

Department of Legislative Services  
Maryland General Assembly  
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 1001

(Senator Lawlah, *et al.*)

Budget and Taxation

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Certified Heritage Areas - Prince George's County - National Capital  
Preservation District

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This bill designates the National Capital Preservation District as a certified heritage area and makes properties within the district eligible for a Maryland Heritage Structure Rehabilitation Tax Credit. The National Capital Preservation District includes areas within one-quarter mile of the border between Prince George's County and the District of Columbia, or within a one-quarter mile radius of a Washington Metropolitan Area Transit Authority Metrorail station in Prince George's County.

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Fiscal Summary

**State Effect:** Significant general fund revenue decrease from FY 2007 to 2009 due to individuals taking tax credits against the State income tax. The actual decrease in revenues depends on the number of properties that qualify for the credit and rehabilitation expenses. Any additional workload generated by the new certified heritage area could be handled with existing resources.

**Local Effect:** Local jurisdictions within the National Capital Preservation District could be eligible for State funding; however, as there is no increased State funding associated with the bill, the total amount of grants offered statewide would not change.

**Small Business Effect:** Meaningful.

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## Analysis

**Current Law:** The Maryland Heritage Areas Authority (MHAA) is an independent unit of government that operates in the Department of Housing and Community Development (DHCD). MHAA can recognize and certify heritage areas that: (1) reflect the cultural themes of the State's development; and (2) provide educational, inspirational, economic, and recreational benefits for present and future generations.

There are two steps in the process to become a certified heritage area. The first step is to become a recognized heritage area.

MHAA may not designate an area as a recognized heritage area unless the heritage area contains resources of statewide significance, contains one or more historic districts or natural or recreational resources of statewide significance. In addition, public assistance for the heritage area must be reasonably expected to produce additional private investment and job creation.

Later, local jurisdictions that wish to have a recognized heritage area designated a certified heritage area must provide a management plan to the authority. In order to become a recognized heritage area, a formal proposal including certain information must be made to MHAA. The proposal must have been previously approved by the governing bodies within all of the local jurisdictions within the proposed recognized heritage area.

The management plan must be approved by the governing bodies within all of the local jurisdictions located within the proposed certified heritage area. In addition to a reiteration of information contained in the proposal to become a recognized heritage area, a management plan must also contain additional information, including: (1) educational, interpretive, and recreational programs and projects to be undertaken; (2) an economic assessment of the long-term benefits and costs associated with being designated a certified heritage area, including any funding sources; and (3) a description of the organization structure to be used for planning, development, and management of the heritage area.

The Maryland Heritage Structure Rehabilitation Tax Credit Program, administered by the Maryland Historic Trust (MHT), provides Maryland income tax credits equal to 20% of the qualified rehabilitation expenditures expended in the rehabilitation of a certified heritage structure. The maximum amount of credits earned for an individual rehabilitation project cannot exceed (1) \$50,000 for residential projects; and (2) the lesser of \$3 million or the maximum amount stated on an initial credit certificate for commercial projects.

A property meets the requirements of a certified heritage structure if:

- the property is listed on the national register of historic places;
- the property is designated as a historic property under local law and determined by MHT to be eligible for listing on the national register of historic places;
- the property is located in a historic district listed on the national register of historic places or in a local historic district that MHT determines is eligible for listing on the national historic register of historic places and is certified by MHT as contributing to the significance of the district; or
- the property is located in a certified heritage area and is certified by MHAA as contributing to the significance of the certified heritage area.

The credit is available for single-family, owner-occupied residential property as well as commercial property. In order to qualify for the credit, within a two-year period the rehabilitation expenditures must exceed: (1) \$5,000 for owner-occupied residential property; and (2) the greater of \$5,000 or the adjusted basis of the structure for commercial property. Structures owned by a unit of federal, State, or local government are not eligible for the tax credit.

The amount of credits that MHT can award for rehabilitation of commercial properties cannot exceed \$20 million in fiscal 2006 and \$30 million in each of fiscal 2007 and 2008 for commercial credits. There is no aggregate cap for residential tax credits. The tax credit terminates July 1, 2008.

**Background:** MHAA was created in 1996 to foster heritage tourism by providing technical and financial assistance to create additional historic and cultural destinations within the State. The Maryland Heritage Areas Authority Financing Fund (MHA AFF) generally receives \$1 million annually from the real estate transfer tax through Program Open Space. The Governor's proposed fiscal 2006 budget includes a transfer of \$1 million to the fund. According to DHCD, as of January 2005, there are 10 certified heritage areas and 3 recognized heritage areas in the State.

Local jurisdictions within a certified heritage area are eligible to compete for grant funds from MHAA to assist with capital projects located within the heritage area's target investment zones and assist with noncapital projects located within the certified heritage area. Business entities would also be eligible for loan funds to assist with capital projects located within the heritage area's target investment zones.

**State Revenues:** The actual decrease in State revenues cannot be reliably estimated and depends on the number of properties that would qualify for the heritage tax credit, the percent of properties that incur qualifying rehabilitation expenses, and the average amount of rehabilitation expenses incurred. The heritage tax credit program terminates

July 1, 2008. Based on the effective date of this bill and termination of the heritage tax credit, general fund revenues could decrease in fiscal 2007 through 2009.

The exact number of houses located in the National Capital Preservation District is unknown, as is the number of houses that could qualify for the heritage tax credit. However, under the existing tax credit program, the average credit claimed per residential property was \$16,644 in 2004.

Legislative Services advises that the heritage tax credit available to commercial properties has been oversubscribed in the last few years. Adding commercial properties to the potential pool of applicants would not decrease revenues beyond that which is provided under the current tax credit program.

**State Expenditures:** MHAA advises that it could handle the technical assistance and outreach responsibilities associated with expansion of the heritage areas network to include this area. While additional local jurisdictions and small businesses would be eligible for financial assistance, no money has been budgeted to increase funding of MHAFF; therefore, MHAA would use funds already allocated to MHAFF for any additional projects. As there is no management group associated with the heritage area, MHAA could be forced to take responsibility for managing the area, but this could be handled with existing resources.

**Local Fiscal Effect:** Additional local jurisdictions associated with the National Capital Preservation District would be eligible for grant funds from MHAFF; however, as there is no additional funding associated with this bill, this could result in a reduction in funding for other local jurisdictions applying for the same grant funding.

**Small Business Effect:** Small businesses located within the National Capital Preservation District would be eligible for MHAFF assistance; however, the small businesses would be competing for the current level of funding with other small businesses. This could result in smaller grants or exclusion from receipt of grant funds for some enterprises.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Business and Economic Development,  
Department of Housing and Community Development, Department of Legislative  
Services

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mp/rhh

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Analysis by: Nora C. McArdle

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510