

D40W11
Department of Planning – PAYGO

Pay-As-You-Go Capital Budget Summary

(\$ in Thousands)

	FY 2005 Approp.	FY 2006 Approp.	FY 2007 Allowance	Percent Change	DLS Recommd.
Maryland Historical Trust Revolving Loan Fund	\$450	\$450	\$450	0.0%	\$0
Maryland Heritage Structure Rehabilitation Tax Credit Program	0	20,000	30,000	50.0%	30,000
Total	\$450	\$20,450	\$30,450	48.9%	\$30,000

Fund Source					
General	0	20,000	30,000	50.0%	30,000
Special	200	450	450	0.0%	0
PAYGO Subtotal	\$200	\$20,450	\$30,450	48.9%	\$30,000
GO Bonds	250	0	0	0	0
Total	\$450	\$20,450	\$30,450	48.9%	\$30,000

Summary of Issues

Proposed Changes to the Maryland Heritage Structure Rehabilitation Tax Credit Program: The Administration has proposed legislation (HB 314/SB 223) that would make several significant changes to the Maryland Heritage Structure Rehabilitation Tax Credit Program. **The Maryland Department of Planning (MDP) should be prepared to explain the potential impact of HB 314/SB 223. Specifically, MDP should discuss how this change may impact the percentage of total annual commercial tax credits approved in Baltimore City, why this program merits a \$30.0 million annual appropriation for the next five years, and how MDP intends to ensure this program is consistent with Smart Growth principles and supportive of the Priority Places Strategy.**

Note: Numbers may not sum to total due to rounding.

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Summary of Recommended Actions

	<u>Funds</u>
1. Delete funding for the Maryland Historical Trust Revolving Loan Fund.	\$ 450,000
2. Add budget bill language authorizing the department to submit a fiscal 2007 budget amendment for up to \$450,000 for the loan program.	
Total Reductions	\$ 450,000

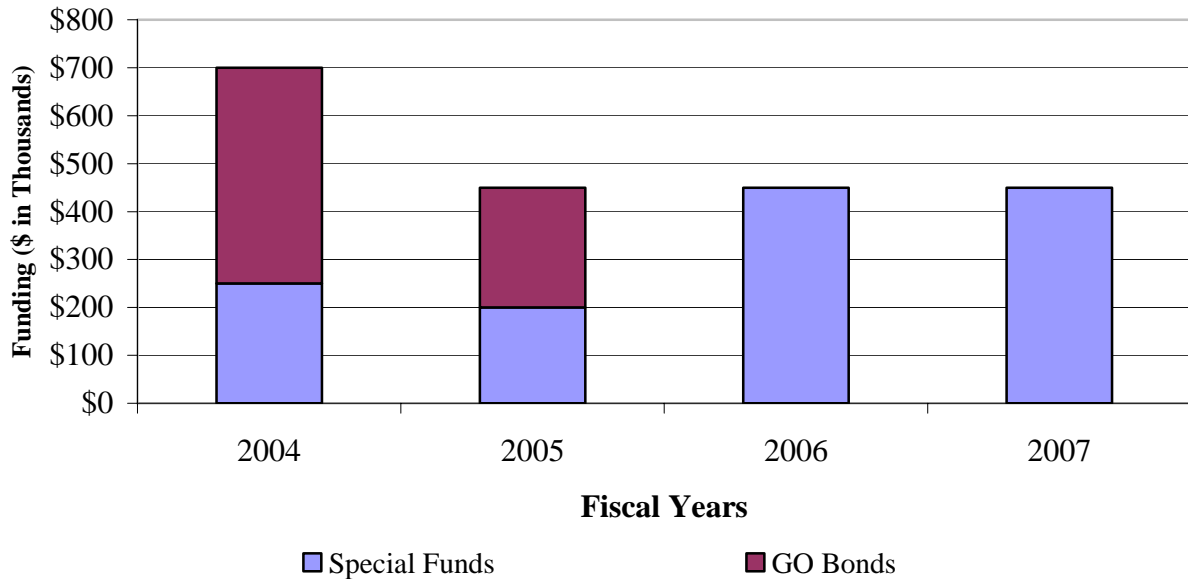
Overview

MDP recently assumed responsibility of two capital programs as a result of Chapter 440, Acts of 2005: the Maryland Historical Trust Revolving Loan Fund and the Maryland Heritage Structure Rehabilitation Tax Credit Program. These two capital programs seek to promote the acquisition and restoration of historic properties by providing low interest loan funds and tax credits.

Consolidated Administrative Expenses – All Programs

	FY 2005 Actual	FY 2006 Estimated	FY 2007 Estimated
Sources:			
Tax Credit Program			
General Funds	\$171,087	\$0	\$0
Special Funds	0	196,713	300,000
Federal Funds	26,063	0	0
Loan Program Special Funds	66,862	67,500	67,500
Total Funds	\$264,012	\$264,213	\$367,500
Uses:			
Direct Expenses	261,619	263,112	367,500
Indirect Expenses	2,393	1,101	0
Total Expenses	\$264,012	\$264,213	\$367,500

**Exhibit 1
Maryland Historical Trust Loan Fund
Funding Allocation
Fiscal 2004 – 2007**



Note: In fiscal 2004, the program was appropriated \$200,000 in GO bond funds; however, an additional \$250,000 in GO bond funds was provided for the B & O Railroad Museum to repair damage caused by a February 2003 snowstorm.

Source: Department of Legislative Services

**Exhibit 2
Maryland Historical Trust Revolving Loan Fund – Past
and Current Year Activity**

<u>Fiscal Year</u>	<u>Total Authorized</u>	<u>Amount Encumbered</u>	<u>Amount Expended</u>
2002	\$400,000	\$347,750	\$332,028
2003	250,000	153,500	0
2004	700,000	580,000	124,983
2005	450,000	208,000	0
Subtotal	\$1,800,000	\$1,289,250 (72%)	\$457,011 (25%)
2006	450,000	0	0
Total	\$2,250,000	\$1,289,250 (57%)	\$457,011 (20%)

Source: Maryland Department of Planning

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Program Performance Analysis: One of the primary goals for this program is the protection of historic properties eligible for listing on the Maryland Register of Historic Properties through assisting in the acquisition and rehabilitation of those properties. As shown in **Exhibit 3**, demand for loans from this program has dropped due in part to the availability of low commercial loan rates. Currently, this program appeals to nonprofits and local governments who are not opposed to granting historic preservation easements as a condition of the loan. If commercial interest rates rise in the next several years, demand for this program may increase.

Exhibit 3
Total Number of Historic Properties Preserved
Fiscal 2002 – 2007

	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Est.</u>	<u>Est.</u>
# of historic properties acquired	1	0	1	2	1	0
# of historic properties rehabilitated	2	0	2	1	2	5
Total	3	0	3	3	3	5

Source: Maryland Department of Planning

Maryland Historical Trust Revolving Loan Fund Data

Fund History

	<i>FY 2005 Actual</i>	<i>FY 2006 Estimated</i>	<i>FY 2007 Estimated</i>
Beginning Balance	\$594,171	\$886,283	\$460,518
REVENUE			
GO Bonds	250,000	0	0
Loan Repayments and Interest	163,474	91,735	126,329
Cancelled Encumbrance	153,500	0	0
TOTAL REVENUE	\$566,974	\$91,735	\$126,329
TOTAL AVAILABLE	\$1,161,145	\$978,018	\$586,847
ENCUMBRANCES			
Loans	208,000	450,000	450,000
Operating Expenses	66,862	67,500	67,500
TOTAL ENCUMBRANCES	\$274,862	\$517,500	\$517,500
Ending Balance	\$886,283	\$460,518	\$69,347

(\$ in Millions)

<i>Description</i>	<i>2005 Approp.</i>	<i>2006 Approp.</i>	<i>2007 Request</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>	<i>2011 Estimate</i>
PAYGO SF	\$0.200	\$0.450	\$0.450	\$0.200	\$0.200	\$0.200	\$0.200
GO Bond	0.250	0.000	0.000	0.250	0.250	0.300	0.300
Total	\$0.450	\$0.450	\$0.450	\$0.450	\$0.450	\$0.500	\$0.500

Recommended Actions

1. Delete funding for the Maryland Historical Trust Revolving Loan Fund.
2. Add the following language:

Provided that the Maryland Department of Planning may submit a fiscal 2007 budget amendment for up to \$450,000 in special funds for the Maryland Historical Trust Revolving Loan Fund.

Explanation: This language authorizes the Maryland Department of Planning to submit a fiscal 2007 budget amendment for up to a total of \$450,000 in special funds for the Maryland Historical Trust Revolving Loan Fund. If a budget amendment is submitted, sound evidence should be provided to the committees that the funds would be expended in an expeditious manner.

Fiscal 2007 Proposed Loan Projects

MDP plans to approve four or five loans.

Fiscal 2006 Loan Project Status

<u>Project</u>	<u>Location</u>	<u>Amount</u>	<u>Status</u>
Samuel Mudd House	Charles County	\$400,000	Pending
Other projects	n/a	50,000	n/a
Total		\$450,000	

Maryland Heritage Structure Rehabilitation Tax Credit Program (Statewide)

PAYGO GF \$30,000,000 Recommendation: Approve

Program Description: The Maryland Heritage Structure Rehabilitation Tax Credit Program (HSRTC) is administered by the Maryland Historical Trust (MHT) Revolving Loan Fund and provides tax credits equal to 20% of the qualified capital costs expended in the rehabilitation of a certified heritage structure. Certified structures must meet one of the following requirements: (1) is listed on the National Register of Historic Places; (2) 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; (3) is located in a historic district listed in the National Register of Historic Places or in a local historic district that MHT determines is eligible for listing on the National Register of Historic Places and certified by MHT as contributing to the significance of the district; or (4) is located in a certified heritage area and is certified by the Maryland Heritage Areas Authority as contributing to the significance of the certified heritage area. The credit is available for owner-occupied residential property as well as commercial property; however, there is no aggregate cap or reserve fund for the residential tax credits. The residential tax credit program operates as a traditional tax credit program. The maximum amount of credits earned for an individual owner occupied rehabilitation project cannot exceed \$50,000. The HSRTC program is currently scheduled to sunset on June 30, 2008.

Chapter 76 of 2004 shifted HSRTC from a traditional tax credit program to a tax credit program that is subject to an annual appropriation, with an aggregate limit for the awarding of commercial credits. Major changes, largely to the commercial tax credit program, included:

- creating a certified heritage structure rehabilitation tax credit reserve fund;
- requiring a reserve fund budget allowance of at least \$20.0 million in fiscal 2006 and \$30.0 million annually in fiscal 2007 and 2008;
- requiring initial credit certificates issued by MHT in each fiscal year cannot exceed the amount appropriated to the reserve fund in the State budget;
- requiring MHT to notify the Comptroller on a quarterly basis of the certified credit amount for completed projects, and the Comptroller is then required to transfer from the reserve fund to the general fund, the total amounts stated in initial credit certificates for each rehabilitation project completed during that quarter;
- stipulating that a maximum of 50% of the total initial credit certificates issued in a fiscal year may be allocated for projects located in one county or Baltimore City;

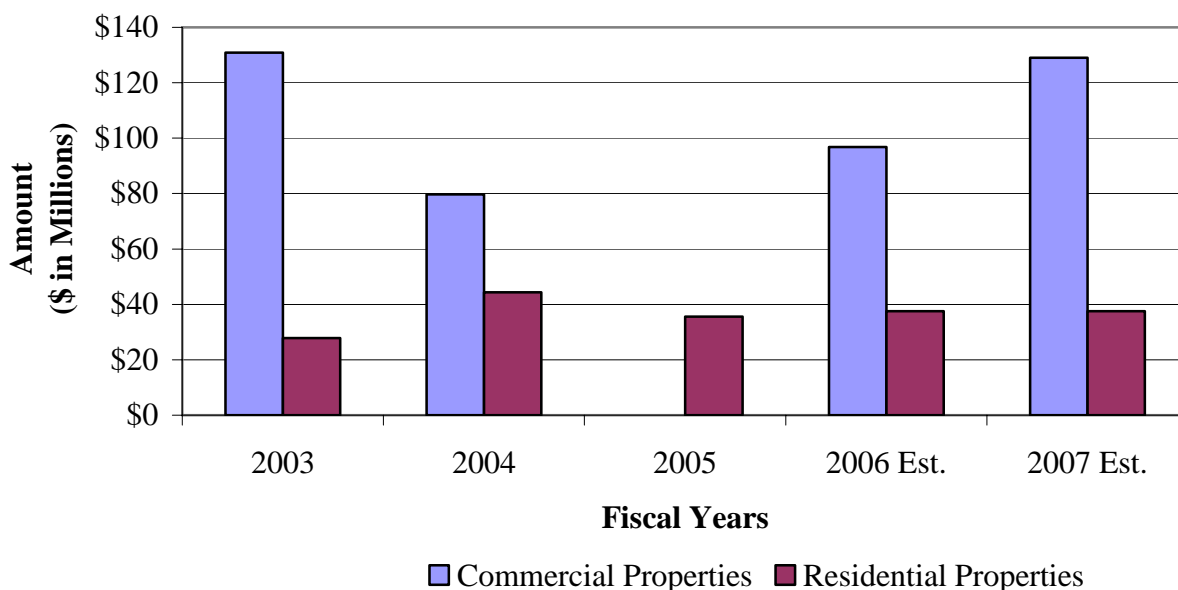
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- requiring that at least 10% of the total initial credit certificates be allocated to nonprofit organizations; and
- stipulating that maximum credits earned for commercial projects cannot exceed the lesser of \$3.0 million or the maximum amount stated on an initial credit certificate.

Comments: The \$30.0 million fiscal 2007 allowance represents a \$10.0 million or 50% increase over fiscal 2006. The fiscal 2007 allowance is consistent with the funding level specified in statute and the 2005 Capital Improvement Program. MDP’s performance information estimates that this funding would be dedicated to 46 commercial and 462 residential projects in fiscal 2007.

Program Performance Analysis: As shown in **Exhibit 4**, the Maryland Department of Planning (MDP) estimates an increasing amount of private funding for the restoration and preservation of historic properties being leveraged by the tax credit. **MDP should be prepared to discuss how it calculates these two measurements and why it is not anticipating a more significant increase in fiscal 2007 due to the additional \$10.0 million in State funding for the program.**

Exhibit 4
Private Investment Leveraged by the State Rehabilitation Tax Credit
(\$ in Millions)



Note: No commercial tax credits were authorized in fiscal 2005.

Source: Fiscal 2006 and 2007 budget books

Fund Data

Authorization Request*
(\$ in Millions)

<i>Description</i>	<i>2005 Approp.</i>	<i>2006 Approp.</i>	<i>2007 Request</i>	<i>2008 Estimate</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>	<i>2011 Estimate</i>
PAYGO GF	\$0.000	\$20.000	\$30.000	\$30.000	\$0.000	\$0.000	\$0.000

* The out-year estimates are consistent with current statute.

Issues

1. Proposed Changes to the Maryland Heritage Structure Rehabilitation Tax Credit Program

The Administration has proposed legislation (HB 314/SB 223) that would make several significant changes to HSRTC. The changes proposed in the legislation are summarized below.

- ***Eliminate Cap on Jurisdictions:*** Currently, a maximum of 50% of the total initial credit certificates issued in a fiscal year may be allocated for projects located in one county or Baltimore City. The legislation eliminates the restrictions on how much credit may be awarded to any one jurisdiction. The program would continue to rate and rank applications, but competition would be based on merit.
- ***Extend the Credit's Duration:*** Currently, projects must be completed within 24 months of the time the credits are awarded or risk being lost. The legislation changes the tax credit's duration to 30 months.
- ***Value Local and National Historic Designations Equally:*** Currently, the program's rating and ranking process prioritizes properties listed on the National Register over properties that contribute within historic districts designated by local governments. The legislation treats the various categories of historic designations as baseline requirements for eligibility.
- ***Extend Program Termination Date and Funding:*** The legislation extends the program's termination date through fiscal 2012. In addition, the reserve fund budget allowance of \$30.0 million annually is extended to fiscal 2007 through 2012.
- ***Provide Credit for Preliminary Rehabilitation:*** The legislation allows the issuance of credit for rehabilitation work that is completed prior to approval of formal rehabilitation plans (for example, exploratory and emergency stabilization work).

MDP should be prepared to explain the potential impact of HB 314/SB 223. Specifically, MDP should discuss how this change may impact the percentage of total annual commercial tax credits approved in Baltimore City, why this program merits a \$30.0 million annual appropriation for the next five years, and how MDP intends to ensure this program is consistent with Smart Growth principles and supportive of the Priority Places Strategy.

Recommended Actions

Approve.

Fiscal 2007 Proposed Projects

MDP estimates that it will approve credits for 46 commercial and 462 residential projects.

Fiscal 2006 Project Status

As of December 2005, MDP had approved 36 commercial credits totaling \$19.7 million (see the following list) and 351 residential credits representing \$5.2 million.

Fiscal 2006 Commercial Projects

<u>Recipient</u>	<u>County</u>	<u>Project Name</u>	<u>Credit (\$)</u>
Anson Smith	FR	Hershberger's Bakery	\$200,000.00
Anthony M. Carey	BC	Baltimore School for the Arts	2,080,000.00
Charles and Jennifer Rideout	DO	Mill Street Inn	130,000.00
Charles Wagandt	BA	Granite Hill 1200-1217	368,600.00
City of Baltimore	BC	Bromo Seltzer Tower	500,000.00
Corry Oakes	BC	Maryland Trust Building	1,300,000.00
David Kauffman	AG	Von Gunten Music House	117,170.00
Ernest Gusella	AG	33 North Center Street	49,800.00
Helen Johnson	AN	Marley Neck Rosenwald School	30,000.00
Historic Annapolis Inc.	AP	99 Main Street	150,000.00
J. Joseph Clarke Pier Hotel LLC	BC	Fell's Point Recreation Pier	3,000,000.00
Jack S. Jacob	BA	Dundalk Village Center	400,000.00

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Joann and Curt Sherrer	BA	Monkton Manor Mill	250,000.00
Joseph E. Fox et al	KE	Baldwin Apartments	280,000.00
Joseph E Fox et al	KE	200 High Street	60,000.00
John Day	BC	Jefferson Building	1,852,393.20
Jonathan M. Warner	FR	John Mehrling House	40,000.00
Jonathon Herman, Mayor	CR	Warfield Complex Building I	626,685.60
Ladson Arthur Mills III	TA	316 August Street	16,000.00
Lilburn LLC	HO	Lilburn	70,000.00
Matthew Gordon	SO	Pomfret Plantation	400,000.00
David Cherry	TA	Cherry's Store	240,000.00
Neighborhood Holdings LLC	BC	1121 West Baltimore Street	44,000.00
Nicolette Hendricks	PR	Melwood Park	330,000.00
Randall Alexander	MO	Forest Glen Main Building	3,000,000.00
Randall Cooper	KE	Radcliffe Mill	670,000.00
Richard Deming	WA	28 South Potomac Street	540,000.00
Richard E. McCleary	WA	Jacob Swope House	112,000.00
Robert Brenengen et al	FR	Main's Meat Market II	40,000.00
Ronald Mitchell	TA	Wrightson House	400,000.00
Roxanne Wolf	CA	214-216 Market Street	26,000.00
Samuel and Georgia Hoff	CR	Jacob Utz House	45,000.00
Stephen R Johnson	BC	St. Alphonsus Church Halle	520,000.00
Steven Bloom	BC	NESCO Complex	703,607.00
Thomas Baum	MO	Bethesda Theatre	950,000.00
Victor MacSorely	DO	Nathans Townhouse & Store	130,000.00
		Total*	\$19,671,255.80

*Of this total amount, \$10.0 million has been provided for projects in Baltimore City.