, is it assumed that an average lead cleanup cost that would be claimed would be approximately \$3,000. Taxpayers owning rental or owner-occupied housing could claim 70% to 100% of this amount in credits. If 85% of direct costs were claimed overall, a total of \$2,550 could be claimed per unit. Approximately 1,960 housing units could receive tax credits under the \$5 million cap.

However, the tax credit also applies to child care facilities, for which lead cleanup costs can be significantly higher. It is not known at this time how many pre-1950 child care facilities exist in the State, but costs can average \$8,000 to \$10,000 per facility, of which 60% could be claimed as a credit. Given these assumptions, the average credit allowed per child care facility would be \$5,400. For illustrative purposes, if 10% of the credits were allocated to child care facilities, 93 child care facilities would receive credits and 1,765 housing units would receive credits.

It is assumed that the tax credit could be applied against the income tax. Credits taken on an individual return affect general fund revenues. 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. It is assumed that given the number of potential applicants, the full \$5 million in tax credits could be allocated each year. It cannot be estimated, however, how many credits would be applied against the individual return and how many against the corporate income tax.

Lead Poisoning Treatment Cost Savings

To the extent that this tax credit causes additional or more extensive lead cleanup activities in residences and child care facilities, treatment costs associated with lead poisoning would decrease. These costs vary depending upon the level of lead poisoning that occurs, but can be quite significant. For the most severe cases, intensive in-patient health treatments are needed which can cost approximately \$100,000. Even for low-level lead poisoning, learning disabilities can result that can increase public educational costs and potentially lead to higher public safety costs due to juvenile delinquency. In addition, to the extent that children drop out of school, underemployment can result.

Administrative Expenditures

The Department of Housing and Community Development reports that it would need one professional staff and one part-time support staff to administer the tax credit program. The Department of Fiscal Services (DFS) advises that the part-time staff should be contractual. General fund expenditures could increase by an estimated \$36,500 in fiscal 1998, which accounts for the bill's October 1, 1997 effective date. This estimate reflects the cost of hiring one Housing Rehabilitator and one contractual Office Secretary to administer the tax credit program. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$33,500
Operating Expenses	<u>3,000</u>
Total FY 1998 State Expenditures	\$36,500

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 1999	\$49,100
FY 2000	\$50,700
FY 2001	\$52,300
FY 2002	\$54,000

The Office of the Comptroller reports that computer programming changes will necessitate expenditures of \$67,000 in fiscal 1998. However, DFS advises that if other legislation is passed changing the Maryland income tax calculation, economies of scale regarding computer programming changes could be realized. This would reduce programming costs associated with this bill and other income tax legislation.

Penalty Provision

General fund revenues could increase under the bill's monetary penalty provision for those

cases heard in the District Court, depending upon the number of convictions and fines imposed. General fund expenditures could increase as a result of the bill's incarceration penalty due to more people being committed to a Division of Correction (DOC) facility and increased payments to counties for reimbursement of inmate costs, depending upon the number of convictions and sentences imposed.

Local Effect: Local expenditures associated with lead poisoning treatment, such as health costs and educational needs, could decrease as discussed above. Local revenues that result from the distribution of GMVRA funds would decrease.

Revenues could increase under the bill's monetary penalty provision for those cases heard in the circuit courts, depending upon the number of convictions and fines imposed. Expenditures could increase as a result of the bill's incarceration penalty depending upon the number of convictions and sentences imposed. Counties pay the full cost of incarceration for people in their facilities for the first 90 days of the sentence, plus part of the per diem cost after 90 days. Per diem operating costs of local detention facilities are expected to range from \$23 to \$83 per inmate in fiscal 1998.

Small Business Effect: Small businesses could benefit under this legislation if they receive tax credits for lead cleanup activities, particularly if credits are received for work that would have occurred anyway. To the extent that additional projects are planned due to the tax credit, property owners would presumably benefit from increased property values due to the cleanup undertaken.

MDE advises that there are approximately 159,100 pre-1950 rental units in Maryland. Of these, 50,600 have registered with MDE under the Lead Poisoning Prevention Program. Under this program, property owners are required to perform the minimum Risk Reduction Treatment. However, under the bill, in order to qualify for the tax credit, property owners must complete a more stringent Lead Safe Standard which can include window replacement. It is not known how many pre-1950 owner-occupied housing units could be affected. However, according to the Maryland Office of Planning, using 1950 Census data, there were 360,700 owner-occupied dwelling units in 1950.

Rental property owners could receive tax credits of up to \$20,000 if units are rented to families with children with blood lead levels of 20 mg/dl; MDE advises that there were approximately 1,800 children with blood lead levels at least that high. It is not known how many affected children would live in properties owned by taxpayers that might apply for this credit. Otherwise, rental property owners could receive up to \$14,000 in tax credits. Small business owners that work out of their homes could benefit from the tax credit as well; owners of owner-occupied properties could receive up to \$8,500 in tax credits. As noted above, the average lead cleanup costs to meet the Lead Safe Standard would be

approximately \$3,000; therefore most property owners would qualify for credits of less than the maximum allowable amounts.

Owners of child-care facilities constructed prior to 1950 would also benefit from this credit. These small businesses could qualify for credits of up to \$15,000; average lead cleanup costs for these facilities could range from \$8,000 to \$10,000. It is not known at this time how many pre-1950 child care facilities exist that have not yet initiated lead cleanup projects.

Due to the credit it is assumed that companies that perform lead cleanup and inspection activities could benefit. There are 118 certified lead paint inspectors, 219 certified abatement contractors, and 11 certified training inspectors in the State, almost all of which are small businesses.

Information Source(s): Office of the Comptroller, Department of Housing and Community Development, Maryland Department of the Environment, Department of Health and Mental Hygiene, Department of Human Resources, Coalition to End Childhood Lead Poisoning, Department of Fiscal Services

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