

Department of Legislative Services  
 Maryland General Assembly  
 2018 Session

FISCAL AND POLICY NOTE  
 First Reader

Senate Bill 481 (Senator Ferguson, *et al.*)  
 Budget and Taxation

Heritage Structure Rehabilitation Tax Credit - Reserve Fund - Mandated  
 Appropriation

This bill requires the Governor to include \$15.0 million in the State budget for the heritage structure commercial credit reserve fund in fiscal 2020 through 2022. **The bill takes effect July 1, 2018.**

Fiscal Summary

**State Effect:** General fund expenditures increase by \$6.0 million annually in FY 2020 through 2022 due to the mandated commercial tax credit appropriations. Special fund revenues and expenditures may increase in FY 2020 through 2022 reflecting increased administrative fees and expenditures at the Maryland Historical Trust (MHT). **This bill establishes a mandated appropriation in fiscal 2020 through 2022.**

| (\$ in millions) | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|------------------|---------|---------|---------|---------|---------|
| SF Revenue       | \$0     | -       | -       | -       | \$0     |
| GF Expenditure   | \$0     | \$6.0   | \$6.0   | \$6.0   | \$0     |
| SF Expenditure   | \$0     | -       | -       | -       | \$0     |
| Net Effect       | \$0.0   | (\$6.0) | (\$6.0) | (\$6.0) | \$0.0   |

*Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** Local highway user revenues decrease as a result of any additional credits claimed against the corporate income tax. Local expenditures are not affected.

**Small Business Effect:** Meaningful. Any small business that benefits from the tax credit will be positively impacted by the increased commercial program funding.

## Analysis

**Current Law/Background:** The Heritage Structure Rehabilitation Tax Credit Program provides tax credits for commercial, small commercial, and owner-occupied residential property rehabilitations. The value of the refundable credit is based on the type of rehabilitation undertaken and up to a percentage of qualified rehabilitation expenditures, as follows:

- 20% for the rehabilitation of a single-family, owner-occupied residence or a small commercial project; and
- 20% for the commercial rehabilitation of a certified historic structure, or 25% if certain energy efficiency standards are met.

The value of the tax credit may not exceed (1) for a commercial rehabilitation (any building that is not a single-family, owner-occupied residence or small commercial project), \$3 million or the maximum amount specified under the initial credit certificate or (2) for all other rehabilitations, \$50,000. Applying for the credit is a three-part process that is administered by MHT within the Maryland Department of Planning.

### *Commercial Program*

The commercial program includes the rehabilitation of certified historic structures and is the largest component of the program. The commercial credit is a budgeted tax credit and the Governor must appropriate funds to the program annually through fiscal 2022. The Governor is not required to appropriate an amount to the reserve fund in each year. MHT awards credits through a competitive process, with the amount awarded each year generally limited to the amount appropriated to the program.

### *Small Commercial Project Program*

Chapter 601 of 2014 established credit eligibility for certain small commercial projects. Applicants must apply to MHT in order to qualify and receive an initial credit certificate. MHT may award tax credits through June 30, 2022. There is no reserve fund to offset the cost of small commercial credits.

### *Residential Program*

MHT can award an unlimited amount of residential credits for applications received through June 30, 2022. A single-family, owner-occupied residence is a structure or a portion of a structure occupied by the owner and the owner's immediate family as their primary or secondary residence. A single-family, owner-occupied residence also includes a residential unit in a cooperative project owned or leased to a cooperative housing

corporation and leased for exclusive occupancy to, and occupied by, a member of the corporation and the member's immediate family.

**State Fiscal Effect:** The bill requires in fiscal 2020 through 2022 that the Governor provide an appropriation of \$15.0 million to the reserve fund for commercial projects. Current law requires that the Governor include an appropriation to the reserve fund but does not require or suggest an amount. The Governor's proposed fiscal 2019 budget includes \$9.0 million in funding for the commercial program. It is assumed that the program is level funded through fiscal 2022. As a result, general fund expenditures will increase by \$6.0 million annually in fiscal 2020 through 2022 due to the appropriation mandated by the bill in each year.

The additional funding for the commercial program may increase MHT administrative costs including the hiring of an additional administrator to review and process the increased number of applications. MHT is required to charge certification fees that cover the cost of administering the credit. Accordingly, special fund expenditures and revenues may increase by a corresponding amount in fiscal 2020 through 2022.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 954 (Delegate A. Washington, *et al.*) - Appropriations and Ways and Means.

**Information Source(s):** Department of Budget and Management; Maryland Department of Planning; Department of Legislative Services

**Fiscal Note History:** First Reader - February 15, 2018  
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