ECONOMIC AND FISCAL ANALYSIS OF CHANGES TO THE HISTORIC PRESERVATION TAX CREDIT PROGRAM IN MARYLAND

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Introduction

At the request of Dr. Jacqueline Rogers, this study was conducted to analyze the impacts of the 2004 legislative changes to the Maryland Heritage Structure Rehabilitation Tax Credit Program. This analysis examines the fiscal and economic implications of the 2004 changes, as well as several other policy scenarios over time. This study draws on quantitative data from the Maryland Historical Trust (MHT), as well as interviews with representatives from the MHT, local historic districts, developers, and historic preservation project applicants.

The 1997 Maryland Heritage Structure Rehabilitation Tax Credit Program was created to bring back vibrancy to and restore the unique character of historic properties (See Appendix D for a comparison of the State and federal tax credit programs). The purpose of the law was to benefit localities with rejuvenated downtowns, tourism revenue, revitalized neighborhoods, and environmental benefits, such as open space, habitat preservation, land reuse, and pollution control. These benefits are supplemented through sales, income, and property taxes to local jurisdictions and the State of Maryland, as is evident in other reports. It is important to note that benefits of historic preservation extend beyond what may be quantified with a dollar value.

In 2004, the Maryland General Assembly enacted House Bill 679, which prevented the tax credit program from sunset (See Appendix B for a historic timeline of changes to the program and Appendix C for the evolution of the commercial tax credit). However, changes made in the name of fiscal responsibility and budgetary security have significantly impacted the outcomes of the program. The new law limits both the total amount of commercial tax credits given out and the amount of tax credits distributed by county.

Historic tax credits are being viewed as an economic investment, one that is arguably more efficient in producing returns when allocated in urban areas, where developers and businesses might not otherwise invest. The newly introduced competitive process has not only reduced the number of rehabilitation projects and brought about uncertainty in the approval process for commercial projects, it also has reduced the amount of redevelopment in the areas where Maryland needs it most.

This report provides conclusions about the best future direction for the historic tax credit program based on our analysis of the data. These include all of the projects granted credits since the inception of the program and projects not funded in 2005. Various policy scenarios are considered in the Key Findings section. These examine a reorganized method of distributing the tax credits based on MHT's ranking, a continuation of the 25% tax credit level, and a redistribution of leftover funds from fiscal year 2006. The discussion can be found below.

Key Findings

Impact of Program: 1997-2006

Through the economic and fiscal impact analysis conducted, it was found that the Maryland Heritage Structure Rehabilitation Tax Credit Program is beneficial for the State of Maryland. Over the lifetime of the program, over $263 million tax credits have been awarded and have resulted in $2.3 billion in economic activity, including the creation of 25,389 jobs with $600 million in total wages (see Table 1 and refer to Appendix A for the methodology used). The tax credit program has brought an additional $34.2 million in State income tax, $11.9 million in State retail sales tax, $22 million in local personal income tax, $27 million in real property taxes, $7.1 million in recordation taxes, and $19.5 million in permits and fees. Additionally, tax credits produced a good return on investment for the State. For every $1 spent on tax credits, $8.88 of total economic activity was generated, which includes $3.53 in wages. While a major reason for this program has been its promise of economic activity, the total calculated fiscal benefits (tax revenues) to the State have outpaced the total economic activity (jobs and wages).

Commercial projects make up the majority of the fiscal and economic benefits the State receives from the tax credit program. They account for 17.2% of the historic rehabilitation projects in Maryland from 1997-2005, and 82.7% of the tax credits allocated (See Table 2). Commercial activity generated $1.9 billion of economic activity, which is roughly 82% of total economic activity generated. The $217 million in historic commercial rehabilitation tax credits also resulted in the creation of 20,786 jobs. Commercial activity brought in an additional $28 million in State income tax, $9.7 million in State retail tax, $18.1 million in local personal income tax, $22 million in real property taxes, $5.8 million in recordation taxes, and $16 million in permits and fees. For every $1 spent on tax credits, $8.79 of total economic activity was generated, which includes $3.49 in wages.

While the income tax and sales tax effects are short-term impacts due to construction activity, property tax revenue has a more lasting effect. The improved value of the property would have continued to generate increased property tax revenue for the State indefinitely.

Table 1

Economic and Fiscal Impacts of Tax Credit Program, 1997-2006

All Projects

	Total	Per Dollar
Credit	$263,319,562	-
Total Activity	$2,337,034,518	$8.88
Total Income (Wages)	$928,544,171	$3.53
Direct Income (Wages)	$585,169,585	$2.22
Indirect Income (Wages)	$343,374,587	$1.30
Total Jobs	25,389	-
Direct Jobs	14,609	-
Indirect Jobs	10,780	-
Total State Personal Income Tax	$34,221,991	$0.13
Direct State Personal Income Tax	$21,986,461	$0.08
Indirect State Personal Income Tax	$12,235,530	$0.05
Total State Retail Sales Tax	$11,944,087	$0.05
Direct State Retail Sales Tax	$7,114,556	$0.03
Indirect State Retail Sales Tax	$4,829,531	$0.02
Total Local PIS Tax	$22,020,186	$0.08
Direct Local PIS Tax	$14,092,075	$0.05
Indirect Local PIS Tax	$7,928,110	$0.03
Real Property Tax	$27,073,310	$0.10
Recordation Tax	$7,163,898	$0.03
Permit and Fee	$19,552,596	$0.07

Table 2

Economic and Fiscal Impacts of Tax Credit Program, 1997-2006

Commercial Projects

	Total	Per Dollar
Credit	$217,771,494	-
Total Activity	$1,913,287,704	$8.79
Total Income (Wages)	$760,182,245	$3.49
Direct Income (Wages)	$479,067,709	$2.20
Indirect Income (Wages)	$281,114,536	$1.29
Total Jobs	20,786	-
Direct Jobs	11,960	-
Indirect Jobs	8,826	-
Total State Personal Income Tax	$28,016,922	$0.13
Direct State Personal Income Tax	$17,999,916	$0.08
Indirect State Personal Income Tax	$10,017,006	$0.05
Total State Retail Sales Tax	$9,778,407	$0.04
Direct State Retail Sales Tax	$5,824,558	$0.03
Indirect State Retail Sales Tax	$3,953,849	$0.02
Total Local PIS Tax	$18,094,541	$0.08
Direct Local PIS Tax	$11,579,727	$0.05
Indirect Local PIS Tax	$6,514,814	$0.03
Real Property Tax	$22,704,018	$0.10
Recordation Tax	$5,859,876	$0.03
Permit and Fee	$16,007,356	$0.07

Estimated Impact of Denied FY 2006 Projects

The 2004 legislative changes limit the amount of credits that can go to a single jurisdiction at 50% and impose an overall cap on the total amount of commercial credits allocated. As a result of these changes, there were 43 commercial projects which applied for tax credits and were denied, all of which are located in Baltimore City. Also, after tax credit allocations were made to the other projects, $350,000 remained which was returned to the State General Fund.

Using the same methodology employed for the historical analysis, the economic and fiscal benefits of the denied projects were estimated. Overall if awarded their requested $12 million in tax credits, the projects could have yielded $109 million in economic activity, including 683 jobs with $27 million in wages (see Table 3). The projects could have contributed to the State $558,572 in State income tax, $1.6 million in State retail tax, $1 million in local personal income tax, $1.4 million in real property taxes, $335,276 in recordation taxes, and $914,388 in permits and fees. For every $1 spent on tax credits, $8.96 of total economic activity would have been generated, which includes $3.56 in wages. The improved value of the property would have continued to generate increased property tax revenue for the State indefinitely.

Table 3

Additional Economic and Fiscal Impacts of Denied FY '06 Commercial Projects

	Total	Per Dollar
Credit	$12,191,840	-
Total Activity	$109,292,713	$8.96
Total Income (Wages)	$43,423,882	$3.56
Direct Income (Wages)	$27,365,780	$2.24
Indirect Income (Wages)	$16,058,103	$1.32
Total Jobs	1,187	-
Direct Jobs	683	-
Indirect Jobs	504	-
Total State Personal Income Tax	$558,572	$0.05
Direct State Personal Income Tax	$332,716	$0.03
Indirect State Personal Income Tax	$225,856	$0.02
Total State Retail Sales Tax	$1,600,410	$0.13
Direct State Retail Sales Tax	$1,028,209	$0.08
Indirect State Retail Sales Tax	$572,201	$0.05
Total Local PIS Tax	$1,048,455	$0.09
Direct Local PIS Tax	$670,966	$0.06
Indirect Local PIS Tax	$377,489	$0.03
Real Property Tax	$1,419,130	$0.12
Recordation Tax	$335,276	$0.03
Permit and Fee	$914,388	$0.08

Tax Credit Usage by Jurisdiction

Through conversations with local jurisdictions and counties, patterns emerged regarding the distribution of usage and necessity of the tax credit program:

- The majority of historic rehabilitation work is done on residential properties in the rural and suburban areas of the State. Baltimore City was the only jurisdiction where the majority of building rehabilitation is commercial.
- Historic rehabilitation in much of the State would be initiated without the credits. Two districts where local and State tax credits have had more significance are Cumberland and Baltimore City. They described the greatest responses to the 2004 changes to the State tax credit.
- The changes to the program did not seem to deter applicants. When asked whether the preservation officers were aware of projects that were deterred from applying for the State historic tax credit because of the changes to the program, only the Baltimore City representatives answered in the affirmative.
- Local jurisdictions indicated that the historic districts would benefit from more information sharing with the Maryland Historical Trust. In cases where the local historic districts are involved in helping property owners to prepare their applications for State credits, it would be useful for the preservation staff to receive data on the yearly outcome of these applications. Because the historic districts provide information about and referrals to the State tax credits, greater involvement of the local jurisdictions by the MHT could improve awareness and increase use of the State tax credits.

Appendix E shows the aggregate number of historic rehabilitation projects by county and the dollar amounts of the credits awarded for 1997 through 2006.

Policy Scenarios and Options

Policy Scenarios

A number of policy alternatives to the 2004 changes were considered. These included making tax credit allocations based on MHT's competitive ranking system (see page 10), assuming the tax credit level remained at its previous level of 25% (see page 12), and reallocating the $350,000 of tax credits that were left on the table in FY 2006 (see page 13). Economic and fiscal impacts were calculated for commercial projects for each of these scenarios. The issue of refundability is not addressed. While its impact is one of timing, affecting the present value of the tax credit program's returns, refundability was not deemed to be as paramount an issue as the other scenarios.

Scenario 1: Allocations Using Ranked Values

The new law mandates a competitive ranking system determined by the Maryland Historical Trust. Each project is given a score and then numerically ordered to determine its ranked position based on a combination of the project's historical significance, rarity, location, level of preservation, eligibility for State/local financing, and economic benefit; priority is also given to projects with a more urgent need for rehabilitation and that are consistent with State growth policies and programs. Project rankings are state-wide; however, jurisdictional limitations may prevent a highly ranked project from receiving a tax credit if its jurisdiction has already received the maximum amount of 50% of available credits. In other words, a higher ranked project in a jurisdiction with many applicants may not receive credits over a lower ranked project in a jurisdiction with less historic activity.

We examined the impact of allocating tax credits for fiscal year 2006 up to the $20 million cap using the ranked values, which is a proxy for assuming that the 50% jurisdictional limitation did not exist. The economic and fiscal benefits of this scenario were determined using the ranked values as the sole criteria for tax credit allocation. This scenario awards credits to more Baltimore City projects, and awards credits to only 27 total projects, compared to 36 projects under the current method. Since there were fewer projects awarded credits, the total economic activity and tax revenue to the State is smaller (see Table 4). The ranked method generates a per dollar impact of $8.52 of total economic activity and $0.43 of tax revenue, compared to $8.96 and $0.45 under the current method for 2006.

Table 4

2006 Tax Credit Allocation: Current Method vs. Ranked Values

	Current Method		Ranked	
	Total	Per Dollar	Total	Per Dollar
Credit	$19,701,256	-	$19,936,286	-
Total Activity	$176,610,233	$8.96	$169,932,013	$8.52
Total Income (Wages)	$70,170,295	$3.56	$67,516,923	$3.39
Direct Income (Wages)	$44,221,399	$2.24	$42,549,241	$2.13
Indirect Income (Wages)	$25,948,896	$1.32	$24,967,682	$1.25
Total Jobs	1,919	-	1,846	-
Direct Jobs	1,104	-	1,062	-
Indirect Jobs	815	-	784	-
Total State Personal Income Tax	$2,586,164	$0.13	$2,488,372	$0.12
Direct State Personal Income Tax	$1,661,522	$0.08	$1,598,694	$0.08
Indirect State Personal Income Tax	$924,642	$0.05	$889,678	$0.04
Total State Retail Sales Tax	$902,617	$0.05	$868,486	$0.05
Direct State Retail Sales Tax	$537,649	$0.03	$517,318	$0.03
Indirect State Retail Sales Tax	$364,969	$0.02	$351,168	$0.02
Total Local PIS Tax	$1,624,532	$0.08	$1,527,676	$0.08
Direct Local PIS Tax	$1,039,631	$0.05	$977,647	$0.05
Indirect Local PIS Tax	$584,902	$0.03	$550,029	$0.03
Real Property Tax	$1,618,158	$0.08	$1,593,365	$0.08
Recordation Tax	$531,908	$0.03	$503,260	$0.03
Permit and Fee	$1,477,594	$0.08	$1,421,721	$0.07

Scenario 2: 25% Tax Credit: 2002-2006

In 2001, the tax credit was decreased from 25% of the project rehabilitation costs to 20%. This scenario considers the economic and fiscal impact of retaining the 25% credit for commercial projects. Using the same methodology as before, the increase in the tax credit percentage lowers the per dollar economic and fiscal benefits of the program. In other words, using this model additional State spending is being used to generate the same amount of economic development that would have occurred using a smaller incentive. Therefore, these data do not justify a return to the previous 25% tax credit level.

Table 5

Economic and Fiscal Impacts of Tax Credit Program, 1997-2006

All Projects

	Per Dollar
Credit	-
Total Activity	$7.80
Total Income (Wages)	$3.10
Direct Income (Wages)	$1.95
Indirect Income (Wages)	$1.15
Total Jobs	-
Direct Jobs	-
Indirect Jobs	-
Total State Personal Income Tax	$0.11
Direct State Personal Income Tax	$0.07
Indirect State Personal Income Tax	$0.04
Total State Retail Sales Tax	$0.04
Direct State Retail Sales Tax	$0.02
Indirect State Retail Sales Tax	$0.02
Total Local PIS Tax	$0.07
Direct Local PIS Tax	$0.05
Indirect Local PIS Tax	$0.03
Real Property Tax	$0.09
Recordation Tax	$0.02
Permit and Fee	$0.07

Scenario 3: Allocation of $350,000 from 2006

As a result of the 50% rule, $350,000 was reallocated to the General Fund. Had the $350,000 been allocated as additional tax credit funding, based on our estimate of $8.96 of total economic activity and $0.50 of fiscal return for every $1 spent in tax credits, the State could have realized $3.1 million in economic activity and about $175,000 in tax revenue. Based on the expenditure allocations of the State over the last three years (2004-2006), Table 6 shows how this additional tax revenue would have been allocated to State agencies. Additionally, if there were no tax credit program, Table 7 also shows the allocations if the State had retained those revenues.

Table 6

Additional $4.2 Million in Tax Revenue from Denied FY '06 Projects Allocated to State Agencies

State Expenditures	% Total Expenditures FY06	Additional Tax Revenue from Denied Projects, Allocated to State Agencies
Health	0.25	$1,050,000
Elementary & Secondary Education	0.20	$840,000
Higher Education	0.15	$630,000
Transportation	0.15	$630,000
Human Resources	0.06	$252,000
Public Safety Related	0.06	$252,000
Public Debt	0.02	$84,000
Legislative, Judicial, Legal	0.02	$84,000
Reserve Fund	0.01	$42,000
Other	0.08	$336,000

Table 7

Additional State Expenditures in the Absence of the Maryland Heritage Structure Rehabilitation Tax Credit Program

State Expenditures	% Total Expenditures FY06*	Additional Expenditures if No Program 1997-2005
Health	0.25	$65,870,419
Elementary & Secondary Education	0.20	$52,696,335
Higher Education	0.15	$39,522,251
Transportation	0.15	$39,522,251
Human Resources	0.06	$15,808,901
Public Safety Related	0.06	$15,808,901
Public Debt	0.02	$5,269,634
Legislative, Judicial, Legal	0.02	$5,269,634
Reserve Fund	0.01	$2,634,817
Other	0.08	$21,078,534

* These figures are a proxy for the breakdown of State spending for 1997-2005.

Policy Options

There are several options for the legislature to consider regarding the success of redevelopment projects in Maryland. The first set of options involves no increase in the State allocation to the program. These options include retaining the current method; giving precedence to properties that are higher in historic value; redirecting unused tax credits funds to projects that were denied instead of returning the credits to the General Fund; or removing the provision which limits the number of commercial tax credits to 50 percent in any given county or Baltimore City. The advantages and disadvantages of each are summarized below.

Retaining the current method of using MHT's criteria for ranked values and the 50% rule

- Advantages – The tax credit program has a high return on investment.
- Disadvantages – The potential return to the State is limited by the overall cap, per project cap, and jurisdictional rule. Also, the competitive nature of the application process could serve as a deterrent to developers and investors.

Giving precedence to properties that are higher in historic value

- Advantages – This method honors the intent of the tax credit program to encourage preservation by giving weight to the historic value of the projects.
- Disadvantages – Scoring properties based on their historic values is a process open to challenge by unsuccessful competitors. Further, for FY 2006, the ranked values yielded a lower return on investment than the current method.

Redirecting unused tax credits funds to projects that were denied, instead of returning the credits to the General Fund

- Advantages – This method puts to use what would be a relatively insignificant amount of money for the General Fund to leverage additional economic and fiscal benefits for the State.
- Disadvantages – Some projects may have requested credit amounts above $350,000, making a redistribution of leftover funds potentially difficult to divide up cleanly.

Removing the provision which limits the number of commercial tax credits to 50 percent in any given county or Baltimore City

- Advantages – Baltimore City has the highest proportion of historic commercial properties in the State.
- Disadvantages – The Baltimore City commercial projects require higher credit allocations than any of the other jurisdictions, raising concerns about fairness and equity throughout the State.

The second set of options involve increasing the State allocation to the program by upgrading the Rehabilitation Tax Credit program among the State's priorities by increasing the total amount of tax credits available, or if possible, removing the cap altogether or waiving the $3 million cap on the amount of credit for individual commercial rehabilitation in special circumstances.

Upgrading the Rehabilitation Tax Credit program among the State's priorities by increasing the total amount of tax credits available, or if possible, removing the cap altogether

- Advantages – Increasing allocation to the program would further economic development in the State's most needy areas.
- Disadvantages – There is an opportunity cost of not funding other programs that are a priority to the State.

Waiving the $3 million cap on the amount of credit for individual commercial rehabilitation projects in special circumstances

- Advantages – This would provide flexibility to the program for projects deemed very needy and of high potential impact for the area.
- Disadvantages – This would diminish funds available to the rest of the historic projects.

Conclusion

Using an economic analysis to weigh the impact that the tax incentives had on the State economy, as well as the fiscal returns to the State, we find that the program is quite successful. However, the recent legislative changes to the program have diminished its effectiveness.

Commercial projects make up only 17.2% of rehabilitation activity, but over 82% of the tax credit allocation. Even though commercial projects require most State allocation, they generate the majority of fiscal and economic benefits. Further, the greatest proportion of historic properties, both residential and commercial, are located in Baltimore City (Lipman et al 2003). The 2004 legislative changes impacted rehabilitation in Maryland most severely in Baltimore City. Indeed, Baltimore City was the only jurisdiction affected by the new rules: more than 40 commercial rehabilitation projects were denied funding, despite the fact that after projects in all other jurisdictions received funding $350,000 was left on the table. This leftover $350,000 of additional tax credits could have leveraged an additional $3.1 million in economic activity and $175,000 in tax revenue for the State had it been used to fund additional tax credits.

Moreover, the loss to Baltimore City also represented a loss to the State. Had Baltimore City received the $350,000 that was returned to the General Fund, the State could have reaped additional benefits. If all 43 of the unfunded projects had received tax credits, the State would have realized an additional $109 million in economic activity and $5.8 million in tax revenues.

A survey of local historic districts provided a useful context for our analysis. Baltimore City was the only jurisdiction where the majority of building rehabilitation is commercial. Tax credits encourage property owners to go beyond the rehabilitations they would typically do using their own finances, yet historic rehabilitation outside of Cumberland and Baltimore City would still be initiated without the credits. Further, most property owners who do need the commercial credits to make their projects feasible are waiting for the next fiscal year to apply again, and the changes to the program did not seem to deter applicants, except in Baltimore City.

Recommendations

It is recommended that the State take action to improve the Historic Structure Rehabilitation Tax Credit program:

- <u>The jurisdictional cap of 50% of tax credits allocations should be removed to better reflect the distribution of historic properties in the State.</u> The area most adversely affected by the 2004 legislative changes to the program, Baltimore City, also contains the greatest proportion of historic properties. Baltimore City developers have successfully employed historic tax credits since the inception of the program to refurbish historic properties, create jobs, and generate new sources of tax revenue for the State. It is unrealistic to expect all jurisdictions to show similar interest in using the historic tax credit for commercial properties. Interviews with the historic districts provided evidence that the majority of historic renovation projects outside of Baltimore City are residential.

- At minimum, if the jurisdictional cap is not removed, leftover funding should be reallocated to the next highest ranked projects, regardless of jurisdiction. Given the success of the program in leveraging economic activity and fiscal returns, all money initially set aside for the Heritage Structure Rehabilitation Tax Credit Program should be invested in historic properties if eligible properties remain after the jurisdiction rule is applied.

- The General Assembly should review the criteria and ranking procedure used by MHT. If the State continues to employ a competitive process for allocating historic tax credits, the MHT's ranking system has significant implications for which commercial properties will be prioritized for funding, especially if the jurisdictional rule remains in place.

- Greater communication between the MHT and local historic districts could help the program to grow organically in jurisdictions where tax credits have been underused historically. Encouraging greater use of the tax credits in these jurisdictions would improve the diversity of the program's use without penalizing districts that already take advantage of the program. Local preservation officers play a vital role in providing information about the State tax credit program to property owners and in some cases even assist with applications; they should be considered partners in promoting the State tax credit.

- The return on investment in historic tax credits is so substantial as to bring into question the need for an overall cap. A reversion to the entitlement structure should be considered. The program generates an average return to the State greater than the cost of giving out the tax credits and has been shown to make feasible major projects that would not have been undertaken otherwise without the tax credits.

Based on the data, there is no support for an increase in the tax credit from 20% to the previous 25% level.

Reforming the Maryland Heritage Structure Rehabilitation Tax Credit Program will ensure its continued role in spurring economic and community revitalization. The State has benefited greatly from this program for nearly a decade. In the interest of improving the program's effectiveness, the above recommendations should be considered by the General Assembly.

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APPENDIX A

Methodology

The fiscal and economic impact analysis was chosen to gauge the significance of the program and changes over its lifetime. Economic impacts, which are comprised of employment and wage income, are a combination of direct and indirect effects. Direct effects are determined by the labor and materials used in the rehabilitation, and indirect effects are calculated using an input-output multiplier model. This combination yields a value for each dollar spent on historic preservation tax incentives.

Fiscal impacts are measured by the direct and indirect changes in income, property, and sales tax as a result of the rehabilitation development, which occur when the building(s) is operational. A per credit value is calculated for each type of fiscal benefit the State receives from historic rehabilitation activity.

Data on projects receiving the tax credit from 1997-2006 were provided by the Maryland Historical Trust. This included information regarding the project name; address; jurisdiction; Type I, II and III dates; pre-rehabilitation costs; and final rehabilitation costs. Information was also given about whether a credit was allocated but later rescinded because a violation occurred. For the denied projects, additional data was supplied regarding the current and proposed future use of the structure. Projects with no data were eliminated from the study.

In calculating the amount of tax credit received, the project pre-rehabilitation cost was multiplied by the applicable tax credit amount. Where pre-rehabilitation cost was not provided, the final cost was used for projects awarded credits and the estimated cost was used for the denied projects. The tax credit percentage, which has varied over the 9-year program, was derived from the project's Type II status in the approval process. This was used because Type I status certifies its historic designation and Type III is simply the date it receives the credit. The Type II status date is when the project was approved. Using this methodology, the annual tax credit allocations were summed and compared to the figures given by the legislature, and were found to be consistent.

To calculate the indirect impacts of rehabilitation activity fiscal and economic multipliers were used. These multipliers were provided by Dr. Massoud Ahmadi, Director, Office of Research, Maryland Department of Housing and Community Development. These include total economic output, total income, and total employment. Tax payments by income class and tax rates were also provided by Dr. Ahmadi. Recordation and permit fee figures were obtained from Mr. Joseph Cronyn, Senior Associate, Lipman, Frizzell & Mitchell, LLC.

Calculations were performed as follows:

- Credit = Pre-Rehabilitation Cost * Credit Amount for the Appropriate Year
- Total Activity = Output Multiplier * Final Rehabilitation Cost
- Direct Jobs = (Total Activity * Employment Multiplier)/1,000,000

- Direct Wages = Final Rehabilitation Cost * Income Multiplier
- Total Income = Direct Wages * Income Multiplier
- Total Jobs = Direct Jobs * Employment Multiplier
- Direct State Personal Income Tax = Direct Jobs * State Personal Income Tax for Income Group $40-$50K
- Indirect State Personal Income Tax = Indirect Jobs * State Personal Income Tax for Income Group $30-$40K
- Direct State Retail Sales Tax = Direct Jobs * State Retail Sales Tax for Income Group $40-$50K
- Indirect State Retail Sales Tax = Indirect Jobs * State Retail Sales Tax for Income Group $30-$40K
- Direct Local Personal Income Surtax = Direct Jobs * Average Local Taxable Income for Income Group $40-$50K * County Personal Income Surtax Rate
- Indirect Local Personal Income Surtax = Indirect Jobs * Average Local Taxable Income for Income Group $30-$40K * County Personal Income Surtax Rate
- Real Property Tax = Final Rehabilitation Cost/$100 assessed value * County Real Property Tax Rate
- Recordation Tax = Final Rehabilitation Cost * County Recordation Tax Rate
- Permit Fees = Final Rehabilitation Cost * 1.5%
- Indirect figures are calculated by subtracting the direct figures from the total figures.

Multipliers and local, State retail, and State personal income tax rates are shown on the following pages.

The following assumptions were made:

- No rebate was given to property holders for property tax (calculated using just the State property tax rate, not local)
- Inflation for housing is the same as for all goods, so no adjustment was necessary to account for it.
- Useful life of a building is 25 years.

The projects in 2006 that did not receive tax credits were isolated from the projects awarded tax credits. The total fiscal and economic impacts of not granting tax incentives to these projects were calculated in the same manner as the approved projects.

Multipliers and Tax Rates

	Multipliers			Direct Jobs and Income per $1 Million of Output	
Jurisdiction	Total Output *	Total Income **	Total Employment ***	Income	Jobs
State of Maryland	1.793	1.587	1.738	0.449	11.207

* per dollar of direct spending

** per dollar of direct employee income
*** per one direct job

Year	Credit Amount
1997	0.10
1998	0.15
1999	0.25
2000	0.25
2001	0.25
2002	0.20
2003	0.20
2004	0.20
2005	0.20
2006	0.20

Tax Payment by Income Class per Employee

Income Group	a State Retail Sales Tax	b State Personal Income Tax	c Average Local Taxable Income
Less than $10K	$179	$140	$4,050
$10K to $15K	$233	$232	$5,950
$15K to $20K	$308	$352	$8,425
$20K to $30K	$366	$678	$15,150
$30K to $40K	$448	$1,135	$24,550
[redacted]			
$50K to $75K	$618	$2,150	$45,500
Over $75K	$929	$5,870	$112,000

Discount Rate	3.1%

APPENDIX B

TIMELINE OF CHANGES

1986 Federal tax credit reduced from 25% to 20% and rules changed

1996 HB-1-1996, "Heritage Preservation and Tourism Areas" signed into law. State tax credit program created – 25% for both residential and commercial property owners. Provides broad program support to Certified Heritage Areas (CHAs)

- "Establishing a Maryland Heritage Areas Authority as an independent unit of the Executive Branch that functions in the Department of Housing and Community Development; specifying the composition, power, duties, and terms of the Authority; establishing a Maryland System of Heritage Areas; establishing a Maryland Heritage Areas Authority Financing Fund."

1997 HB-1263-1997. At this point, State spending on the Part III Heritage credit applicants was $361,000 annually

- "Increasing from 10% to 15% the percentage of a taxpayer's qualified rehabilitation expenditures that may be claimed as a tax credit for a certified rehabilitation of a certified heritage structure; and applying the Act to tax years after 1997."
- Credits cost State of MD $200K

1998 HB-1199-1998, Heritage Structure Rehabilitation Credit. At this point, State spending on the Part III Heritage credit applicants was $7 million annually

- "Increasing from 15% to 25% the percentage of a taxpayer's qualified rehabilitation expenditures that may be claimed as a tax credit for a certified rehabilitation of a certified heritage structure; and providing that the Act shall be applicable to all taxable years beginning after December 31, 1998."

1999 SB 507-1999, Heritage Structure Rehabilitation Tax Credit - Mortgage Credit Certificates. At this point, State spending on the Part III Heritage credit applicants was $8.7 million annually

- "Allowing a business entity or individual under specified circumstances to elect to receive a historical rehabilitation mortgage credit certificate in lieu of a specified tax credit allowed for qualified expenses for the certified rehabilitation of certified heritage structures; providing that a historical rehabilitation mortgage credit certificate may be transferred to a lending institution subject to Maryland tax and may be used by the lending institution to claim a tax credit; etc."

2001 HB-1109-2001 Heritage Structure Rehabilitation Tax Credit - Recession hits; MD credit reduced from 25% to 20%; $3 million per project limit. At this point, State spending on the Part III Heritage credit applicants was $3.1 million annually

- "Providing that specified tax credits for certified heritage structure rehabilitations may be allocated in a specified manner among the partners, members, or shareholders of an entity; altering the definition of "certified heritage structure"; making the tax credits for certified heritage structure rehabilitations refundable under specified circumstances; repealing certified rehabilitation tax credits as to the financial institution franchise tax and the public service company franchise tax; etc."

2002 HB 759/SB 496 Maryland Heritage Structure Rehabilitation Tax Credit. At this point, State spending on the Part III Heritage credit applicants was $8.3 million annually

- "Limiting the qualifying expenditures under the Maryland Heritage Structure Rehabilitation Tax Credit allowed for a rehabilitation to the amount of estimated expenditures as stated in the application for approval of a plan of proposed rehabilitation; limiting the amount of State tax credit allowed for any rehabilitation to $3,000,000; altering the calculation of the credit; providing for the termination of the credit as of June 1, 2004; etc."
- The cap applies to Part II approvals that will be given on a first-come, first-served basis
- The existing sunset date of June 1, 2004 for the entire program remains in place

2003 HB 935/SB 657 Budget Reconciliation and Financing Act of 2003. At this point, State spending on the Part III Heritage credit applicants was $39.1 million annually

- "$23 million cap on credits for commercial properties for the period from February 1 through December 31, 2003"
- "$15 million cap on credits for commercial properties for calendar year 2004 (with the June 1, 2004 sunset)"

Sept. 2003: Gov. Ehrlich's Executive Order 01.01.2003.32 establishes task force to study the MD Heritage Structure Rehabilitation Tax Credit Program. Comptroller William Donald Schaefer is chair.

2004 HB 289/SB 190 Maryland Historical Trust - Heritage Structure Rehabilitation Tax Credit Program – No committee vote. At this point, State spending on the Part III Heritage credit applicants was $31.8 million annually

- "Altering a limit on the amount of any heritage structure rehabilitation tax credit; altering the treatment of specified multiple structures for purposes of a limitation on the tax credit; limiting the time period for submission of an application for a certificate of completion of a rehabilitation; etc."

HB 679/SB 246 Maryland Heritage Structure Rehabilitation Tax Credit Program – Enacted.

- "Reestablishing the Maryland Heritage Structure Rehabilitation Tax Credit Program to provide funding for the rehabilitation of historic properties and other properties contributing to a historic district or certified heritage area; requiring the Director of the Maryland Historical Trust in the Department of Housing and Community Development to adopt regulations to establish procedures and standards, establish an application process, and establish a competitive award process under the Program; etc."

2005 At this point, State spending on Part III Heritage credit applicants was $25 million annually

2006 At this point, State spending on Part III Heritage credit applicants was $8.6 million annually

2008 New sunset on July 1

Source: Maryland General Assembly

APPENDIX C

Evolution of Commercial MHSRTC Program

FISCAL YEAR	TAX CREDIT	STATE INVESTMENT CAP
1997*	10% credit	None
1998	15% credit	None
1999	25% credit	None
2000	25% credit	None
2001	25% refundable credit	None
2002	20% refundable credit	None
2003	20% refundable credit	$23 million cap
2004†	20% refundable credit	$25 million cap
2005	No Comm. Credit	No Comm. Credit
2006	20% refundable credit	$20 million cap
2007	20% refundable credit	at least $30 million
2008	20% refundable credit	at least $30 million

Source: Maryland Historical Trust

* Legislation enacted
† Legislation revised and renewed

APPENDIX D

Government Tax Credit Comparison

	STATE	FEDERAL
Amount of Credit	20%	20%
Minimum cost of work	$5,000	$5,000
Is adjusted base value a factor?	Yes	Yes
Unused portion rollover	10 Years	10 Years
Depreciable buildings limitation	No	Yes
National Register (NR) properties	Yes	Yes
Contributing structure in NR historic district	Yes	Yes
Contributing structure in local district	Yes	Yes
Certified contributing structure in "National Heritage Area"	Yes	No
Refundable	Yes	No

Source: National Historic Trust for Historic Preservation

APPENDIX E

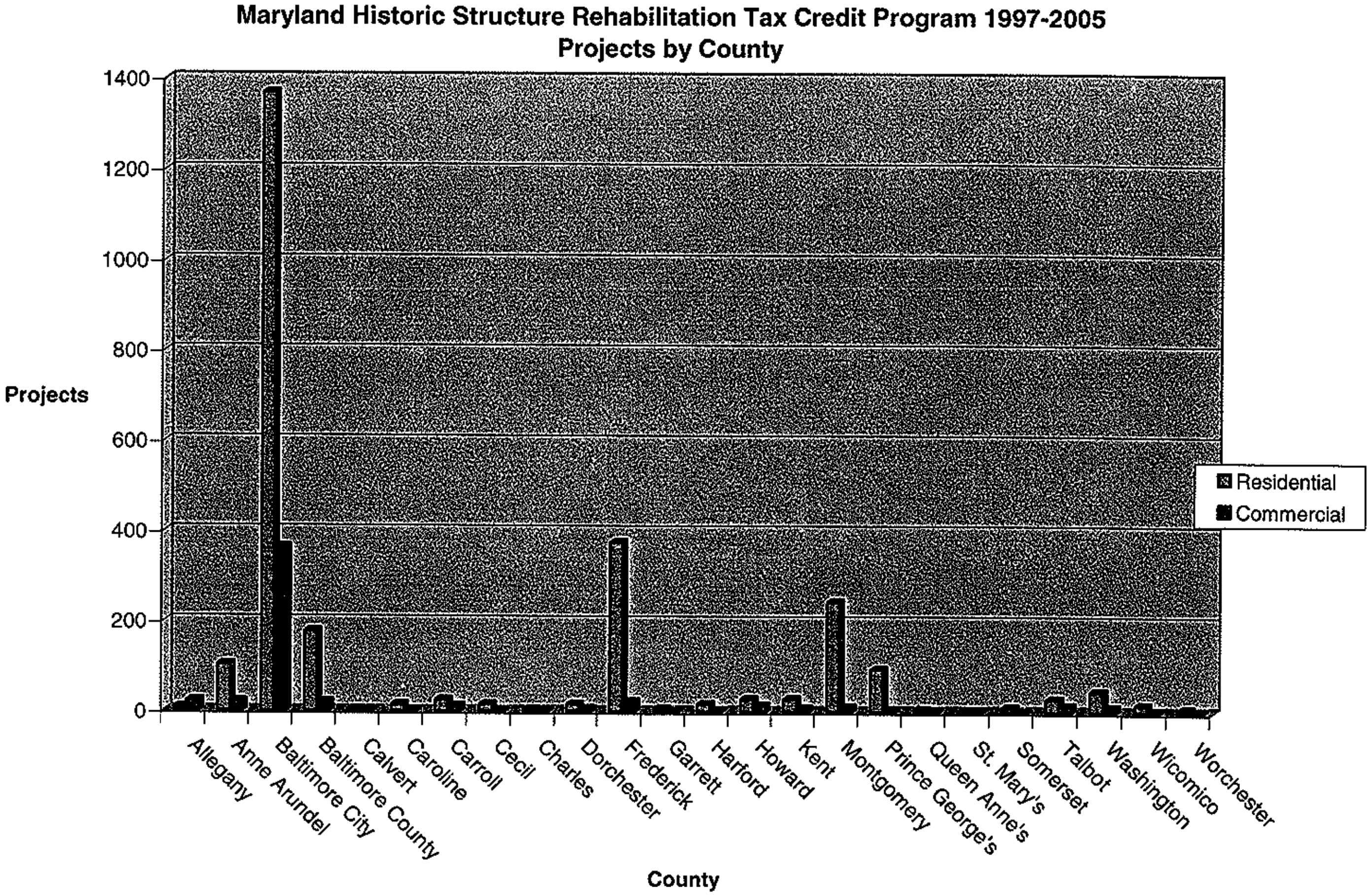
Maryland Historic Structure Rehabilitation Tax Credit Program 1997-2005

Number of Rehabilitation Projects by County

Table 8

Projects						
County	Residential	% Res	Commercial	% Comm	Total	% Total
Allegany	8	0.3%	23	4.2%	31	1.0%
Anne Arundel	104	3.9%	21	3.8%	125	3.9%
Baltimore City	1370	51.6%	365	66.0%	1,735	54.1%
Baltimore County	178	6.7%	20	3.6%	198	6.2%
Calvert	4	0.2%	1	0.2%	5	0.2%
Caroline	15	0.6%	3	0.5%	18	0.6%
Carroll	26	1.0%	13	2.4%	39	1.2%
Cecil	16	0.6%	2	0.4%	18	0.6%
Charles	4	0.2%	0	0.0%	4	0.1%
Dorchester	17	0.6%	7	1.3%	24	0.7%
Frederick	376	14.2%	22	4.0%	398	12.4%
Garrett	7	0.3%	0	0.0%	7	0.2%
Harford	17	0.6%	3	0.5%	20	0.6%
Howard	28	1.1%	14	2.5%	42	1.3%
Kent	29	1.1%	8	1.4%	37	1.2%
Montgomery	244	9.2%	10	1.8%	254	7.9%
Prince George's	94	3.5%	5	0.9%	99	3.1%
Queen Anne's	6	0.2%	3	0.5%	9	0.3%
St. Mary's	2	0.1%	2	0.4%	4	0.1%
Somerset	10	0.4%	1	0.2%	11	0.3%
Talbot	29	1.1%	14	2.5%	43	1.3%
Washington	46	1.7%	10	1.8%	56	1.7%
Wicomico	16	0.6%	3	0.5%	19	0.6%
Worchester	8	0.3%	3	0.5%	11	0.3%
Total Projects	2654	82.8%	553	17.2%	3207	-

Figure 1

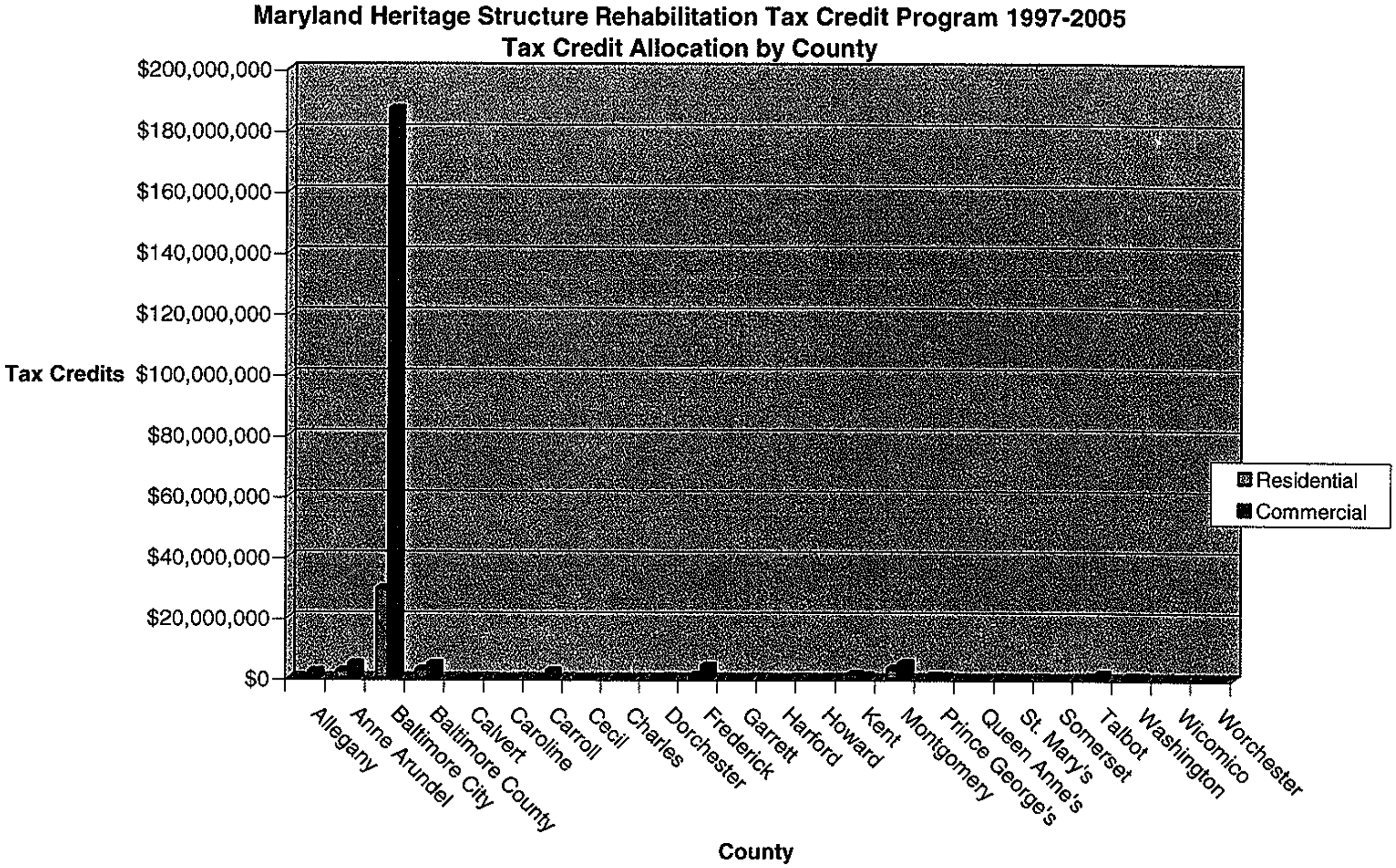

Maryland Historic Structure Rehabilitation Tax Credit Program 1997-2005
Projects by County
1400
1200
1000
800
600
400
200
0
Projects
Residential
Commercial
Allegany
Anne Arundel
Baltimore City
Baltimore County
Calvert
Caroline
Carroll
Cecil
Charles
Dorchester
Frederick
Garrett
Harford
Howard
Kent
Montgomery
Prince George's
Queen Anne's
St. Mary's
Somerset
Talbot
Washington
Wicomico
Worchester
County

Dollar Amount of Maryland Historic Structure Rehabilitation Tax Credits by County

Table 9

Tax Credits						
County	Residential	% Res	Commercial	% Comm	Total	% Total
Allegany	$133,152	0.3%	$2,279,593	0.9%	$2,412,745	0.9%
Anne Arundel	$2,401,276	5.3%	$4,823,396	1.8%	$7,224,672	2.7%
Baltimore City	$29,509,724	64.6%	$186,933,629	70.9%	$216,443,353	82.1%
Baltimore County	$2,942,000	6.4%	$4,686,774	1.8%	$7,628,774	2.9%
Calvert	$11,846	0.0%	$75,000	0.0%	$86,846	0.0%
Caroline	$168,598	0.4%	$69,750	0.0%	$238,348	0.1%
Carroll	$157,482	0.3%	$2,541,264	1.0%	$2,698,747	1.0%
Cecil	$202,140	0.4%	$66,270	0.0%	$268,410	0.1%
Charles	$90,000	0.2%	$0	0.0%	$90,000	0.0%
Dorchester	$349,038	0.8%	$627,625	0.2%	$976,663	0.4%
Frederick	$1,049,532	2.3%	$4,254,601	1.6%	$5,304,133	2.0%
Garrett	$174,257	0.4%	$0	0.0%	$174,257	0.1%
Harford	$172,960	0.4%	$100,000	0.0%	$272,960	0.1%
Howard	$326,002	0.7%	$456,477	0.2%	$782,479	0.3%
Kent	$1,394,054	3.0%	$1,142,000	0.4%	$2,536,055	1.0%
Montgomery	$3,239,212	7.1%	$5,167,530	2.0%	$8,406,742	3.2%
Prince George's	$1,030,422	2.3%	$903,000	0.3%	$1,933,423	0.7%
Queen Anne's	$197,944	0.4%	$158,880	0.1%	$356,824	0.1%
St. Mary's	$5,500	0.0%	$158,660	0.1%	$164,160	0.1%
Somerset	$291,866	0.6%	$400,000	0.2%	$691,866	0.3%
Talbot	$830,590	1.8%	$1,724,095	0.7%	$2,554,685	1.0%
Washington	$897,173	2.0%	$822,000	0.3%	$1,719,173	0.7%
Wicomico	$77,041	0.2%	$247,250	0.1%	$324,291	0.1%
Worchester	$58,372	0.1%	$143,726	0.1%	$202,098	0.1%
Credit Total	$45,710,182	17.3%	$217,781,519	82.7%	$263,491,702	-

Figure 2


Maryland Heritage Structure Rehabilitation Tax Credit Program 1997-2005
Tax Credit Allocation by County
Tax Credits
$200,000,000
$180,000,000
$160,000,000
$140,000,000
$120,000,000
$100,000,000
$80,000,000
$60,000,000
$40,000,000
$20,000,000
$0
Residential
Commercial
Allegany
Anne Arundel
Baltimore City
Baltimore County
Calvert
Caroline
Carroll
Cecil
Charles
Dorchester
Frederick
Garrett
Harford
Howard
Kent
Montgomery
Prince George's
Queen Anne's
St. Mary's
Somerset
Talbot
Washington
Wicomico
Worchester
County