

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 1534
Ways and Means

(Delegate Rudolph)

Heritage Credit - Maximum Credit - Multiple Related Structures

This bill eliminates the existing requirement that the rehabilitations of multiple structures that are functionally related to serve an overall purpose are treated as a single commercial rehabilitation under the heritage tax credit program if the rehabilitation is located in a county that “has not received its fair share of tax credits.” A county is deemed to not have received its fair share under the bill if, through the calendar year prior to the application period under the program, the percentage of total credits approved in the State since 1996 a county has received is less than county’s percentage of total buildings in the State that are either: (1) listed in the national register of historic places; or (2) located in a historic district listed on the national register of historic places and is certified by the Maryland Historical Trust as contributing to the significance of the district.

Fiscal Summary

State Effect: Altering the requirement that the rehabilitations of multiple structures that are functionally related to serve an overall purpose are treated as a single commercial rehabilitation would not increase revenue losses beyond that which is provided under current law. No effect on expenditures.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Chapter 601 of 1996 established the Heritage Structure Rehabilitation Tax Credit. The credit replaced an existing subtraction modification for rehabilitating historic structures. The credit has been altered several times since it was established.

Chapter 76 of 2004 substantially altered the credit program by shifting the commercial credit part of the program from a traditional tax credit program to a tax credit program that is subject to an annual appropriation with an aggregate limit. Chapter 76 also extended the termination of the tax credit program for both residential and commercial rehabilitations to July 1, 2008.

Chapter 76 established the value of the credit equal to 20% of the qualified rehabilitation expenditures expended in the rehabilitation of a certified historic structure. The maximum amount of credits earned for an individual rehabilitation project cannot exceed (1) \$50,000 for noncommercial projects; and (2) the lesser of \$3 million or the maximum amount stated on an initial credit certificate for commercial projects.

A maximum of 50% of the total initial credit certificates issued in a fiscal year can be allocated for projects located in one county or Baltimore City. At least 10% of the total initial credit certificates issued are required to be allocated to commercial rehabilitations proposed by nonprofit organizations.

A commercial rehabilitation is the rehabilitation of a structure other than a single-family, owner-occupied residence. Business entities, individuals, and nonprofit organizations are eligible to claim the credit. Commercial applications cannot be accepted if: (1) any part of the proposed rehabilitation work has begun; or (2) the applicant 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.

Background: Exhibit 1 lists the estimated amount of commercial credits earned by county prior to the restriction on the percentage of commercial credits that can be awarded to one county as enacted by Chapter 76 of 2004. Baltimore City had the highest estimated amount of commercial rehabilitation tax credits approved, approximately \$105.4 million or 92% of the total amount approved. The amount shown in Exhibit 1 does not include credits awarded in late 2003 and 2004.

Exhibit 1
Estimated Commercial Credits Approved
Prior to Chapter 76 of 2004
As of September 2003

<u>County</u>	<u>Credits</u>	<u>Percent of 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	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	0.02%
Total	\$114,064,299	100%

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

Exhibit 2 lists the credits that were awarded in fiscal 2006. No more than 50% of the total amount of money allocated to the reserve fund for commercial credits could be allocated to any one county. MHT did not allocate the entire \$20 million that was appropriated for commercial rehabilitations. The unallocated amount of \$328,744 in commercial credits will be added to the amount of credits that can be awarded in fiscal 2007. A total of approximately \$24.8 million in residential and commercial credits were awarded fiscal 2006.

Exhibit 2
Residential and Commercial Credits Awarded by County
Fiscal 2006

<u>County</u>	Commercial			Residential		
	<u>Projects</u>	<u>Total Credits</u>	<u>Percent of Total</u>	<u>Projects</u>	<u>Total Credits</u>	<u>Percent of Total</u>
Allegany	2	\$166,970	0.8%	0	\$0	0.0%
Anne Arundel	2	180,000	0.9%	11	158,166	3.1%
Baltimore City	8	10,000,000	50.8%	251	4,024,905	77.9%
Baltimore	3	1,018,600	5.2%	14	132,675	2.6%
Caroline	1	26,000	0.1%	0	0	0.0%
Carroll	2	671,686	3.4%	2	28,557	0.6%
Cecil	0	0	0.0%	2	19,625	0.4%
Dorchester	2	260,000	1.3%	2	8,521	0.2%
Frederick	3	280,000	1.4%	7	133,600	2.6%
Harford	0	0	0.0%	2	19,547	0.4%
Howard	1	70,000	0.4%	4	41,709	0.8%
Kent	3	1,010,000	5.1%	1	1,281	0.0%
Montgomery	2	3,950,000	20.1%	22	247,248	4.8%
Prince George's	1	330,000	1.7%	20	165,575	3.2%
Queen Anne's	0	0	0.0%	1	15,000	0.3%
Somerset	1	400,000	2.0%	1	50,000	1.0%
Talbot	3	656,000	3.3%	4	67,100	1.3%
Washington	2	652,000	3.3%	4	36,771	0.7%
Wicomico	0	0	0.0%	3	14,207	0.3%
Total	36	\$19,671,256		351	\$5,164,488	
Unallocated		\$328,744				

State Fiscal Effect: The bill alters the requirement that the rehabilitations of multiple structures that are functionally related to serve an overall purpose in certain counties is treated as a single commercial rehabilitation. State revenues would not decrease beyond that which is provided under current law. The awarding of commercial credits is subject to the amount appropriated to the reserve fund and the bill would not change this amount. If a project qualifies for additional credits due to the change proposed by the bill, additional credits would not be awarded in the year. As shown in Exhibit 2, all but

\$328,744 in commercial credits were awarded in fiscal 2006. Further, this unallocated amount will be added to the amount of credits awarded in fiscal 2007.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Historical Trust, Department of Legislative Services

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mll/hlb

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