

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

Senate Bill 246

(Senator Currie, *et al.*)

Budget and Taxation

Maryland Heritage Structure Rehabilitation Program

This bill creates a Maryland Heritage Structure Rehabilitation Program. This grant program would receive an annual budget appropriation. The structures eligible for the program would be similar to those that are currently eligible for tax credits under the Maryland Heritage Structure Rehabilitation Tax Credit, which is scheduled to sunset on June 30, 2004. The amount of the grant is equal to 20% of certified rehabilitation expenditures, not to exceed \$3 million for commercial projects and \$25,000 for noncommercial projects.

Fiscal Summary

State Effect: Based on historical experience with the tax credit program and depending on the annual appropriation, general fund expenditures for grants could increase by \$21 million annually reflecting an annual award of \$15 million in commercial grants and \$6 million in residential grants. Administrative expenditures at the Department of Housing and Community Development (DHCD) are estimated at \$630,000 annually.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: The amount of grants provided for commercial rehabilitation and owner-occupied residential grants will be as provided in the State budget each year. DHCD can accept applications each year from January 1 to March 31. The amount of the grant is

equal to 20% of certified rehabilitation expenditures, not to exceed (1) \$3 million for commercial projects; and (2) \$25,000 for noncommercial projects.

DHCD must adopt regulations to establish (1) the procedures and standards for certifying heritage structures and rehabilitations; (2) a grant application process; and (3) a competitive award process. The competitive award process must ensure that grants are awarded in a manner that reflects the geographic diversity of the State, and favors the award of grants for the rehabilitation of structures that are unlikely to occur without the grants. Rehabilitation expenditures cannot be certified unless the entity seeking the grant states under oath the amount of qualified rehabilitation expenditures.

A qualified expenditure is an amount that is expended in compliance with a plan of proposed expenditures that has been approved by the Director of the Maryland Historic Trust and is not funded, financed, or otherwise reimbursed by any:

- State or local grant;
- grant made from proceeds of tax-exempt bonds issued by the State, a political subdivision of the State, or an instrumentality of the State or of a political subdivision of the State;
- State or local tax credit other than the Heritage Rehabilitation Tax Credit; or
- other financial assistance from the State or a political subdivision except for a loan that must be repaid at an interest rate that is greater than the interest rate on general obligation bonds issued by the State at the most recent bond sale prior to the time the loan is made.

Applications cannot be accepted if: (1) any part of the proposed rehabilitation work has begun; or (2) the applicant for a commercial project has previously submitted three or more applications in that year and the proposed commercial rehabilitations exceed \$500,000.

In order to qualify, within a two-year period the rehabilitation expenditures must exceed: (1) \$5,000 for owner-occupied residential property; or (2) the greater of \$5,000 or the adjusted basis of the structure for commercial property.

The following rehabilitations qualify as a single commercial rehabilitation: (1) the phased rehabilitation of the same structure; (2) the separate rehabilitation of different

components of the same structure; or (3) the rehabilitation of multiple structures that are functionally related.

The grant can be recaptured by the State if the (commercial) rehabilitator performs disqualifying work within four years of the close of the calendar year when the grant was approved. The State can recapture: (1) 100% in the same year; (2) 80% one year after; (3) 60% two years after; (4) 40% three years after; and (5) 20% four years after.

By December 15 each year, the Director of the Maryland Historical Trust is required to report to the Governor and the General Assembly information about the program including: (1) the names of the owners of the commercial rehabilitations; (2) the location of the proposed commercial projects; and (3) estimated rehabilitation expenditures.

Current Law: The heritage tax credit program terminates June 1, 2004. Under the heritage tax credit, a person may claim a tax credit in an amount equal to 20% of the taxpayer's qualified rehabilitation expenditures for the rehabilitation of a certified heritage structure, for the taxable year in which a certified rehabilitation is completed. A certified heritage structure is defined as a structure that is either listed on the National Register of Historic Places, designated as a historic property under local law, or a nonhistoric building that is located in a historic district or a State certified heritage area and is certified to be "contributing" to the district or area.

Background: Applying for the current heritage tax credit is a three-part process that is administered by the Maryland Historic Trust within DHCD. Part 1 approval is required only for structures which are not designated historic properties that are requesting certification as "contributing" to the historic district or State certified heritage area. All proposed rehabilitations must apply for Part 2 approval, which requires that the plans for the proposed rehabilitation be submitted and found to be consistent with the standards for certified heritage structure rehabilitation. After the rehabilitation is completed, Part 3 approval is granted upon determination by the Director of the Maryland Historic Trust that the rehabilitation has met the standards for a certified heritage structure rehabilitation.

Credits Claimed to Date

As mentioned previously, the credit can be claimed for commercial and resident rehabilitation projects. Detailed data for the amount of credits claimed are available for only the commercial credits claimed. **Exhibit 1** lists the estimated rehabilitation expenditures for residential properties from 1997 through 2002. The percentage of residential expenditures for each county will roughly equal the percentage of total credits claimed.

Exhibit 1
Total Residential Rehabilitation Costs
Qualifying for Tax Credit, by County
1997-2002

<u>County</u>	<u>Rehabilitation Costs</u>	<u>Percent Total</u>
Baltimore City	\$32,357,92	40.5%
Baltimore County	11,923,880	14.9%
Montgomery	9,269,088	11.6%
Anne Arundel	5,439,416	6.8%
Kent	4,652,301	5.8%
Frederick	3,340,603	4.2%
Washington	2,968,064	3.7%
Prince George's	2,416,846	3.0%
Talbot	2,338,506	2.9%
Other	<u>5,184,527</u>	<u>6.5%</u>
Total	\$79,891,156	100%

Source: Governor's Task Force on Maryland Heritage Structure Rehabilitation Tax Credit Program

Commercial credits comprise the vast majority of the total credits that have been approved and claimed. According to DHCD, from 1997 through 2003 approximately \$131.8 million in tax credits were approved. A total of approximately \$116.5 million (88% of total) credits were approved for commercial projects and approximately \$15.3 million was approved for noncommercial projects. **Exhibit 2** lists the estimated amount of commercial credits earned by location. Baltimore City has the highest estimated amount of commercial rehabilitation tax credits approved, approximately \$105.4 million or 92% of the total amount approved.

Exhibit 2
Estimated Commercial Credits Approved
As of September 2003

<u>County</u>	<u>Credits</u>	<u>Percent Total</u>
Baltimore City	\$105,407,754	92.4%
Frederick	4,402,166	3.9%
Allegany	1,399,814	1.2%
Talbot	563,840	0.5%
Baltimore County	496,272	0.4%
Anne Arundel	400,383	0.4%
Howard	323,864	0.3%
Montgomery	223,968	0.2%
Kent	189,814	0.2%
Washington	143,578	0.1%
Carroll	139,243	0.1%
Queen Anne's	130,032	0.1%
Harford	100,000	0.09%
Wicomico	88,348	0.08%
St. Mary's	32,703	0.03%
Cecil	22,520	<u>0.02%</u>
Total	\$114,064,299	100%

Source: Department of Legislative Services, Department of Housing and Community Development (Maryland Historical Trust)

State Expenditures:

Grant Expenditures

The bill provides that the amount of grants awarded each fiscal year will be as provided in the State budget, and the effect on State expenditures cannot be reliably estimated. It is estimated that \$21 million will be appropriated each year, based on the fact that, under current law, in fiscal 2004 (1) \$15 million in commercial credits were approved; and (2) approximately \$6 million in noncommercial credits will be earned. Legislative Services assumes that the amount provided under current law represents a viable program sufficient to meet its intended purpose.

Grant Program Administrative Expenditures

The amount of administrative expenditures incurred as a result of the provisions of this bill cannot be reliably estimated at this time; however, it is reasonable to assume that these costs would not exceed 3% of the grant amount. The program would operate similarly to the tax credit program, which currently costs approximately \$400,000 annually to operate, with three full-time staff plus additional staff who split time on this program. Assuming 3% (or approximately \$630,000) in administrative expenses implies additional expenses of \$200,000. This reflects additional workload associated with grant selection and evaluation that are not provided for under the current credit program. On the other hand, the grant program, as proposed, does not involve loans, federal matching requirements, or other aspects that complicate grant administration.

Additional Information

Prior Introductions: None.

Cross File: HB 679 (Delegate Hixson, *et al.*) – Ways and Means.

Information Source(s): Department of Legislative Services

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