

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

Senate Bill 394

(Senator Hester, *et al.*)

Budget and Taxation

Ways and Means

Catalytic Revitalization Project Tax Credit - Alterations

This bill makes various alterations to the catalytic revitalization project tax credit. A recipient of a tax credit certificate for a phased project that is issued on completion of a phase may claim the full amount stated on the final tax credit certificate in the tax year in which the certificate is issued. The Secretary of Housing and Community Development may award initial tax credit certificates for more than one catalytic revitalization project within a two-year period; however, the Secretary may not (1) accept applications and award initial tax credit certificates for projects more than once within a two-year period or (2) issue tax credit certificates totaling more than \$15 million, in aggregate, within a two-year period (consistent with the existing per-project limit). The bill also authorizes the Secretary to revoke an initial tax credit certificate under specified circumstances and requires the Secretary to establish procedures for the approval of project phases. **The bill takes effect July 1, 2024, and applies to tax year 2024 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by *at least* \$2.7 million in FY 2025 and \$0.1 million in FY 2028, as discussed below. In FY 2029 and beyond, the bill’s net effect on State revenues is less clear. To the extent credits are claimed against the corporate income tax, Higher Education Investment Fund (HEIF) revenues and Transportation Trust Fund (TTF) revenues and expenditures are also affected (not shown below).

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF Revenue	(\$2.7)	(\$2.6)	(\$1.1)	(\$0.1)	(-)/-
Expenditure	0	0	0	0	0
Net Effect	(-)	(-)	(-)	(-)	(-)/-

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

Local Effect: Local highway user revenues are potentially affected beginning as early as FY 2025, as discussed below. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law/Bill Summary: Chapter 332 of 2021 established a refundable credit against the State income tax equal to 20% of the rehabilitation and new construction costs incurred for a qualified catalytic revitalization project in the State. The credit is administered by the Department of Housing and Community Development (DHCD). “Catalytic revitalization project” means the substantial rehabilitation of a property in the State (1) that was formerly owned by the State or federal government; (2) the rehabilitation of which will foster economic, housing, and community development within the community in which the property is located; and (3) that is out of service and was formerly used as a college or university, K-12 school, hospital, mental health facility, or military facility or installation. For purposes of calculating the credit, new construction costs must be related to the construction of new structures that connect, expand, or integrate the existing structures to be rehabilitated and may not exceed 50% of the total costs of the catalytic revitalization project.

The Secretary of Housing and Community Development may not award an initial credit certificate for more than one catalytic revitalization project within a two-year period and may not issue tax credit certificates totaling more than \$15.0 million for any project. *Under the bill*, the Secretary may issue initial credit certificates for multiple projects within a two-year period, up to \$15.0 million in aggregate. The bill also authorizes the Secretary to revoke an initial credit certificate on a finding that the recipient is not in compliance with the initial credit certificate or an agreement with DHCD regarding the initial credit certificate. If the Secretary revokes an initial credit certificate in accordance with the bill, the Secretary may award an initial credit certificate to another applicant up to the amount of the revoked certificate. The bill further specifies that the Secretary may not revoke a tax credit certificate awarded on or before July 1, 2024, unless the recipient ceases rehabilitation of the project for which the tax credit certificate was awarded.

A final tax credit certificate is issued (1) on completion of a catalytic revitalization project for which an initial tax credit certificate has been issued or (2) for a phased project, on completion of a phase, as authorized by Chapter 173 of 2023, provided that the final tax credit certificate does not exceed 20% of the project’s eligible expenses to date or the aggregated limit of a project’s credit. An individual, nonprofit organization, or business entity awarded a tax credit certificate must claim the credit over the course of five consecutive tax years beginning with the tax year in which the catalytic revitalization

project is completed. *Under the bill*, a final tax credit certificate issued on completion of a *phase* of a catalytic revitalization project may be fully claimed in the tax year in which the certificate is issued. The bill further requires the Secretary, in consultation with the Department of Commerce, to adopt regulations that establish procedures for the approval of project phases for tax credit certificates.

Any unclaimed amount of an awarded tax credit certificate may be transferred, by written instrument, in whole or in part, to any individual, nonprofit organization, or business entity, as specified. The Comptroller or the Secretary of Housing and Community Development may not recapture a tax credit if (1) the catalytic revitalization project is transferred, in whole or in part, by fee simple transfer of real property or by transfer of an ownership interest in the entity that owns the project to a new owner and (2) the Secretary has issued a final tax credit certificate for the catalytic revitalization project.

The Secretary may not issue additional tax credit certificates on or after January 1, 2031. After this termination date, previously issued tax credit certificates may continue to be claimed, refunded, carried forward, or transferred in accordance with existing provisions.

State/Local Fiscal Effect: As discussed above, under the bill, a recipient of a tax credit certificate for a phased project that is issued on completion of a phase need not claim the credit over five years and may claim the full amount in the tax year in which the certificate issued. In the immediate term, general fund revenues decrease significantly due to the acceleration of tax credit claims. Based on an existing award, it is estimated that general fund revenues decrease by at least \$2.7 million in fiscal 2025 and \$80,000 in fiscal 2028. In fiscal 2029 and future years, as existing awards begin to phase out on an accelerated schedule, the bill's net effect on State revenues is less clear and depends on the extent to which other multi-phase projects receive tax credit awards under the program and the timing and amount of resulting tax credit claims. As noted above, the Secretary may not issue additional tax credit certificates on or after January 1, 2031.

The bill also authorizes the Secretary to award initial tax credit certificates for more than one project within a two-year period, subject to an aggregate limit of \$15.0 million (consistent with the existing per-project limit). While the bill does not alter the aggregate amount of credit that may be awarded, to the extent that the bill results in increased utilization of the tax credit program, general fund revenues decrease further.

To the extent credits are claimed against the corporate income tax, HEIF and TTF revenues are similarly affected, as are local highway user revenues and associated TTF expenditures.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Department of Housing and Community Development; Department of Legislative Services

Fiscal Note History: First Reader - February 12, 2024
km/jrb Third Reader - March 22, 2024
 Revised - Amendment(s) - March 22, 2024

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