

D40W11
Department of Planning – PAYGO

Pay-As-You-Go Capital Budget Summary

(\$ in Thousands)

	FY 2006 Approp.	FY 2007 Approp.	FY 2008 Allowance	Percent Change	DLS Recommd.
Maryland Historical Trust Revolving Loan Fund	\$450	\$0	\$200	100.0%	\$200
Maryland Heritage Structure Rehabilitation Tax Credit Program	20,000	30,000	30,000	0.0%	20,000
Total	\$20,450	\$30,000	\$30,200	0.0%	\$20,200

Fund Source					
General	\$20,000	\$30,000	\$30,000	0.0%	\$20,000
Special	450	0	200	100%	200
PAYGO Subtotal	\$20,450	\$30,000	\$30,200	0.0%	\$20,200
GO Bonds	0	0	0	0	0
Total	\$20,450	\$30,000	\$30,200	0.0%	\$20,200

Summary of Issues

Legislation to Change Maryland Heritage Structure Rehabilitation Tax Credit Program: House Bill 598 and Senate Bill 613 of 2007 have been introduced to make significant changes in the Heritage Structure Rehabilitation Tax Credit Program. **The Department of Legislative Services (DLS) recommends that the Maryland Department of Planning (MDP) comment on how the proposed legislative changes would change the program, and in particular how the proposed changes would impact the geographic distribution of the commercial tax credit both given the significant number of National Register sites in Baltimore City and the \$7.1 million in Baltimore City interest that went unfunded in fiscal 2007.**

Summary of Recommended Actions

	<u>Funds</u>
1. Reduce Maryland Heritage Structure Rehabilitation Tax Credit by \$10.0 million.	\$ 10,000,000
Total Reductions	\$ 10,000,000

Overview

MDP assumed responsibility of two capital programs as a result of Chapter 440 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 2006 Actual	FY 2007 Estimated	FY 2008 Estimated
Sources:			
Tax Credit Program			
General Funds	\$0	\$0	\$0
Special Funds	196,713	203,068	300,000
Federal Funds	0	0	0
Loan Program Special Funds	60,836	67,500	67,500
Total Funds	\$257,549	\$270,568	\$367,500
Uses:			
Direct Expenses	\$257,549	\$270,568	\$367,500
Indirect Expenses	0	0	0
Total Expenses	\$257,549	\$270,568	\$367,500

Maryland Historical Trust Revolving Loan Fund (Statewide)

PAYGO SF **\$200,000** **Recommendation: Approve**

Project Description: The Maryland Historical Trust (MHT) Revolving Loan Fund provides loans to nonprofit organizations, local jurisdictions, business entities, and individuals to encourage and implement the acquisition and restoration of historic properties. The program also funds the purchase or acquisition of historical property and may be used to fund the cost of restoration or rehabilitation of historic property owned by MHT. In return for loans, most recipients must convey to MHT a perpetual historic preservation easement on the property.

Comments: The fiscal 2008 allowance provides \$200,000 in special funds for this program, which is projected to fund one loan.

The 2007 *Capital Improvement Program* (CIP) alters this program's recommended funding allocation from what was included in the 2006 CIP. The fiscal 2008 funding level decreases \$250,000 due to the removal of \$250,000 in general obligation (GO) bonds. However, \$465,832 is projected to be available in fund balance at the beginning of fiscal 2008 because the fund did not receive an appropriation to provide loans in fiscal 2007. The 2007 CIP estimates a return to GO bond funding in fiscal 2009 through 2012.

In the past, this program has had significant difficulty encumbering and expending funds in a timely manner. As shown in **Exhibit 1**, the program has expended only 25% of the funding provided in fiscal 2003 through 2006. Approximately \$1.2 million in prior year (fiscal 2003-2006) revenue remains unexpended. **The Department of Legislative Services (DLS) recommends that the Maryland Department of Planning (MDP) comment on why it is continuing to have difficulties expending funds.**

For fiscal 2007 the budget committees recognized that the loan program did not have a pipeline of potential projects for which loans could be made during the fiscal year. As such, the proposed \$450,000 special fund appropriation was deleted and budget language authorizing a special fund budget amendment up to \$450,000 in special funds was added to the fiscal 2007 budget bill. The department reports that it is currently working on two potential loan totaling \$552,000 as shown in the fiscal 2007 project list in this analysis.

DLS recommends that MDP update the committees regarding the department's loan activities and the likelihood that a budget amendment will be presented during fiscal 2007 which is necessary in order for encumbrances to be made during the fiscal year.

Exhibit 1
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>
2003	\$250,000	\$153,500	\$69,629
2004	700,000	580,000	202,781
2005	200,000	208,000	124,983
2006	450,000	0	0
Subtotal	\$1,600,000	\$941,500 (59%)	\$397,393 (25%)
2007	0	0	0
Total	\$1,600,000	\$941,500 (59%)	\$397,393 (25%)

Source: Maryland Department of Planning

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 2**, 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 2
Total Number of Historic Properties Preserved
Fiscal 2002-2007

	<u>FY 02 Actual</u>	<u>FY 03 Actual</u>	<u>FY 04 Actual</u>	<u>FY 05 Actual</u>	<u>FY 06 Actual</u>	<u>FY 07 Est.</u>	<u>FY 08 Est.</u>
# of Historic Properties Acquired	1	0	1	2	0	0	0
# of Historic Properties Rehabilitated	2	0	2	1	0	1	2
# of Historic Properties Refinanced	0	0	0	0	0	1	0
Total	3	0	3	3	0	2	2

Source: Maryland Department of Planning

Maryland Historical Trust Revolving Loan Fund Data

Fund History

	<i>FY 2006 Actual</i>	<i>FY 2007 Estimated</i>	<i>FY 2008 Estimated</i>
Beginning Balance	\$886,283	\$903,332	\$465,832
REVENUE			
GO Bonds	0	0	0
Loan Repayments and Interest	77,435	80,000	126,329
Cancelled Encumbrance	0	0	0
TOTAL REVENUE	\$77,435	\$80,000	\$126,329
TOTAL AVAILABLE	\$963,718	\$983,332	\$592,161
ENCUMBRANCES			
Loans	\$0	\$450,000	\$200,000
Operating Expenses	60,836	67,500	67,500
TOTAL ENCUMBRANCES	\$60,836	\$517,500	\$267,500
Ending Balance	\$903,332	\$465,832	\$324,661

(\$ in Millions)

<i>Description</i>	<i>2006 Approp.</i>	<i>2007 Approp.</i>	<i>2008 Request</i>	<i>2009 Estimate</i>	<i>2010 Estimate</i>	<i>2011 Estimate</i>	<i>2012 Estimate</i>
PAYGO SF	\$0.450	\$0.000	\$0.200	\$0.200	\$0.200	\$0.200	\$0.200
GO Bond	0.000	0.000	0.000	0.250	0.300	0.300	0.300
Total	\$0.450	\$0.000	\$0.200	\$0.450	\$0.500	\$0.500	\$0.500

Recommended Actions

1. Concur with Governor's allowance. GF

Fiscal 2008 Proposed Loan Projects

<u>Project</u>	<u>Location</u>	<u>Amount</u>	<u>Status</u>
Chesapeake Masonic Lodge – rehabilitation	Cecil County	\$100,000	Awaiting application submittal.
Total		\$100,000	

Fiscal 2007 Loan Project Status

<u>Project</u>	<u>Location</u>	<u>Amount</u>	<u>Status</u>
Sweet Prospect Baptist Church – rehabilitation	Baltimore City	\$400,000	Requested further review of finances.
Crisfield Heritage Foundation – refinancing of mortgage on Tawes House	Somerset County	152,000	Requested property appraisal.
Total		\$552,000	

Maryland Heritage Structure Rehabilitation Tax Credit Program (Statewide)

PAYGO GF \$30,000,000 Recommendation: Reduce by \$10,000,000

Program Description: The Maryland Heritage Structure Rehabilitation Tax Credit Program (HSRTC) is administered by the Maryland Historical Trust (MHT) 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:

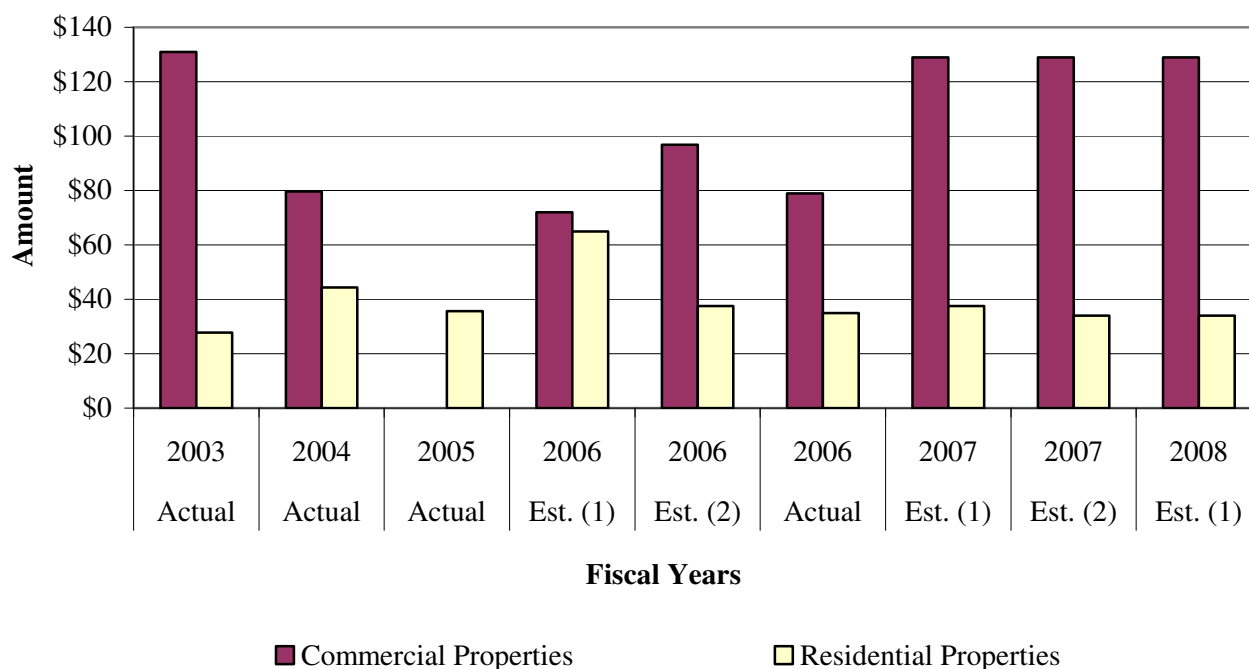
- creating a certified heritage structure rehabilitation tax credit reserve fund;
- requiring a reserve fund budget allowance of at least \$20.0 million in fiscal 2006 and \$30.0 million annually in fiscal 2007 and 2008;
- providing that initial credit certificates issued by MHT in each fiscal year cannot 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;

- 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 2008 allowance is level with the fiscal 2007 allowance and is consistent with the funding level specified in statute. The Maryland Department of Planning's (MDP) performance information estimates that this funding would be dedicated to 45 commercial projects. MDP anticipates that there will be 530 residential projects in fiscal 2008.

Program Performance Analysis: As shown in **Exhibit 3**, MDP estimates a steady amount of private funding for the restoration and preservation of historic properties being leveraged by the tax credit.

Exhibit 3
Private Investment Leveraged by the State Rehabilitation Tax Credit
(\$ in Millions)



Note: No commercial tax credits were authorized in fiscal 2005. Est. (1) and Est. (2) refer to the first and second estimates for that fiscal year.

Source: Governor's Budget Books, Fiscal 2006-2008

Maryland Heritage Structure Rehabilitation Tax Credit Fund Data

	<i>FY 2006 Actual</i>	<i>FY 2007 Estimated</i>	<i>FY 2008 Estimated</i>
Beginning Balance	\$0	\$328,744	\$9,939,939
REVENUE			
General Funds	20,000,000	30,000,000	30,000,000
1% fee Special funds	196,713	203,068	300,000
TOTAL REVENUE	\$20,196,713	\$30,203,068	\$30,300,000
TOTAL AVAILABLE	\$20,196,713	\$30,531,812	\$40,239,939
ENCUMBRANCES			
Credits Approved	\$19,671,256	\$20,388,805	\$39,939,939
Operating Expenses	196,713	203,068	300,000
TOTAL ENCUMBRANCES	\$19,867,969	\$20,591,873	\$40,239,939
Ending Balance	\$328,744	\$9,939,939	\$0

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. Legislation Proposed to Change Maryland Heritage Structure Rehabilitation Tax Credit Program

House Bill 598 and Senate Bill 613 of 2007 have been introduced to make significant changes in the Maryland Heritage Structure Rehabilitation Tax Credit Program. The changes proposed in the legislation are summarized in **Exhibit 4**.

Exhibit 4
Differences Between House Bill 598 and Senate Bill 613

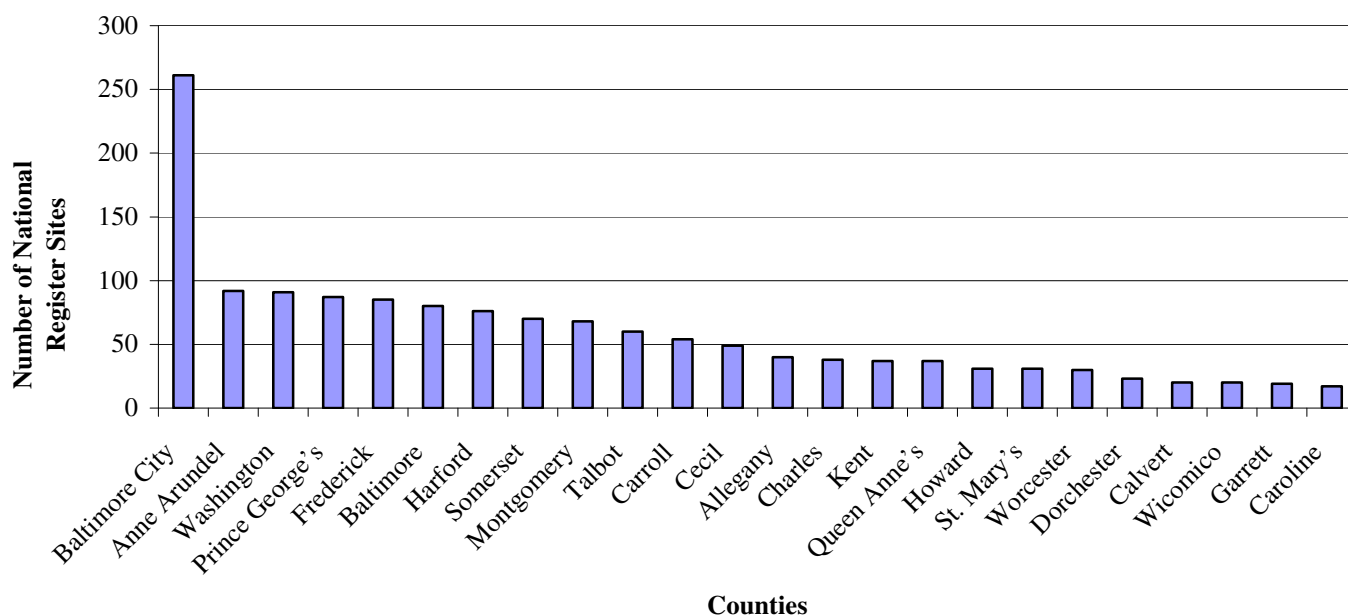
	<u>House Bill 598</u>	<u>Senate Bill 613</u>
Definition Addition	Defines “National Register Structure”	Defines “National Register Structure”
Competition Criteria	Requires establishment of criteria for commercial rehabilitations	Requires establishment of criteria only for commercial rehabilitations with expenditures greater than \$500,000
Prioritization	Prioritizes tax credit allocation for underrepresented jurisdictions based on the number of national register structures; changes jurisdiction tax credit limit from 50% to 75%	Prioritizes tax credit allocation for underrepresented jurisdictions based on the number of national register structures; ensures initial credit certificates are rated fairly; voids the limitation on the rehabilitation of multiple structures if located in an underrepresented jurisdiction; voids the cap on initial credit certificates issued in a particular year for commercial rehabilitations with expenditures of \$500,000 or less; voids the jurisdiction tax credit limit
Fee Definition	Defines the fee limit as 1% of the commercial rehabilitation expenditures and the greater of the estimated or final residential rehabilitation expenditures	Defines the fee limit as 1% of the commercial rehabilitation expenditures and the greater of the estimated or final residential rehabilitation expenditures
Timing	Extends commercial rehabilitation expiration to within 30 months of initial credit certificate issuance (now is end of the fiscal year following the fiscal year a credit was issued)	Extends commercial rehabilitation expiration to within 30 months of initial credit certificate issuance (now is end of the fiscal year following the fiscal year a credit was issued); changes application approval period from January 1 – March 31 to “each year”
Appropriation	Eliminates requirement for a minimum \$30.0 million appropriation	
Sunset	Extends requirement for unspecified appropriation to fiscal 2009 and 2010 upon which time the program sunsets	Extends requirement for \$30.0 million appropriation to fiscal 2009 through 2012 upon which time the program sunsets

Note: Bolded text reflects the difference between House Bill 598 and Senate Bill 613.

Source: HB 598, 2007 Session; Senate Bill 613, 2007 Session

According to the National Park Service web site, the National Register of Historic Places is the official list of cultural resources worthy of preservation. **Exhibit 5** shows the number of National Register sites by county in Maryland. As may be seen, Baltimore City has more than two and a half times more National Register sites than Anne Arundel County, the second highest county in terms of National Register sites. MDP reports that \$9,978,195 in commercial tax credits went unused in fiscal 2007 and that the limitation on any one jurisdiction receiving more than 50% of the commercial tax credits meant that \$7,106,234 of interest in Baltimore City went unfunded.

Exhibit 5
Number of National Register Sites by County



Source: National Park Service

DLS recommends that MDP comment on how the proposed legislation would change the program, and in particular how the proposed changes would impact the geographic distribution of the commercial tax credit given both the significant number of National Register sites in Baltimore City and the \$7.1 million in Baltimore City interest that went unfunded in fiscal 2007.

Recommended Actions

	<u>Amount Reduction</u>	
1. This action reduces the Maryland Heritage Structure Rehabilitation Tax Credit by \$10.0 million in order to help alleviate the State's structural deficit. A \$20.0 million appropriation is still available for the tax credit, which is equal to the amount of tax credit approvals in fiscal 2007.	\$ 10,000,000	GF
Total General Fund Reductions	\$ 10,000,000	

Fiscal 2008 Proposed Projects

MDP did not provide an estimate of the number of credits it will approve for commercial and residential projects. **DLS recommends that MDP provide proposed projects based on the interest to date for the January to March approval period for fiscal 2008.**

Fiscal 2007 Project Status

As of February 2007, MDP had approved 45 commercial credits totaling \$20.4 million (see the following list) and 147 residential credits representing \$2.3 million.

Fiscal 2007 Commercial Projects

<u>Recipient (Company or Individual Name)</u>	<u>County</u>	<u>Project Name</u>	<u>Credit Amount</u>
Michael Joy	Allegany	Liberty Street Lofts	\$140,000
John Mitchell	Allegany	306 Decatur Street	11,980
H & S Development LLC	Allegany	9 Centre Street	542,440
John Thorpe Richards, Jr.	Anne Arundel	Ridout House	20,000
Baldwin Homes, Inc.	Anne Arundel	First Avenue School	340,000
Charles William Smith III	Anne Arundel	128 Main Street	60,000
Shaarei Tfiloh Synagogue	Baltimore City	Shaarei Tfiloh Synagogue	550,000
2315 St. Paul Street LLC	Baltimore City	The Federal Land Bank Building	3,000,000

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<u>Recipient (Company or Individual Name)</u>	<u>County</u>	<u>Project Name</u>	<u>Credit Amount</u>
1100 E. Baltimore Street Holdings, LLC	Baltimore City	Hendler's Creamery Company	\$1,200,000
Old Town Properties LLC	Baltimore City	The Old Town National Bank	840,000
Brooklyn and Curtis Bay Coalition	Baltimore City	Polish Home Hall	190,000
Larry Porter	Baltimore City	1809 Saint Paul Street	40,000
Larry Porter	Baltimore City	1625 Saint Paul Street	40,000
Professional Arts Building Partners LLC	Baltimore City	The Medical Arts Building	2,696,941
Harlem Park Community Baptist Church	Baltimore City	620 North Gilmore Street	50,000
AMPAC Group	Baltimore City	The Keyser Building	37,766
Metro Delta Torchbearer Foundation	Baltimore City	The Francis Ellen Harper School	1,000,000
Engineering Society	Baltimore City	Garrett Jacobs Mansion	1,200,000
Progressive Horizons	Baltimore City	The Mount	300,000
Constance R. Caplan 2002 Trust	Baltimore City	Severn Apartments	1,600,000
Sean MacCarthy	Baltimore City	Faust Brothers Building	1,017,800
Harlem Park Community Baptist Church	Baltimore City	604 North Gilmore Street	50,000
HEBCAC	Baltimore City	L. Greif & Bro. Inc. Manufactory	1,211,493
Christopher O'Neil	Baltimore City	Talbot Court Apartments	140,000
K & B Properties	Baltimore	301 Lennox Avenue	30,000
Charles L. Wagandt, LLC	Baltimore	Oella Community Hall	200,000
Novo Development Corporation	Dorchester	450-452 Race Street	400,000
Patrick Parking LLC/Jonathan Warner	Frederick	Reel-Simmons House	250,000
Memorial Hall Partners LLC	Frederick	Middletown Memorial Hall	300,000
Robert Srouer	Frederick	John Eyler Farmstead	200,000
Patricia Hurwitz	Frederick	1 South Market Street	70,000
Steven Bavett	Harford	Graystone Lodge	80,000
Cherilyn Widell	Kent	Methodist Protestant Parsonage	50,000
Rosetta Jackson	Montgomery	Jerusalem Mt. Pleasant Church	79,120
Jonathan A. Reitkopp	Prince George's	5511 40th Avenue	30,000
Gateway CDC	Prince George's	Brentwood Art Center	315,836
Independence Hall LLC	Somerset	Old Princess Anne Hotel	160,000
Somerset County Historical Trust, Inc.	Somerset	Cottman-Pinkett House	39,000
Elizabeth Elkins	Talbot	331 Dover Street	48,000
Franics A. Karwacki	Talbot	John S. McDaniel House	361,400
WGK Enterprises LLC	Talbot	333 East Dover Street	\$48,000

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<u>Recipient (Company or Individual Name)</u>	<u>County</u>	<u>Project Name</u>	<u>Credit Amount</u>
Kenneth W. Cunningham	Talbot	20 Vine Street	18,000
Darthean D. Fox	Washington	21 Park Avenue	2,349
Roger B. Giles	Washington	Hagerstown Elks Lodge No. 378	1,400,000
Summer Beam Properties LLC	Washington	Joseph C. Hays House	28,680
		Total	\$20,388,805

*Of this total amount, \$15,164,000.00 has been provided for projects in Baltimore City.