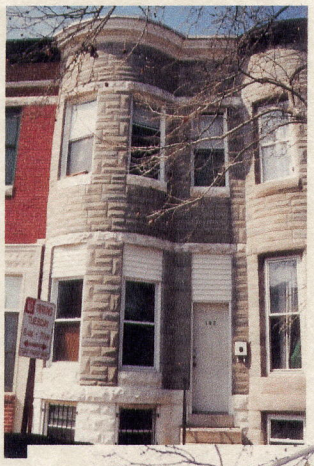

Final Report of the Governor's Task Force on Maryland's Heritage Structure Rehabilitation Tax Credit Program

Governor Robert L. Ehrlich, Jr.

Comptroller William Donald Schaefer, Chair

Presented January 2004

FINAL REPORT
of the
GOVERNOR'S TASK FORCE
on
MARYLAND'S
HERITAGE STRUCTURE REHABILITATION
TAX CREDIT PROGRAM

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Task Force on the Heritage Structure Rehabilitation Tax Credit Program

Executive Summary

The discussions of this Task Force were thorough, informative and often spirited. The diversity and knowledge of its membership allowed it to waste little time in getting to the core issues of its investigation of the Heritage Structure Rehabilitation Tax Credit Program. All aspects of the Program were discussed from several points of view. Ultimately, the group determined the Heritage Structure Rehabilitation Tax Credit Program to be the most successful economic and community revitalization tool available in the State today. As such, the recommendations generated by the Task Force do not include further broad restrictions on the Program.

RECOMMENDATIONS

- Extend the Program from June 1, 2004 to January 1, 2010.
- Remove the $15 million aggregate cap on commercial rehabilitation credits in 2004;
- Permit the Board of Public Works to waive the $3 million cap on the amount of credit for individual commercial rehabilitations in special circumstances;
- Make minor changes to improve the efficiency of the Program; and
- Authorize the Maryland Historical Trust to adopt reasonable fees for application reviews.

FINDNGS AND JUSTIFICATION

- The Program has been extremely successful in revitalizing deteriorated downtowns and neighborhoods, combating blight, creating jobs, strengthening local tax bases, stimulating Maryland's economy and preserving historic resources;
- Key major projects would not have been undertaken if the credit had not been available;
- Although the commercial credits have been most used in the part of the State with the most older buildings, the benefits of the Program have been felt in all parts of the State;
- The Program is self-financing and does not require an outside revenue source. The total fiscal benefits of the Program, taken as a whole, far exceed the costs to the Treasury;
- The Program generates approximately 34 cents in tax revenues for every dollar of tax credit during construction before any claim can be made for the tax credit;
- The Program generates an average return to the State of approximately $1.02 during the first year after a project's completion, and $3.31 within five years after project completion for every dollar of tax credit earned;
- The Program assisted more than 1,000 rehabilitation projects (commercial and residential) as of the end of 2003; generated $400 million in private investment

for completed projects certified since 1997; and leveraged approximately $90 million in federal tax credits;

- Conversion of the Program to a direct grant format would destroy its effectiveness as an incentive for private investment;
- Subjecting the Program to an annual dollar cap creates uncertainty for private investors, and presents significant obstacles to projects that need the credit to achieve financial feasibility. The federal credit and successful credit programs in other states (Missouri, Virginia, North Carolina, Rhode Island) are not subject to annual caps; and
- The cost of the Program is self-limiting because of the existing $3 million per commercial project tax credit cap.

Final Report of the Governor's Task Force on the Heritage Structure Rehabilitation Tax Credit Program

Introduction

On September 24, 2003, Governor Robert L. Ehrlich, Jr. signed Executive Order number 01.01.2003.32 which established the Task Force to Study the Maryland Heritage Structure Rehabilitation Tax Credit Program (Task Force). Governor Ehrlich appointed William Donald Schaefer, Comptroller of the Treasury, to chair the Task Force which included among its membership, Victor L. Hoskins, Secretary, Department of Housing and Community Development; Aris Melissaratos, Secretary, Department of Business and Economic Development; James "Chip" DiPaula, Secretary, Department of Budget and Management; Audrey E. Scott, Secretary, Department of Planning; William J. Pencek, Jr., City of Baltimore; Larry Giammo, Mayor of Rockville; Mr. Harry Schwartz; Mr. G. Bernard Callan; Mr. Ronald Kreitner, Westside Renaissance, Inc.; Ms. Betty Jean Murphy, Savannah Development Corporation; Mr. David F. Tufaro, Summit Development Corporation; Mr. David Hillman, Southern Management, Inc.; Delegate Sheila Hixon, Chair, House Ways and Means Committee; Delegate Adelaide C. Eckardt, Senator David R. Brinkley; and Senator Ulysses Currie, Chair, Senate Budget and Taxation Committee. The Task Force was staffed by Ms. Louise Hayman, Office of the Comptroller and Mr. J. Rodney Little, Director, Division of Historical and Cultural Programs.

Members of this Task Force brought a wide range of experience to the table. From government to business, from real estate development to advocacy, all members had some degree of personal experience with the Heritage Structure Rehabilitation Tax Credit Program (Program). This experience enabled the Task Force to begin immediately evaluating the Program from all perspectives relevant to the task.

The Task Force convened a total of five times from September to December 2003 and considered each of the items below in depth and with much deliberation. Their responses have been abbreviated for the purpose of this report and are as follows:

Review the implementation and use of the Maryland Heritage Structure Rehabilitation Tax Credit Program.

The Maryland Heritage Structure Rehabilitation Tax Credit Program (Program) was created as part of a statewide tourism initiative, the Maryland Heritage Preservation and Tourism Areas Program, in 1996. The Program has evolved from a modest supplement to Federal and local tax credits to become a major tool for neighborhood conservation and revitalization. The Federal tax credit program is a 20% IRS credit for the qualified rehabilitation of depreciable, or income-producing , historic buildings. The National Park

Service in conjunction with State Historic Preservation Offices administers the Federal program.

Beginning in 1997, Maryland provided a 10% tax credit for qualified rehabilitation expenditures for both income-producing buildings and owner-occupied residences. A series of annual legislative changes to the Program began in 1998 when the credit was raised to 15% and again in 1999 when it was raised to 25%. Credits also became refundable in 1999. (To the extent a credit exceeds a developer or homeowner's Maryland State Tax liability for the tax year in which the rehabilitation in completed, it is refunded.) Additionally, organizations exempt from taxation under 501 (c)(3) of the Internal Revenue Code also became eligible for a refund. For tax years 2002 and later, the credit was reduced to 20%. Refunds were also limited to $3 million per commercial project. During the most recent Legislative Session, the General Assembly placed a $23 million aggregate cap on credits approved for commercial projects in 2003 and a $15 million cap for those approved in 2004. The $23 million cap for 2003 was reached on June 10, 2003. Commercial applications for proposed rehabilitations approved after January 2, 2004 will qualify for tax credits under the $15 million cap until exhausted or June 1, 2004, whichever occurs first. The program is scheduled to terminate on June 1, 2004 unless otherwise directed by the General Assembly. (The homeowner credit is affected by the sunset date, but not the refund cap.)

To qualify for Maryland Heritage Structure Rehabilitation Tax Credits, an owner must submit a Heritage Preservation Certification Application to the Maryland Historical Trust (MHT). The rehabilitation must be undertaken in accordance with the Secretary of the Interior's *Standards for Rehabilitation.* Program applications consist of three parts: Certification of Significance, Certification of Proposed Rehabilitation, and Certification of Completed Rehabilitation. A completed application includes photographic and other project-related documentation. An owner must spend at least $5 thousand on a rehabilitation for owner-occupied residential property. For all other property (commercial, non-profit, etc.), an owner must spend more than the adjusted basis of the structure or $5 thousand, whichever is greater. The adjusted basis is generally considered to be the purchase price of a property, less the value of the land and less any depreciation taken. Commercial properties may also apply for the 20% Federal tax credit. A rehabilitation project must take place within a period of 24 months.

Evaluate the anticipated revenue loss under various legislation enacted by the General Assembly relating to the Program and actual revenue loss or projected revenue loss under the Program, including a thorough evaluation of all projects that have received or are eligible to receive a tax credit under the Program, and examine means to reduce anticipated revenue loss.

This Task Force could find no evidence that the Program created or will create a revenue loss to the State as a result of various legislation enacted by the General Assembly. All members agreed that there is a gross tax credit figure available for each project that, if viewed in isolation, would suggest that the State incurs a revenue loss equal to the amount of credit earned for each project certified under the Program. Two economic

impact studies (prepared by the firm of Lipman Frizzell & Mitchell, LLC., and discussed below) produced in 2002 and 2003 have indicated that the State receives, instead, a net revenue gain for projects earning credits under this program. Approximately 34 cents out of every dollar of earned tax credits is realized by the State prior to the completion of a project. This revenue is derived from the sales tax on materials, income tax derived from all employees of the greater development team (architects, engineers, construction crews, applicable licenses and permits, etc.).

The various amendments enacted from 1998 to 2003 have increased the usage of the Program, which has also resulted in an increase in leveraged private and federal dollar investment.

Statistical information was produced for the Task Force that established a baseline for the overall performance of the Program. The baseline analysis found that **since 1997, the Program generated**:

- **749 owner-occupied residential certified** rehabilitation projects with **total final rehabilitation costs** in the amount of **$47.6 million**
- **estimated tax credits earned** by these projects - **$9.5 million**
- **private investment** totaled approximately **$38 million** not including acquisition costs

- **196 commercial certified** rehabilitation projects with **total final project costs** in the amount of **$445million**
- **estimated tax credits earned** by these projects - **$89 million**
- **private investment** totaled approximately **$356 million** not including acquisition costs
- **approximately $89 million in federal tax credits also leveraged** by these commercial projects

Additionally, more specific data was created in the form of *Year-End Reports* (prepared for the General Assembly as required by statute) for the years 1997 through 2003. This data also includes "pipeline" projects that have not received final certification of the completed rehabilitation. This baseline data reflects only the "gross amount" of State investment in projects assisted by this Program. It **does not** take into account any offsetting revenue to the State that may be generated before, during and after the rehabilitation of projects participating in the Program. A copy of this data has been included in this document as Attachments #1 and #2.

In an effort to establish whether the Program had ever generated a revenue loss to the State, the Committee invited Mr. Joseph M. Cronyn, Senior Associate with Baltimore based Lipman Frizzell & Mitchell, LLC, a real estate consulting and appraisal firm to discuss the two economic impact reports generated by his firm (***The Economic & Fiscal Impacts of the Maryland Heritage Preservation Tax Credit Program, 2002*** and ***Maryland Heritage Structure Tax Credit Program, Economic & Fiscal Impacts,2003***) (Attachments #3 and #4). Mr. Cronyn confirmed the results of his analysis that concluded the Program generated between $.048 to nearly $5.00 for every dollar awarded

in tax credits. He went further to say that the Program had facilitated local economic growth and encouraged area revitalization. He credited the Program for the creation of both short-term and long-term jobs and for increasing regional tax bases by encouraging migration.

The Task Force asked for and received, from the Department of Housing and Community Development, an economic impact analysis for 11 completed rehabilitations representing a cross section of project types, sizes and locations. Attachment #5 represents the results of the analysis for the 11 projects that were evaluated individually for their rate of revenue return to the State using the widely accepted Resource Allocation Model (RAM). The information garnered from this analysis indicates that there is a fairly quick return (an average of two years or less) on the State's tax credit investment for all but one type of rehabilitation project – rental housing. Using this information, the Task Force was able to determine that the average rate of return to the State (dollars back to the State in the form of increased revenue for every dollar of tax credit paid out) for commercial projects was approximately $1.02 during the first year after the project's completion and an average of $3.31 within the first five years after the project's completion. It was agreed by Task Force members that, while the return on the State's investment for rental housing projects was considerably longer (23-30 years), these projects were extremely important to the communities where they were located and should not be held to the same rate of economic return as their commercial counterparts.

Review and evaluate the direct and indirect economic benefits to the State of the Maryland Heritage Structure Rehabilitation Tax Credit Program, and examine means to increase economic benefits to the State.

As stated in the previous section, a RAM analysis was applied to 11 representative completed tax credit projects. Projects included restaurants, a theater, hotel conversion to rental apartments over commercial space, rental apartments, offices, and the conversion of warehouse space into non-profit housing and represented various regions across the State. Most commercial tax credits fall into the following categories: speculative office rehabilitation – typically for multiple white collar office tenants; existing building conversions to multi-family rental housing – with or without some commercial tenants; existing building conversions from office to hotel use; existing building upgrades; and small single use rehabilitations such as restaurant upgrades or commercial space upgrades.

The application of the RAM analysis validates a number of common sense assumptions regarding the Program and its economic benefits to the State. Large commercial, mixed-use projects with multiple office and commercial tenants produce the fastest rate of return on the State's investment. The break-even period for these projects was often less than one year. These were followed by single use commercial rehabilitations, such as restaurant and retail establishment upgrades. The break-even period for these projects was typically less than 5 years.

The RAM analysis also provided the Task Force with a breakdown of the direct economic impacts of these projects, both during the construction period and subsequent annual operations. The results are also found in Attachment #5. The analysis produced figures for wages and salaries, jobs (full time employment), State retail sales tax, State personal income tax, State real property tax, local personal income tax, local real property tax and other local taxes. The break-even analysis was based on these figures.

Many Task Force members, while acknowledging the RAM analysis was useful, were concerned that it would be used to discourage projects that took longer to break-even. In particular, some were concerned that projects, such as low-income housing projects, would be denied tax credits solely on their RAM performance, not taking into consideration other indirect benefits.

The RAM analysis did not consider the amount of federal tax credits leveraged by the Program. As illustrated above, since the beginning of the Program, approximately $89 million in federal tax credits has been leveraged by projects participating in the State Program. Task Force members agreed that the Program is one of the very few Federal programs that actually support community revitalization in the State.

While the RAM analysis did not consider indirect impacts of the Program, members of the Task Force generally agreed with comments expressed in the 2002 Lippman Frizzell & Mitchell report regarding the direct and indirect impacts of the Program. The report states that *historic rehabilitation, and the related tax credits, result not only in the upgrading of historic buildings in Maryland, but also increased jobs, income, and tax revenues. The Maryland economy benefits and increased tax revenue offset much of the credit. The Federal tax credit benefits Maryland residents, often in addition to the Maryland State credit. The economic and fiscal activity occurs before the credits are implemented and offset the total dollars by almost 50 percent. Clearly the benefit of this program to the State of Maryland is far larger than the revenue lost from the credits.*

Based in part on the Lippman Frizzell & Mitchell reports and other sources, a committee of Governor's interns produced a report in August 2003 entitled ***The Maryland Heritage Preservation Tax Credit Program: Encouraging Growth Through Re-Use*** (Attachment 6). Their conclusions regarding direct and indirect impact of the program were expressed as follows: *The program has benefited citizens by creating thousands of permanent and temporary jobs within both the development industry and the commercial offices that inhabit newly rehabilitated buildings. The positions created during the rehabilitation of projects are particularly lucrative because refurbishment projects often require specialized services and workers to complete the project in a manner that will satisfy the requirements of the tax credit. Additionally, through the creation of new jobs, the restoration of historically significant buildings and neighborhoods, and increased tourism to historic areas, Heritage Structure Rehabilitation Tax Credit Program has managed to raise property values and increase the tax base for both local and State governments.*

The interns also concluded that, *by gradually curbing suburban sprawl through private investment, the tax credit program has also facilitated impressive environmental achievements. Reducing the need for new buildings on open lands, the program* [potentially] *saves hundreds of acres a year. Furthermore, this increased re-urbanization has allowed individuals to live and work in existing urban areas, decreasing their need for personal transportation and lowering atmospheric carbon monoxide levels.*

Evaluate whether rehabilitations and proposed rehabilitations that are eligible under the Program would have occurred without the tax credits or would have occurred in a different manner.

Beginning in 1997, the first year of the Program, completed rehabilitation application forms asked project sponsors to state whether the project would have been accomplished with or without the tax credits. Applicants for owner-occupied residential projects answered the question more frequently during the first years of the Program. Homeowners have stated 50% of the time that they would not have undertaken their project without the credits. Although applicants were not asked whether the project would have occurred in a different manner, some wrote in the margin of the application that the project would have been executed differently. Data for commercial projects began to show up in 1999. Until 2002, applicants for commercial projects stated that their projects would not have been possible without the State credits. It is certain that all of the commercial projects, even without the State credits, would not have designed their projects differently because they are required to conform to the same rehabilitation standards under the federal tax credit program.

While the results derived from a questionnaire can often be subjective, this program can rely on other methods to verify whether projects would have been accomplished without the State tax credits. One of the most convincing statistics was the constant rate at which federal tax credit applications were received. The number of federal applications had steadily decreased from a high of 250 in the late 1980s to 2 in 1996. When the State tax credit became available, the number of federal applications increased at substantially the same rate as the State Program. In 2001, when developers anticipated legislative changes to the Program that would negatively impact their projects, the rush to submit applications early to avoid unfavorable grandfathering rules resulted in a ratio of 3 to 1, state to federal, application submittals. The same scenario occurred in 2002. Changes to the Program's rules in 2003 capped the number of State applications approved.

During this same period, 2001 through 2003, the federal tax credit program showed only a moderate increase in the number of applications submitted for tax credits. Some Task Force members suggested that this more moderate gain in the filing of federal applications was due, in part, to the fact that the rules governing the federal program have remained unchanged and therefore more predictable since 1986. In that year, the federal tax credit was reduced from 25% to 20% and the rules for using the credit were changed.

Evaluate whether rehabilitations and proposed rehabilitations under the Program could have proceeded or could proceed under a direct grant program and the value of a tax credit verses a direct grant program to these rehabilitations and proposed rehabilitations.

The viability of a direct grant program would be based upon the amount of funding provided in such a program and whether it could be distributed in amounts equal to the credits earned for each of the projects. The Task Force felt that it is improbable that the State of Maryland would ever be in a position to provide grants to private individuals, corporations, etc.

Members of the Task Force questioned whether the volume of rehabilitation activity that has taken place over the last 7 years would have been generated by a grant. They determined that the answer depended, in part, on when/how grant funds would pay in – during or at the end of a project. If well after project completion, the timing of the State's pay out would be similar to the tax credit; however, pay out by the State of the credit could lag behind project completion by more than 12 months. Therefore, depending on the timing of delivery, a grant program could result in more, or less, costs to the State or to the project sponsor than the credit. According to the most current information provided by the Comptroller of the Treasury, the actual amount of tax credits claimed each year lags behind the amount of tax credits earned.

The Task Force believes that the tax credit process is relatively easy for the user and the State (the grant process is an inherently time consuming competitive ranking process which includes reliance on underwriting, progress inspections and disbursements, legal transactions/documents, OAG review, coordination with other lenders/financial participants, etc.). Competitive grant programs are deemed highly unpredictable to commercial investors and are perceived to be subject to political manipulation.

In contrast, the tax credit Program requires little oversight by the State of a project's rehabilitation process; the burden is wholly on the project sponsor to perform in accordance with the Secretary of the Interior's *Standards for Rehabilitation* or forfeit the credits. The State credit oversight process is basically cost free to the State for commercial projects – a percentage of Program reviewer's salaries are funded by the Federal government because most, if not all, commercial users are applying for Federal credits. Grant processing costs would be the net extra operating costs.

Should perpetual easements be required as part of any grant program (as is currently the case with the Maryland Historical Trust's Capital Grant Program and General Assembly Bond Bills), the State would incur additional ongoing easement administration costs.

The Task Force concluded that a grant program would not give the State any significant increased control over project/program outcomes than the credit and even inhibit the use of the credit. Most Task Force members did not favor a rating and ranking system for the selection of projects receiving funds via a grant program. They recommended instead

that tax credit applications continue to be processed on a first come, first served basis and as such remain market driven.

Evaluate the effects of an aggregate cap on total tax credits authorized under the Program each year and whether a tax credit program is a preferable means for providing State assistance to rehabilitation projects under these circumstances.

The Task Force evaluated the necessity for an aggregate cap to provide predictability for budgetary purposes. Several scenarios were discussed, including the establishment of a cap that would subject all commercial projects to a rating and ranking process. The rating and ranking process would establish a hierarchy of projects potentially eligible for the credits (credits can only be awarded to projects that are completed rehabilitations). Another suggestion was to forward commit tax credits in order to maintain the first come, first served basis.

Most Task Force members agreed that an aggregate cap would not be desirable in that it makes the program more difficult to use by developers of all types of commercial projects. Available statistics suggest that the Program, overall, generates revenue in excess of costs to the State; so, therefore, it should not be restrained in ways that inhibit its use. Ultimately, the Task Force rejected the idea of any form of cap on the Program except the existing per commercial project cap of $15 million.

Other issues discussed by the Task Force

Two items of concern expressed by members of the Task Force were the universe of large projects (those that are $15 million and over in total project costs) potentially eligible for the credit and whether the Program is achieving geographic equity across the State.

The general consensus of the Task Force was that the actual number of properties statewide that could potentially exceed $15 million in rehabilitation costs was approximately 70. The Task Force drew from information provided by Mr. Cronyn regarding the number of large projects that could potentially be eligible for the credits. According to Mr. Cronyn, the *total universe of large potentially historic properties in the State of Maryland is estimated at 300 properties. Those properties are over 50 years old and of such a size that they could require at least $15 million in rehabilitation expenditures.* Mr. Cronyn suggested that the actual known universe of historic properties was closer to 102 depending on ownership status (owned by a government), designation status (listed on the National Register or designated under local law), or its condition (would the project costs exceed the adjusted basis of the property?). The final estimated number of projects (70) that could potentially exceed $15 million was based upon likelihood that some properties were in current use and not in need of rehabilitation.

Several Task Force members were concerned that the geographic distribution of the Program was not equitable around the State. They believed that the City of Baltimore was receiving most of the benefits from the Program while the rest of the State's

participation was varied. After much discussion, Task Force members formed the opinion that, while the Program was actually was being utilized by projects all across the State, the number of participating projects corresponded directly to the percentage of eligible resources in a particular jurisdiction. The Task Force did note that several counties had a greater volume of owner-occupied residential projects than those that were classified as commercial. To encourage commercial rehabilitations in those counties, it was suggested that a lower threshold for smaller commercial projects be considered. In general, members of the Task Force agreed; however, they determined that any broadening of the Program should be separate from their official recommendations.

Attachments

State Heritage Preservation Tax Credit

Wednesday, January 01, 1997 - Wednesday, December 31, 1997

Part I Applications

	Number of
Residential	13
Commercial	4

Part II Applications

	Number of	Total Proposed	Average Proposed	Number of Housing Units Before Rehab
Residential	17	$1,386,083.00	$81,534.29	18
Commercial	11	$38,448,147.00	$3,495,286.09	116

Part II Applications

	Number of	Total Proposed	Average Proposed	Number of Housing Units Before Rehab
Residential	12	$1,027,083.00	$85,590.25	13
Commercial	7	$30,848,147.00	$4,406,878.14	47

Part III Applications

	Number of	Total Proposed Expenditure	Average Proposed Expenditure	Number of Housing Units Before Rehab	Number of Housing Units After Rehab	Total Final Expenditure	Average Final Expenditure
Residential	2	$25,083.00	$12,541.50	2	2	$26,083.00	$13,041.50
Commercial	2	$1,982,000.00	$991,000.00	0	0	$1,967,000.00	$983,500.00

State Heritage Preservation Tax Credit

Thursday, January 01, 1998 - Thursday, December 31, 1998

Part I Applications

	Number of
Residential	40
Commercial	9

Part II Applications

	Number of	Total Proposed	Average Proposed	Number of Housing Units Before Rehab
Residential	42	$3,880,881.00	$92,401.93	43
Commercial	16	$25,326,507.00	$1,582,906.69	133

Part II Applications

	Number of	Total Proposed	Average Proposed	Number of Housing Units Before Rehab
Residential	37	$3,064,628.00	$82,827.78	38
Commercial	8	$7,541,525.00	$942,690.63	6

Part III Applications

	Number of	Total Proposed Expenditure	Average Proposed Expenditure	Number of Housing Units Before Rehab	Number of Housing Units After Rehab	Total Final Expenditure	Average Final Expenditure
Residential	25	$1,176,423.00	$47,056.92	30	30	$1,141,638.00	$45,665.52
Commercial	2	$251,525.00	$125,762.50	5	5	$253,890.00	$126,945.00

State Heritage Preservation Tax Credit

Friday, January 01, 1999 - Friday, December 31, 1999

Part I Applications

	Number of
Residential	65
Commercial	22

Part II Applications

	Number of	Total Proposed	Average Proposed	Number of Housing Units Before Rehab
Residential	87	$7,045,437.14	$80,982.04	87
Commercial	25	$98,841,606.00	$3,953,664.24	22

Part II Applications

	Number of	Total Proposed	Average Proposed	Number of Housing Units Before Rehab
Residential	69	$4,251,440.14	$61,615.07	71
Commercial	24	$91,941,823.00	$3,830,909.29	195

Part III Applications

	Number of	Total Proposed Expenditure	Average Proposed Expenditure	Number of Housing Units Before Rehab	After Rehab	Total Final Expenditure	Average Final Expenditure
Residential	51	$3,767,998.49	$73,882.32	51	50	$3,658,041.03	$71,726.29
Commercial	8	$26,455,000.00	$3,306,875.00	51	45	$45,051,567.00	$5,631,445.88

State Heritage Preservation Tax Credit

Saturday, January 01, 2000 - Sunday, December 31, 2000

Part I Applications

	Number of
Residential	120
Commercial	24

Part II Applications

	Number of	Total Proposed	Average Proposed	Number of Housing Units Before Rehab
Residential	164	$19,683,371.34	$120,020.56	164
Commercial	39	$115,827,229.45	$2,969,928.96	71

Part II Applications

	Number of	Total Proposed	Average Proposed	Number of Housing Units Before Rehab
Residential	126	$17,523,766.48	$139,077.51	126
Commercial	30	$108,063,516.45	$3,602,117.22	64

Part III Applications

	Number of	Total Proposed Expenditure	Average Proposed Expenditure	Number of Housing Units Before Rehab	Number of Housing Units After Rehab	Total Final Expenditure	Average Final Expenditure
Residential	79	$4,993,203.65	$63,205.11	71	77	$6,156,430.59	$77,929.50
Commercial	11	$11,081,050.00	$1,007,368.18	5	37	$11,514,551.25	$1,046,777.39

State Heritage Preservation Tax Credit

Monday, January 01, 2001 - Monday, December 31, 2001

Part I Applications

	Number of
Residential	173
Commercial	59

Part II Applications

	Number of	Total Proposed	Average Proposed	Number of Housing Units Before Rehab
Residential	225	$19,751,464.41	$87,784.29	252
Commercial	88	$307,451,386.00	$3,493,765.75	148

Part II Applications

	Number of	Total Proposed	Average Proposed	Number of Housing Units Before Rehab
Residential	178	$12,771,518.81	$71,750.11	190
Commercial	59	$216,411,021.00	$3,667,983.41	82

Part III Applications

	Number of	Total Proposed Expenditure	Average Proposed Expenditure	Number of Housing Units Before Rehab	After Rehab	Total Final Expenditure	Average Final Expenditure
Residential	131	$7,211,252.17	$55,047.73	132	130	$8,646,020.15	$66,000.15
Commercial	29	$112,022,104.45	$3,862,831.19	241	254	$125,736,925.39	$4,335,756.05

State Heritage Preservation Tax Credit

Tuesday, January 01, 2002 - Tuesday, December 31, 2002

Part I Applications

	Number of
Residential	272
Commercial	153

Part II Applications

	Number of	Total Proposed	Average Proposed	Number of Housing Units Before Rehab
Residential	331	$40,836,722.85	$123,373.79	332
Commercial	134	$119,249,413.02	$889,920.99	218

Part II Applications

	Number of	Total Proposed	Average Proposed	Number of Housing Units Before Rehab
Residential	280	$30,798,493.60	$109,994.62	260
Commercial	137	$205,150,344.63	$1,497,447.77	228

Part III Applications

	Number of	Total Proposed Expenditure	Average Proposed Expenditure	Number of Housing Units Before Rehab	Number of Housing Units After Rehab	Total Final Expenditure	Average Final Expenditure
Residential	234	$30,401,585.13	$129,921.30	200	265	$23,088,256.85	$98,667.76
Commercial	74	$113,532,889.23	$1,534,228.23	74	373	$121,187,775.20	$1,637,672.64

State Heritage Preservation Tax Credit

Wednesday, January 01, 2003 - Wednesday, December 31, 2003

Part I Applications

	Number of
Residential	301
Commercial	113

Part II Applications

	Number of	Total Proposed	Average Proposed	Number of Housing Units Before Rehab
Residential	440	$71,318,944.50	$162,088.51	562
Commercial	72	$99,113,772.76	$1,376,580.18	125

Part II Applications

	Number of	Total Proposed	Average Proposed	Number of Housing Units Before Rehab
Residential	348	$51,182,075.56	$147,074.93	446
Commercial	98	$118,785,946.70	$1,212,101.50	170

Part III Applications

	Number of	Total Proposed Expenditure	Average Proposed Expenditure	Number of Housing Units Before Rehab	After Rehab	Total Final Expenditure	Average Final Expenditure
Residential	253	$25,954,548.37	$102,587.15	286	255	$27,597,722.98	$109,081.91
Commercial	81	$184,360,920.10	$2,276,060.74	85	521	$178,304,868.36	$2,201,294.67

Maryland Heritage Structure Rehabilitation Tax Credit

Year End Report

Wednesday, January 01, 1997 -Wednesday, December 31, 1997

	Commercial Projects	Residential Projects	Total: All Projects
Number of Part 1 Applications	12	17	**29**
Number of Part 2 Applications	11	17	**28**
Number of Part 3 Applications	2	3	**5**
Number of Part 2 Approvals	7	12	**19**
Estimated Rehabilitation	$30,848,147.00	$1,027,083.00	**$31,875,230.00**
Number of Part 3 Approvals	2	3	**5**
Final Rehabilitation	$1,967,000.00	$26,083.00	**$1,993,083.00**
Amount of Tax	$196,700.00	$2,608.30	**$199,308.30**

Maryland Heritage Structure Rehabilitation Tax Credit

Year End Report

Thursday, January 01, 1998 -Thursday, December 31, 1998

	Commercial Projects	Residential Projects	Total: All Projects
Number of Part 1 Applications	18	44	**62**
Number of Part 2 Applications	16	42	**58**
Number of Part 3 Applications	4	28	**32**
Number of Part 2 Approvals	8	37	**45**
Estimated Rehabilitation	$7,541,525.00	$3,064,628.00	**$10,606,153.00**
Number of Part 3 Approvals	4	28	**32**
Final Rehabilitation	$253,890.00	$1,141,638.00	**$1,395,528.00**
Amount of Tax	$37,783.50	$161,339.55	**$199,123.05**

Maryland Heritage Structure Rehabilitation Tax Credit

Year End Report

Friday, January 01, 1999 -Friday, December 31, 1999

	Commercial Projects	Residential Projects	Total: All Projects
Number of Part 1 Applications	22	84	**106**
Number of Part 2 Applications	25	87	**112**
Number of Part 3 Applications	12	61	**73**
Number of Part 2 Approvals	24	69	**93**
Estimated Rehabilitation	$91,941,823.00	$4,251,440.14	**$96,193,263.14**
Number of Part 3 Approvals	12	61	**73**
Final Rehabilitation	$45,051,567.00	$3,658,041.03	**$48,709,608.03**
Amount of Tax	$8,431,206.95	$766,300.42	**$9,197,507.37**

Maryland Heritage Structure Rehabilitation Tax Credit

Year End Report

Saturday, January 01, 2000 -Sunday, December 31, 2000

	Commercial Projects	Residential Projects	Total: All Projects
Number of Part 1 Applications	36	142	**178**
Number of Part 2 Applications	39	162	**201**
Number of Part 3 Applications	8	102	**110**
Number of Part 2 Approvals	30	126	**156**
Estimated Rehabilitation	$108,063,516.45	$17,523,766.48	**$125,587,282.93**
Number of Part 3 Approvals	8	102	**110**
Final Rehabilitation	$11,514,551.25	$6,156,430.59	**$17,670,981.84**
Amount of Tax	$2,844,887.81	$1,509,463.53	**$4,354,351.34**

Maryland Heritage Structure Rehabilitation Tax Credit

Year End Report

Monday, January 01, 2001 -Monday, December 31, 2001

	Commercial Projects	Residential Projects	Total: All Projects
Number of Part 1 Applications	81	200	**281**
Number of Part 2 Applications	88	224	**312**
Number of Part 3 Applications	41	142	**183**
Number of Part 2 Approvals	59	176	**235**
Estimated Rehabilitation	$216,411,021.00	$12,747,518.81	**$229,158,539.81**
Number of Part 3 Approvals	41	142	**183**
Final Rehabilitation	$125,736,925.39	$8,646,020.15	**$134,382,945.54**
Amount of Tax	$31,434,231.35	$2,150,238.79	**$33,584,470.14**

Maryland Heritage Structure Rehabilitation Tax Credit

Year End Report

Tuesday, January 01, 2002 -Tuesday, December 31, 2002

	Commercial Projects	Residential Projects	Total: All Projects
Number of Part 1 Applications	155	285	**440**
Number of Part 2 Applications	146	332	**478**
Number of Part 3 Applications	80	260	**340**
Number of Part 2 Approvals	137	280	**417**
Estimated Rehabilitation	$202,150,344.63	$30,798,493.60	**$232,948,838.23**
Number of Part 3 Approvals	80	260	**340**
Final Rehabilitation	$121,187,775.20	$23,253,282.85	**$144,441,058.05**
Amount of Tax	$29,881,342.99	$4,969,015.46	**$34,850,358.45**

Maryland Heritage Structure Rehabilitation Tax Credit

Year End Report

Wednesday, January 01, 2003 -Wednesday, December 17, 2003

	Commercial Projects	Residential Projects	Total: All Projects
Number of Part 1 Applications	92	310	**402**
Number of Part 2 Applications	72	372	**444**
Number of Part 3 Applications	71	231	**302**
Number of Part 2 Approvals	98	335	**433**
Estimated Rehabilitation	$118,785,946.70	$50,406,390.56	**$169,192,337.26**
Number of Part 3 Approvals	71	231	**384**
Final Rehabilitation	$173,252,429.37	$23,914,866.54	**$197,167,295.91**
Amount of Tax	$42,681,053.68	$4,982,742.73	**$47,663,796.41**

CHAPTER I
ECONOMIC & FISCAL IMPACTS
OF HISTORIC TAX CREDITS (2000 - 2001)

I. Maryland Rehabilitation Tax Credits

The Maryland Heritage Structure Rehabilitation Tax Credit Program, administered by the Maryland Historical Trust, was authorized by the Maryland legislature in 1997. The amount of the credit and the state requirements changed over the next few years, but the goal has remained the same, namely to encourage rehabilitation of historic buildings and sites.

While the goal of the program is to encourage rehabilitation of designated historic buildings, the expenditures have had a substantial impact on the economy of the State and local jurisdictions. Historic rehabilitation is a very important economic development tool. Since many older buildings are in areas that are stagnating, economically and socially, a kick-start from a large project can make the difference between neighborhood stabilization and continued decline. Heritage tourism is promoted as a major economic development initiative in Maryland and nationally. In addition, rehabilitation efforts have led to increased tax revenues for the municipalities, counties, and State.

This study analyzes the economic and fiscal impacts derived from the rehabilitation of buildings in 2000 and 2001 from which the owners received tax credits. The study uses an economic model to estimate spending, job, income, and tax revenues resulting from the rehabilitation expenditures. Analysis shows that while the tax credits are an expense to the State, there are significant economic and fiscal benefits that offset that cost.

The Heritage Structure Rehabilitation Tax Credit Program provides Maryland income tax credits equal to 25% of the qualified capital costs expended in the rehabilitation of a 'certified heritage structure'. A certified structure is one that is:

- Listed in the National Register of Historic Places or designated as a historic property under local law;
- Located in a historic district listed in the National Register or in a local historic district; and/or
- Located in a certified heritage area and certified as contributing to the area's significance.

The credit is available for owner-occupied residential property as well as income producing property. Rehabilitation expenditures must be made in a 24-month period and must be substantial. For owner-occupants, the expenditure must be greater than $5,000. For commercial properties, rehabilitation expenditures must be the greater of the adjusted basis of the structure or $5,000. The adjusted basis is the market value less the value of land and any depreciation claimed by the current owner. The practical result of the latter

requirement is that only severely deteriorated and undervalued commercial properties needing substantial work are both economically viable and eligible for the tax credit.

Finally, all work must conform to the Secretary of the Interior's *Standards for Rehabilitation* and be certified by the Maryland Historical Trust.

II. Methodology

This study uses the IMPLAN model to estimate the total economic and fiscal effects of rehabilitation spending over the two year period, 2000-2001. The IMPLAN model is widely used for input-output analysis today by economists at Maryland State agencies, such as the Maryland Department of Business & Economic Development. Input-output models examine the relationships among businesses and consumers by using multipliers that describe the response of an economy to a particular change in demand or production. The result is an estimation of all economic effects, not simply those resulting from the original project.

Input-output models estimate the *total* economic effects of spending on rehabilitation projects in Maryland. Total effects include *direct* and *multiplier* effects:

- Direct Impact - The *direct impact* component consists of labor and material purchases made specifically for the rehabilitation activity.

- Multiplier Effect - The *multiplier* effects incorporate what are referred to as *indirect* and *induced* economic consequences. The *indirect* impact component consists of spending on goods and services by industries that produce the items purchased for the historic preservation activity. The *induced* impact component focuses on the expenditures made by households of workers involved either directly or indirectly with the activity.

For example, the lumber purchased at a hardware store for historic rehabilitation is a direct impact. The purchases of the mill that produced the lumber are indirect impacts. The household expenditures of the workers at both the mill and the hardware store are induced impacts. All of these impacts result in increased spending and income, jobs and employment, and general economic productivity. They also lead to increased tax revenues at both the state and local levels as economic activity increases.

The combination of all these effects represents the total impact of rehabilitation. The economic and fiscal effects benefit not only the construction workers and owners of the properties, but the entire geographic area, the state economy, and the relevant taxable entities. This study estimates all of these impacts.

III. Characteristics of Tax Credit Projects

TABLE 1
COMMERCIAL PROPERTIES REHABILITATED, 2000-2001

COUNTY	COMMERCIAL PROPERTIES	REHABILITATION COSTS
STATE OF MARYLAND	**40**	**$141,479,719**
ANNE ARUNDEL	2	$2,847,277
ALLEGANY	2	$437,501
BALTIMORE COUNTY	1	$420,150
BALTIMORE CITY	23	$134,553,308
CECIL	1	$270,460
CALVERT	1	$255,406
FREDERICK	2	$879,370
HOWARD	1	$175,000
MONTGOMERY	2	$406,121
QUEEN ANNES	2	$520,126
TALBOT	1	$240,000
WASHINGTON	2	$475,000

Source: Maryland Department of Housing and Community Development,
Maryland Historical Trust

TABLE 2
SINGLE FAMILY HOUSES REHABILITATED, 2000-2001

COUNTY	SINGLE FAMILY HOUSES	REHABILITATION COSTS
STATE OF MARYLAND	**207**	**$13,993,213**
ANNE ARUNDEL	8	$376,973
BALTIMORE COUNTY	32	$2,217,846
BALTIMORE CITY	43	$3,806,403
CECIL	1	$8,376
CARROLL	8	$131,775
CALVERT	3	$36,901
DORCHESTER	2	$17,722
FREDERICK	16	$1,734,680
GARRETT	2	$31,998
HARFORD	7	$789,800
HOWARD	3	$326,044
KENT	8	$373,249
MONTGOMERY	42	$1,514,853
PRINCE GEORGE'S	11	$357,820
QUEEN ANNE'S	1	$159,775
SOMERSET	2	$435,563
TALBOT	4	$474,013
WASHINGTON	12	$1,082,265
WICOMICO	1	$17,157
WORCESTER	1	$100,000

Source: Maryland Department of Housing and Community Development, Maryland Historical Trust

The Maryland Department of Housing & Community Development has compiled data used for this study covering projects, which received Part 3 tax credit approval in the calendar years 2000 and 2001 and were completed by December 2001. Data include information gathered from applicants in 40 cases of commercial properties and 207 cases of single-family home rehabilitations. While the commercial projects were less numerous, they did involve the greatest rehabilitation expenditures and, of course, proportionately more tax credits. Statewide during the two years, $141.5 million was spent on commercial projects, while $14 million was spent on single-family homes.

Geographic Dispersion

As Tables 1 and 2 show, the program was used widely throughout the State of Maryland. Commercial rehabilitations were undertaken in 12 counties; residential rehabilitations in 19 counties. The projects extended from the Eastern Shore to Western Maryland. Clearly there is a popular demand for restoring older buildings to a modern functional state, both for residential and commercial use.

While the program was used widely, it was utilized more frequently in certain jurisdictions:

- Commercial Projects - Twenty-three of the 40 commercial projects were located in Baltimore City; no other jurisdiction had more than two.

- Residential Projects - Of the 207 single-family homes, 43 were in Baltimore City and 32 in Baltimore County. Montgomery County had 42 and Frederick had 16. Prince George's and Washington counties had 11 and 12 respectively.

High usage of the program in Baltimore City should be expected. Given the age of the City's building stock, it has over half of all of the State's properties listed on the National Register. Baltimore City has many historic neighborhoods and buildings in need of physical repair, and renovation may well lead to neighborhood stabilization and growth. Indeed, the tax credit program may be viewed as a critical economic development tool to help historic urban areas such as Baltimore City, Frederick, and Cumberland if projects are undertaken which otherwise would not have been feasible.

Size of Projects

The size and scale of the projects varied widely for both commercial and residential rehabilitations.

Table 3
Tax Credit Project Size

	Commercial	Residential
Average Size	$3,536,993	$67,600
Largest	$71,000,000	$729,261
Smallest	$6,175	$5,000

The largest commercial project at over $71 million was the rehabilitation of the historic Procter & Gamble manufacturing complex in Baltimore's Locust Point neighborhood. The

buildings were redeveloped into a modern mixed-use commercial development, renamed Tide Point. This one project accounted for more than half of all expenditures on commercial buildings made in Maryland. Not including Tide Point, the average size of commercial projects was approximately $1.8 million. No other single project exceeded $11.0 million in rehabilitation expense.

Similarly, residential rehabilitations ranged in size from relatively small to over $700,000. No single project dominated the size range as with the commercial projects. The large and small projects were distributed evenly throughout the State.

Tax Credits Needed

Applicants for the tax credit were asked--after their projects had been approved-- whether they would have invested in the projects without the tax incentive:

- Commercial Projects - Of the commercial applicants, 93% said no. The implication seems to be that the cost of the projects without tax relief was too high to be profitable. The fact that so few of the commercial projects would be undertaken without the tax credit is compelling given that $141 million in total investment was made on these projects.

- Residential Projects - Among the single-family applicants who answered the question, 43% said the tax incentive was necessary. Undoubtedly, many of these applicants planned to live in the house and were making an investment in personal housing.

IV. Analysis

The following economic and fiscal analysis estimates the incremental additions to the State's economy and tax revenues from the projects undertaken with tax credits in the last two years. The assumption is made that some activity was ongoing and contributed to the economy prior to the renovation. However, the construction work itself has added to the Maryland economy and the relevant income and sales taxes. Further, the improvement in real property has added to property taxes and other property-related fees and taxes. The analysis extends to the state and county levels. No attempt has been made to estimate municipal effects. As a result the outcomes may be viewed as conservative, since if more layers of government were considered, additional tax and fee revenue could be included.

The estimates presented in Tables 4 and 5 are probably conservative because of effects not included in the IMPLAN model. For example, the model does not account for heritage tourism resulting from the historical buildings and neighborhoods. Given the nature of the work encouraged by historic preservation tax credits, the environment created by residential and commercial projects should encourage visitors and events, which would further increase local output, jobs, and tax revenue. The model also considers rehabilitation and new construction equivalent for jobs and wages. Some analysts report that rehabilitation requires more labor and more skilled labor resulting in even more compensation.

TABLE 4
Aggregate Economic Impact of Years 2000 - 2001
Commercial Properties

County	Project Information		Economic Output Information			Fiscal Impact	
	Construction Expenditures	Number of Projects	Output* Impact	Employment** Impact	Employee*** Compensation Impact	State Sales & Income Tax	Local Income Tax
All Maryland	141,479,719	40	237,383,856	2,193	75,771,305	11,862,628	3,446,177
Anne Arundel	437,501	2	737,603	7	235,438	36,860	10,708
Allegany	2,847,277	2	4,765,182	44	1,521,014	238,127	69,178
Baltimore County	420,150	1	720,739	7	230,055	36,017	10,463
Baltimore City	134,553,308	23	225,750,613	2,085	72,058,054	11,281,288	3,277,294
Cecil	270,460	1	452,640	4	144,480	22,619	6,571
Calvert	255,406	1	427,446	4	136,438	21,360	6,205
Frederick	879,370	2	1,471,707	14	469,759	73,545	21,365
Howard	175,000	1	300,201	3	95,822	15,002	4,358
Montgomery	406,121	2	679,682	6	216,950	33,965	9,867
Queen Anne's	520,126	2	872,011	8	278,340	43,576	12,659
Talbot	240,000	1	401,662	4	128,208	20,072	5,831
Washington	475,000	2	804,371	7	256,750	40,196	11,677

* Includes direct, indirect, and induced expenditures.
** Based on average construction wage
*** Calculated as portion of Output Impact

TABLE 5
Aggregate Economic Impact of the Year 2000 - 2001
Single Family Houses

	Project Information		Economic Output Information			Fiscal Impact	
	Construction Expenditures	Number of Projects	Output* Impact	Employment** Impact	Employee*** Compensation Impact	State Sales & Income Tax	Local Income Tax
All Maryland	13,993,212	207	23,137,469	205	5,781,667	1,156,234	335,894
Anne Arundel	376,973	8	622,581	6	155,573	31,112	9,038
Baltimore County	2,217,846	32	3,671,976	33	917,566	183,497	53,307
Baltimore City	3,806,403	43	6,294,488	56	1,572,887	314,550	91,379
Cecil	8,376	1	13,692	0	3,421	684	199
Carroll	131,775	8	219,706	2	54,901	10,979	3,190
Calvert	36,901	3	60,323	1	15,074	3,014	876
Dorchester	17,722	2	29,695	0	7,420	1,484	431
Frederick	1,734,680	16	2,850,121	25	712,198	142,427	41,376
Garrett	31,998	2	52,893	0	13,217	2,643	768
Harford	789,800	7	1,317,783	12	329,292	65,853	19,131
Howard	326,044	3	537,197	5	134,237	26,845	7,799
Kent	373,249	8	620,977	6	155,172	31,032	9,015
Montgomery	1,514,853	42	2,509,614	22	627,111	125,411	36,433
Prince George's	357,820	11	589,749	5	147,368	29,471	8,562
Queen Anne's	159,775	1	261,186	2	65,266	13,052	3,792
Somerset	435,563	2	724,007	6	180,917	36,180	10,511
Talbot	474,012	4	781,003	7	195,160	39,029	11,338
Washington	1,082,265	12	1,788,960	16	447,031	89,399	25,971
Wicomico	17,157	1	28,046	0	7,008	1,402	407
Worcester	100,000	1	163,471	1	40,849	8,169	2,373

* Includes direct, indirect, and induced expenditures.
** Based on average construction wage
*** Calculated as portion of Output Impact

Economic Impacts

The IMPLAN input-output model described previously has been applied to the rehabilitation construction data obtained from Maryland Historical Trust. The results derived from that model appear in Tables 4 and 5 for commercial and single-family houses respectively. The important impacts for this study are:

- Output - Net new output in the economy due to the original construction expenditures
- Employment - Net new jobs created by the output impact
- Compensation - That portion of new output that resulted in income and wages

The model shows that for total expenditures on commercial and single-family buildings of $155.5 million, resulting in $38.9 million of State income tax credits, the projects have created 2,454 new jobs and increased incomes by $81.6 million.

Table 6
Maryland Total State Input-Output

Construction:	
Historical Rehabilitation	$155,472,932
Projects	247
Results:	
Output	$260,521,325
New Jobs	2,454
New Income	$81,552,972

While many of the new jobs will be in the construction industry, some will be spread throughout the economy as workers spend new wages and income. If these projects are in older neighborhoods, this increase in jobs and income could be important to stabilizing the entire area. Given the magnitude and number of projects in Baltimore, the increase in jobs in the City would be well over 2,000. Not all of the increase in construction jobs would go to City residents. However, when the workers spend money on such items as lunch, transportation, and leisure activities in the work area, the income and jobs in those industries will increase.

Single-family house rehabilitation requires less spending, but is more widespread throughout the state than the commercial projects. These projects are numerous in the Washington suburban area and Frederick County, as well as the Baltimore region. While the commercial projects are larger and have greater economic impacts, the use of the tax credit program by homeowners has a more direct effect on individual residents and is clearly very popular.

Table 7 estimates the impact of the construction spending on different sectors of the economy in Maryland. Indirect and induced spending has been in all sectors of the

Table 7a
Aggregate Economic Output Impact by Sector

Sector	Direct Impact	Indirect Impact	Induced Impact	Total Impact
Total	155,472,932	57,483,182	47,565,212	260,521,325
Agriculture & Mining		350,559	310,549	661,108
Construction	155,472,932	503,154	939,450	156,915,535
Manufacturing		7,808,815	3,343,188	11,152,004
TCPU*		5,867,091	3,604,852	9,471,943
Wholesale Trade		11,961,331	10,421,134	22,382,465
FIRE**		3,978,335	11,638,136	15,616,471
Services		26,392,238	16,291,884	42,684,122
Government		621,658	1,016,018	1,637,676

Source: IMPLAN

* Transportation, Communication, Public Utilities
** Finance, Insurance, Real Estate

Table 7b
Aggregate Employment Impact by Sector

Sector	Direct Impact	Indirect Impact	Induced Impact	Total Impact
Total	1,188	652	614	2,454
Agriculture & Mining		8	4	13
Construction	1,188	7	12	1,207
Manufacturing		49	17	66
TCPU*		45	19	64
Trade		159	220	379
FIRE**		31	46	78
Services		346	288	634
Government		7	7	14

Source: IMPLAN

* Transportation, Communication, Public Utilities
** Finance, Insurance, Real Estate

economy, not just construction. This IMPLAN estimate shows the financial impact and the number of jobs which have been created in the State of Maryland in each industrial sector:

- Financial Impact - The Construction sector was boosted by $156.9 million in spending, about three-fifths (60.2%) of the total financial impact on the State economy. Others industrial sectors within the State which were measurably affected were Services ($42.7 million), Wholesale/Retail Trade ($22.4 million), Manufacturing ($11.1 million).

- Job Creation - Over 1,200 jobs were created in the Construction sector. The Services and Wholesale/Retail Trade sectors in particular also benefited, adding 634 and 379 jobs respectively.

Clearly the effects of the spending are widespread not only geographically, but also throughout the Maryland economy.

Fiscal Impacts

The expenditures on historic properties have led to increased tax revenues from several sources including: sales and use taxes, income taxes, recordation and transfer taxes, permits and fees, real property taxes. We focus here on the public revenues during the 2000-2001 construction period for the 247 rehabilitation projects we are analyzing:

- Income and Sales Taxes - Tables 8 and 9 show the estimates of income and sales taxes resulting from the construction spending on both commercial and single family properties. Total revenues for the State from increased income and sales taxes has been over $13 million. County piggyback income tax revenues have been increased by almost $4 million. These additional taxes have been collected before the tax credits are distributed.

- Recordation and Permit Fees - These revenues are all paid to local jurisdictions and not the State of Maryland and thus do not offset the tax credits directly. Recordation fees are estimated conservatively based on the cost of rehabilitation, assuming little value for the historic structure. The recordation tax rates per county are a matter of record. Permit fees are assumed to be 1.5% of construction value. In summary, we find:

Table 10
Recordation & Permit Fees

Commercial Properties	$2,911,467
Single Family	$290,380
Total	$3,201,847

These local fees have been paid as construction progressed. As with income and sales taxes, the benefit has occurred before the tax credits are distributed. Estimated recordation and fee income is detailed in Tables 11 and 12.

- Transfer Taxes - Both the State and counties collect a transfer tax when real property changes ownership. It is impossible to know which of the properties in this database

TABLE 8
Aggregate Fiscal Impact of Years 2000 - 2001
Commercial Properties

County	Project Information		Fiscal Impact	
	Construction Expenditures	Number of Projects	State Sales & Income Tax	Local Income Tax
All Maryland	141,479,719	40	11,862,628	3,446,177
Anne Arundel	437,501	2	36,860	10,708
Allegany	2,847,277	2	238,127	69,178
Baltimore County	420,150	1	36,017	10,463
Baltimore City	134,553,308	23	11,281,288	3,277,294
Cecil	270,460	1	22,619	6,571
Calvert	255,406	1	21,360	6,205
Frederick	879,370	2	73,545	21,365
Howard	175,000	1	15,002	4,358
Montgomery	406,121	2	33,965	9,867
Queen Anne's	520,126	2	43,576	12,659
Talbot	240,000	1	20,072	5,831
Washington	475,000	2	40,196	11,677

TABLE 9
Aggregate Fiscal Impact of the Year 2000 - 2001
Single Family Houses

	Project Information		Fiscal Impact	
	Construction Expenditures	Number of Projects	State Sales & Income Tax	Local Income Tax
All Maryland	13,993,212	207	1,156,234	335,894
Anne Arundel	376,973	8	31,112	9,038
Baltimore County	2,217,846	32	183,497	53,307
Baltimore City	3,806,403	43	314,550	91,379
Cecil	8,376	1	684	199
Carroll	131,775	8	10,979	3,190
Calvert	36,901	3	3,014	876
Dorchester	17,722	2	1,484	431
Frederick	1,734,680	16	142,427	41,376
Garrett	31,998	2	2,643	768
Harford	789,800	7	65,853	19,131
Howard	326,044	3	26,845	7,799
Kent	373,249	8	31,032	9,015
Montgomery	1,514,853	42	125,411	36,433
Prince George's	357,820	11	29,471	8,562
Queen Anne's	159,775	1	13,052	3,792
Somerset	435,563	2	36,180	10,511
Talbot	474,012	4	39,029	11,338
Washington	1,082,265	12	89,399	25,971
Wicomico	17,157	1	1,402	407
Worcester	100,000	1	8,169	2,373

TABLE 11
POTENTIAL RECORDATION TAX
PERMIT AND FEE REVENUE
FROM COMMERCIAL PROPERTIES

COUNTY	COMMERCIAL PROPERTIES	AMOUNT OF RENOVATION COSTS	RECORDATION TAX (PER $500)	POTENTIAL RECORDATION TAX	PERMIT & FEE REVENUE*	TOTAL REVENUE
All Maryland	40	$141,479,719		$785,214	$2,126,253	$2,911,467
ANNE ARUNDEL	2	$2,847,277	$3.50	$19,930	$42,709	$62,639
ALLEGHENY	2	$437,501	$2.20	$1,926	$6,563	$8,489
BALTIMORE COUNTY	1	$420,150	$2.50	$2,100	$6,302	$8,402
BALTIMORE CITY	23	$134,553,308	$2.75	$740,044	$2,018,300	$2,758,344
CECIL	1	$270,460	$2.20	$1,190	$4,057	$5,247
CALVERT	1	$255,406	$3.30	$1,686	$4,057	$5,743
FREDERICK	2	$879,370	$3.50	$6,156	$3,831	$9,987
HOWARD	1	$175,000	$2.50	$876	$13,191	$14,067
MONTGOMERY	2	$406,121	$3.30	$2,680	$2,625	$5,305
QUEEN ANNES	2	$520,126	$3.30	$3,432	$6,092	$9,524
TALBOT	1	$240,000	$3.30	$1,584	$7,802	$9,386
WASHINGTON	2	$475,000	$3.80	$3,610	$3,600	$7,210

* Assumes local permit and fee revenue of 1.5% of rehabilitation costs

Source: Maryland Department of Housing and Community Development, Maryland Historical Trust

TABLE 12
POTENTIAL RECORDATION TAX
PERMIT AND FEE REVENUE
FROM RESIDENTIAL PROPERTIES

COUNTY	SINGLE FAMILY HOUSES	AMOUNT OF REHABILITATION COSTS	RECORDATION TAX (PER $500)	POTENTIAL RECORDATION TAX	PERMIT & FEE REVENUE*	TOTAL REVENUE
All Maryland	207	$13,993,213		$80,480	$209,900	$290,380
ANNE ARUNDEL	8	$376,973	$3.50	$2,639	$5,655	$8,293
BALTIMORE COUNTY	32	$2,217,846	$2.50	$11,089	$33,268	$44,357
BALTIMORE CITY	43	$3,806,403	$2.75	$20,935	$57,096	$78,031
CECIL	1	$8,376	$2.20	$37	$126	$163
CARROLL	8	$131,775	$3.50	$922	$1,977	$2,899
CALVERT	3	$36,901	$3.30	$244	$554	$798
DORCHESTER	2	$17,722	$3.30	$117	$266	$383
FREDERICK	16	$1,734,680	$3.50	$12,143	$26,020	$38,163
GARRETT	2	$31,998	$3.50	$224	$480	$704
HARFORD	7	$789,800	$3.30	$5,213	$11,847	$17,060
HOWARD	3	$326,044	$2.50	$1,630	$4,891	$6,521
KENT	8	$373,249	$3.30	$2,463	$5,599	$8,062
MONTGOMERY	42	$1,514,853	$2.20	$6,665	$22,723	$29,388
PRINCE GEORGE'S	11	$357,820	$2.20	$1,574	$5,367	$6,941
QUEEN ANNE'S	1	$159,775	$3.30	$1,055	$2,397	$3,452
SOMERSET	2	$435,563	$1.65	$1,437	$6,533	$7,970
TALBOT	4	$474,013	$3.30	$3,128	$7,110	$10,238
WASHINGTON	12	$1,082,265	$3.80	$8,225	$16,234	$24,459
WICOMICO	1	$17,157	$2.30	$79	$257	$336
WORCESTER	1	$100,000	$3.30	$660	$1,500	$2,160

* Assumes local permit and fee revenue of 1.5% of rehabilitation costs

Source: Maryland Department of Housing and Community Development, Maryland Historical

TABLE 13
POTENTIAL ADDITIONAL PROPERTY TRANSFER TAX
FROM RESIDENTIAL PROPERTIES

COUNTY	NUMBER OF SINGLE FAMILY	AMOUNT OF REHABILITATION COSTS	POTENTIAL TRANSFERS (2000-2001)	PROPERTY TRANSFER TAX RATE (PER $100)	POTENTIAL TAX	
ALL COUNTIES	207	$13,993,213	$4,664,404		$61,416	
ANNE ARUNDEL	8	$376,973	$125,658	1.00%	$1,257	
BALTIMORE COUNTY	32	$2,217,846	$739,282	1.50%	$11,089	
BALTIMORE CITY	43	$3,806,403	$1,268,801	1.50%	$19,032	
CECIL	1	$8,376	$2,792	NA		**
CARROLL	8	$131,775	$43,925	0.50%	$220	
CALVERT	3	$36,901	$12,300	NA		
DORCHESTER	2	$17,722	$5,907	1	$5,907	
FREDERICK	16	$1,734,680	$578,227	NA		
GARRETT	2	$31,998	$10,666	1.00%	$107	
HARFORD	7	$789,800	$263,267	1.00%	$2,633	
HOWARD	3	$326,044	$108,681	1.00%	$1,087	
KENT	8	$373,249	$124,416	0.50%	$622	
MONTGOMERY	42	$1,514,853	$504,951	0.25-6%	$15,780	***
PRINCE GEORGE'S	11	$357,820	$119,273	1.40%	$1,670	
QUEEN ANNE'S	1	$159,775	$53,258	0.50%	$266	
SOMERSET	2	$435,563	$145,188	NA		
TALBOT	4	$474,013	$158,004	1.00%	$1,580	****
WASHINGTON	12	$1,082,265	$360,755	NA		
WICOMICO	1	$17,157	$5,719	NA		
WORCESTER	1	$100,000	$33,333	0.50%	$167	
STATE	207	$13,993,213	$4,664,404		$23,322	

* Assumes property values increase by the total amount of the renovation cost and 1/3 of all renovated properties are sold within 3 years
** Tax rate is $10 per deed
*** Tax effect is calculated on the average of 0.25%-6%
**** the first $50,000 of consideration is exempt from taxation
NA is not available

Source: Maryland Department of Housing and Community Development

were transferred after rehabilitation. To be conservative, we have assumed that no commercial properties changed hands. We have assumed that one-third of the residential properties were sold after rehabilitation and their value was increased by the full amount of the rehabilitation cost. Table 13 shows that the total transfer tax, state and local, on these properties attributable to transfer was $84,738.

Using the fiscal impacts calculated by the IMPLAN model plus our estimate of recordation and fee income and transfer taxes, we calculate the 2000-2001 incremental tax revenues attributable to historic preservation aided by State tax credit incentives as over $20,000,000. Table 14 shows only those taxes collected before the credits are recognized as an expense.

Table 14
Additional Tax Revenues

State Sales/Income Tax	$13,018,862
Local Piggyback Income Tax	$3,782,071
Recordation & Permit Fees	$3,201,847
Transfer Tax	$61,416
Total	$20,064,196

The total amount of the tax credits allocated for the 2000-2001 rehabilitation projects is $38.9 million. The State and local governments, therefore, have received incremental tax revenues amounting to over half (51.4%) of the tax credits. Matching revenues and expenses for the State alone, approximately one-third (33.5%) of the credits are covered.

The incremental revenues do not include future property tax increases or sales and income taxes beyond the two-year period. The out-year revenues from property and income taxes for commercial projects are often major, as evidenced in the case studies in the following chapters. The sum of these future revenues to the State alone, discounted back to the present, often exceeds the State's tax credit investment. Other possible effects that are not included are additional personal property taxes from the stores and firms occupying the commercial space, municipal government effects, and neighborhood effects. In many cases, the historic rehabilitation of a few buildings in an area will lead to others being upgraded, resulting in a general increase in values and assessable tax base.

Real Property Taxes

Real property taxes will typically not increase until after construction is complete. Those taxes will then become an annuity to the state and local jurisdictions, i.e. they will remain elevated every year after the reassessment that revalues the building due to the rehabilitation. Actually over time, the effect on the property taxes will increase with inflation.

State Leverage

In addition to the increase in State tax revenues attributable to historic rehabilitation, Maryland benefits from federal tax credits. For most of the rehabilitation work on income-producing properties eligible for Maryland tax credits, the Federal Historic Tax Credit program allows a 20% tax credit against federal income taxes. Thus, eligible developers receive a 25% credit on state taxes and a 20% credit against federal taxes. Maryland benefits from the federal tax credit program because tax funds remain in the State that might otherwise be sent elsewhere. In addition, the additional federal benefits make projects feasible that the Maryland credit alone will not.

Given all of these increases in cashflows, the historic preservation tax credit can be viewed as a leveraging device. The expense to the State of Maryland is offset by increased economic and fiscal impacts throughout the economy. Table 15 shows the leveraged value from $1.00 of State tax credits:

Table 15
Leveraged Cashflows from $1.00 Credit Expense

Construction Expenditures	$4.00
Federal Tax Credit	$0.80
Maryland Output	$6.70
Maryland Wage	$2.10
State Income Taxes	$0.35
Local Piggyback Income Taxes	$0.10

For every $1.00 of historic tax credit investment, Maryland economic output increases by $6.70 and State personal income increases by $2.10. State tax revenue increases by $.35 and local tax revenue by $.10.

Additional revenue comes from recordation taxes and permit fees and from future real property taxes. Clearly these tax credits have a large effect on the economy.

Time Value of Money

Another benefit to the State is that the additional tax revenues attributable to the projects are collected well before the tax credits are distributed. The income and output calculated in the IMPLAN model occurs as soon as construction begins. Thus tax payments begin also. Recordation taxes and permit fees occur immediately. Income and sales taxes are paid as the work progresses. The tax credits are not paid, however, until tax returns are submitted and the State Controller reconciles taxes due.

We assume a steady inflow of tax revenues over the construction period, but have calculated the State's tax credit expense occurring in the June following completion of construction. This time horizon for the expense is conservative based on the State's experience, due to the fact that tax credits have not yet been distributed to many eligible projects.

Over this particular two year period most of the construction was undertaken in the second year, 2001. Thus most of the increased benefits occur in 2001 and most of the credits will not be distributed until 2002.

Economists call this benefit from time differences, the time value of money. If the State of Maryland and the local jurisdictions have the revenues in hand for over a year before the credits are paid, those funds can offset borrowing or be reinvested by them. At an average annual rate of return of 2.0%, the total public revenues have grown by approximately $400,000 to $20.47 million by the time the $38.9 million in tax credits are paid. Of course, at higher interest rates, this number would be even larger. This means that revenues to State and local governments have now covered at least 52.6% of the State's tax credit payments before they are made. Considering only State revenues and expenses, the new revenues cover 34.2% of the State's tax credit expense when the time value of money is accounted for.

The important issue is that not only does rehabilitation increase fiscal revenues, but that the additional revenues are in hand before the credits are applicable. Thus the cost to the state is reduced further

V. Summary and Conclusion

This study shows that historic rehabilitation and the related tax credits result not only in the upgrading of historic buildings in Maryland--but also increased jobs and resident incomes. The State and local jurisdictions benefit from increased tax revenues. The Maryland economy benefits and increased tax revenues offset much of the historic tax credit. In addition, the State's investment leverages private investment dollars and federal historic tax credits.

The economic and fiscal activity attributable to historic rehabilitation occurs before the State pays out its tax credits. Incremental tax revenues to the State and local jurisdictions offset the State's investment by over one-half. In addition, each $1.00 of tax credit leverages $6.70 of economic activity within the State. Clearly, the benefit of this program to the State of Maryland is far larger than the expense associated with it.

CHAPTER II
THE CAN COMPANY
BALTIMORE CITY

Introduction

In this case study Lipman Frizzell & Mitchell reviews the redevelopment of the American Can Company property in the Canton neighborhood of Baltimore City by Struever Bros. Eccles & Rouse, Inc. We examine such issues as the historic nature of the property; its place in the revitalization of this now economically vibrant waterfront district; the need for State historic preservation tax credits within its financial structure; the economic and fiscal benefits generated by the project.

The Can Company has been selected as a case study because it was one of the earliest projects to apply for historic tax credits and because of its important influence on the continued revitalization of the Canton neighborhood. It is one of the few tax credit properties which has been up and running long enough to already demonstrate the impact which the State has achieved through the tax credit program.

I. History of American Can Company

The three most significant structures in the American Can Company complex were built between 1895 and 1924. The manufacturing complex was a significant element of the industrial fabric which supported the surrounding working class Canton neighborhood, located between Patterson Park and the Baltimore Harbor.

The American Can Company was the world's largest can manufacturing corporation by 1908. By the end of the 19th century Baltimore was the canning center of the U.S. and canning became the City's second largest industry. The Canton plant was among the first in the U.S. to use a fully automated production line. The Can Company property is one of the few remaining historical resources associated with canning in Baltimore. The 1895 building is the oldest known structure associated with the industry in the City.

The Canton factory was idled by American Can in 1988. In 1994, the company sold the eastern 5.2 acres of the 9.5 acre site to Safeway. Safeway cleared the site and constructed a new supermarket. Struever Bros. Eccles & Rouse, Inc. purchased the remaining 4.3 acres in 1997.

The property, then, was unproductive for approximately nine years before its conversion to a new use could be implemented. Had Struever Bros. not been able to pursue its plans, the property likely would have remained a blighting presence in the neighborhood for an indefinite period--until real estate economics would have enabled a developer to afford clearing the site and building a modern commercial center, perhaps similar to the adjoining Safeway property.

II. Canton Neighborhood Revitalization

As a dramatic gateway project, the Can Company has played a significant role in continuing the revitalization of the Canton neighborhood. Its presence dominates the east side of Boston Street and contributes to Canton's distinctive identity, fostered by a mixture of historic and newly constructed properties.

Economic Activity

The Can Company now comprises approximately 185,000 sq.ft. of office and 51,500 sq.ft. of retail space within the shells of the former vacant industrial buildings. Approximately 500 jobs are currently located in the buildings.

The Can Company has attracted the world headquarters of DAP, the world's largest manufacturer of sealants and adhesives, as well as Knox Financial Group and a number of other substantial office employers. A survey of the project's original tenants indicated that about one-half made their decision for Baltimore City and Maryland based primarily on the advantages of the Can Company location. About one-half of those tenants were totally new companies, with others relocating from elsewhere in the City (31%) or the State (15%) or from out of state (4%). Occupancy for the office space is currently 97%.

In particular, the Emerging Technology Center (ETC) of the Baltimore Development Corporation occupies approximately 49,000 sq.ft. of the office space. The Center is an information technology business incubator, offering flexible space with state-of-the-art technology infrastructure and high quality advisory services for start-up firms. ETC was fully occupied at completion of construction with a waiting list and now, despite the Dot.com Bust, remains 95% occupied. The ETC tenants now employ about 140 persons. Ann Lansinger, ETC's Director of Technology Development, believes that the Can Company location has been very important to the Center's success in attracting, fostering and graduating high technology companies for the Baltimore economy. Entrepreneurs and their high energy youthful staffs have been drawn to City living (many living in Canton), in particular the ability to walk to work and nearby retail, restaurant and entertainment venues.

The Can Company's retail space serves the commercial needs of the Canton neighborhood and also offers certain regional attractions such as The Atlantic and Austin Grill restaurants, Nouveau furnishings and others. The retail space is now fully occupied. It is anticipated that an additional 10,000 sq.ft. free-standing structure will be constructed on the site at the corner of Boston Street and Luzerne Avenue within the next five years.

The Can Company's office and retail space have helped create a critical mass of commercial activity in the Canton waterfront area. Most visibly, the Safeway supermarket next door and mixed-use (residential, office, marine and retail) Lighthouse Point across the street have added to and benefited from the commercial concentration. Other residential and commercial investment along Boston Street and throughout Canton have reinforced its character as a pleasant, walking neighborhood with a mix of historic and new development. The momentum has developed to such a degree that Canton Crossing, a $100 million

mixed-use plan proposed by Edwin Hale, will extend high value development farther along the Harbor.

Building Permits

Construction activity is another gauge of Canton's economic resurgence. The following table compares construction--both new structures and rehabilitation-- authorized by building permits within the Canton waterfront area (census tracts 101-104 and 2611) during two 4-year periods: 1993-1996 and 1997-2000.

Canton Building Permits (CT 104)

	1993-1996		***1997-2000***	
	Permits	Value	Permits	Value
Residential	4	$5,342,716	16	$3,520,000
Commercial/Other	18	$3,356,000	57	$21,015,952
Total	22	$8,698,716	73	$24,535,952

Source: Baltimore Metropolitan Council

It should be noted that the number of residential permits refers to structures not units, nor does the value reported in the permits translate directly into construction cost. Most of the construction activity was rehabilitation, not new structures.

In total, construction activity almost tripled in the Canton area between the two periods.

Assessable Tax Base

The real property assessable tax base of the Canton area has expanded significantly in the past four years, with the Can Company as a major anchor. In particular, the Can Company property shows the following increase in value:

	Fair Market Value
1997	$ 2,093,080
2001	$12,732,300
Increase	$10,639,220

The Can Company property has increased in assessed value by over $10.6 million (+508%) due to its rehabilitation. That increase in value has increased the State's real property tax revenues by $8,937 annually for this single property and offers Baltimore City potential increased revenues of $247,681 annually.

The neighborhood's values have also been dramatically influenced. The following table demonstrates Canton's progress over a very short, four-year period:

Canton Real Property Assessable Tax Base

	1997	2001	Change ($)	Change (%)
Residential	$304,969,980	$360,444,630	$55,474,650	18.2%
Commercial	$78,498,660	$90,481,020	$11,982,360	15.3%
Total	$383,468,640	$450,925,650	$67,457,010	17.6%

Source: Maryland Dept. of Assessments & Taxation

Canton's real property assessable tax base, encompassing about 4,800 residential and commercial properties, expanded by 17.6% between 1997 and 2001. This is in contrast to the City's overall increase of only 4.4% in its entire tax base during the same period.

III. Need for State Historic Preservation Tax Credits

The Can Company project simply could not have been accomplished without the Maryland Heritage Preservation Tax Credit program.

Joseph Summers, Director of Finance for Struever Bros. Eccles & Rouse, estimates that the State tax credits yielded approximately $1.8 million towards the project's $21.0 million construction cost. If that amount had to be replaced with investor equity, the already marginal risk-adjusted returns of the project would have been diluted by about 50% and no reasonable investor could have been found to bridge the financing gap.

Fannie Mae was the principal equity investor in the Can Company's redevelopment, investing approximately $4.0 million. It is the opinion of Bret Mosher, asset manager for Fannie Mae's American Communities Fund, that it would have been "extremely difficult for Fannie Mae to invest an additional sum equal to the State tax credit amount, given the risks involved in the project and its deal structure." The project pro forma's long-term 15-18% internal rate of return (including residuals upon eventual sale or refinancing) is the minimum return acceptable to even a socially-motivated investor like Fannie Mae.

Mosher's experience around the U.S. with similar investments is that partnership with the public sector is necessary to attract private capital to such opportunities: the deals simply do not work on a market basis alone. Fannie Mae is comfortable with its Can Company

investment for the long-term, but the turbulent first years of the project have confirmed their initial risk-return assessment.

IV. Economic and Fiscal Impact

The Can Company's positive impact on the Maryland and Baltimore City economies, as well as their tax revenues has been significant. In this section, those effects will be quantified: for both the 2-year construction period and the project's ongoing operations. The leverage which the State has achieved through its tax credits is also quantified. Only net new revenues are analyzed, since the task is to determine the incremental impact of the Can Company rehabilitation.

Construction Period

Here we have calculated construction period benefits using the same IMPLAN statistical model and methodology as used in Chapter I to analyze the entire tax credit portfolio, but now focusing on a single project.

Economic Benefits

The Can Company rehabilitation was completed in 1999 at a cost of $25,081,040. The economic impacts for the project's 2-year construction period have been calculated as follows:

Can Company Economic Impact		
	Total	**Direct**
Economic Impact	$44,007,435	$9,573,754
Wage Impact	$14,046,873	$7,455,133
Job Creation	406.5	197.9

Source: IMPLAN

It is estimated, therefore, that approximately 200 jobs were created at the construction site, paying $7.5 million in wages to Maryland workers. Direct purchases for the project totaled $9.6 million from suppliers within the Maryland economy.

The total impact of the Can Company's construction on the Maryland economy amounted to over $44.0 million, creating over 400 jobs with wages of $14.0 million. Though it is impossible to determine exactly how much of the economic impact was captured in Baltimore City, through its construction supply houses and workers, it is reasonable to assume that the City benefited substantially.

Fiscal Benefits

The fiscal benefits to the State and City coffers during the construction period were also substantial, as summarized below:

Can Company Fiscal Impact	
	Total
State Income Tax	$1,119,281
State Sales Tax	$1,079,874
Total State Taxes	$2,199,155
Local Piggyback Tax	$638,870

Source: IMPLAN

During those two years, the project generated an estimated $2.2 million in new sales and income tax revenues for the State. Local jurisdictions, principally the City, enjoyed an incremental $639,000 in piggyback taxes.

In addition to the revenues calculated by the IMPLAN model above, the City benefited from recordation and transfer taxes as well as building permit and other development fees paid in connection with the deal. We estimate them as follows:

Other City Revenues (Construction Period)		
	Basis	**Total**
Transfer Tax	1.5% of transaction	$14,588
Recordation Tax	$2.75 per $500 of transaction	$68,017
Permits and Fees	1.5% of Rehab Cost	$371,003
Total		$453,608

Source: Lipman Frizzell & Mitchell LLC

In summary, during its construction period, the Can Company project generated the following estimated new revenues to the State and City:

State	$2,199,155
City	$1,092,478
Total	$3,291,633

The State's tax credit expense for the Can Company was approximately $3.76 million. Before the credit was ever applied against anyone's taxes, therefore, the State had already recovered an estimated three-fifths (58.5%) of its expense through net new tax revenues generated by the project. The net new revenues to all State and local (principally Baltimore City) jurisdictions offset an estimated nine-tenths (87.5%) of the credit expense.

It should also be noted that the State's tax credit investment was more than matched by federal historic tax credits (available only to certified commercial rehabilitation projects) in the amount of approximately $4.2 million. For each $1.00 of State investment, then, the project leveraged an additional $1.12 in federal investment benefiting Baltimore City and the State.

Ongoing Operations

Though the construction period economic and fiscal benefits are considerable, the long-term benefits generated by the Can Company's operations are the real reason investors (including the State through its tax credits) have taken a stake in the project. It is

axiomatic in investing that the value of any undertaking is the sum of future earnings, discounted back to the present. The Can Company's ongoing operations promise an excellent return on the State's investment in terms of their economic and fiscal impact.

Based on an earlier fiscal and economic impact analysis completed by Randall Gross/Development Economics, we make the following estimates of the Can Company's long-term benefits:

Economic Benefits

The current 500 employees at the Can Company cover a broad range of job classifications ranging from waitress/waiter to corporate executive. Direct wages and salaries total an estimated $20.0 million annually, about one-half of which are net new to Baltimore City and Maryland.

The Can Company tenants' and their 500 employees' expenditures in the local and State economies also create significant indirect and induced benefits, which we do not calculate here.

Fiscal Benefits

The long-term fiscal benefits generated by the Can Company are primarily real property taxes and income taxes. We estimate the current value of those revenues first and then calculate the present value of their cashflows as a perpetuity (using a discount rate of 5.0%), in order to facilitate a comparison to the State's investment in the following section. Again, we deal here only with incremental revenues.

- Real Property Taxes - The Can Company's assessed value increased by $10.6 million due to its redevelopment. Based on that increase, the State now collects $8,937 more annually than prior to construction. The City's potential incremental revenues total $247,681 currently. The present value of the property's real property tax revenue stream is $178,740 to the State and $4,953,620 for Baltimore City.

- Income Taxes - Assuming that one-half of the Can Company's current payroll is net new, we estimate that the State's incremental increase in income taxes was approximately $350,000 for 2001. The City's piggyback tax revenues are estimated as $173,600. The present value of the employees' income tax payment revenue stream is estimated as $7,000,000 to the State and $3,472,000 for Baltimore City.

The State's Leverage

A comparison of the State's **up-front investment** in the Can Company (through the historic preservation tax credit mechanism) with the benefits of the **long-term revenue stream** attributable to the property's ongoing operations is instructive.

For this analysis we have calculated the net State expense for the tax credits as $1.56 million, understanding that the State collected $2.2 million in new tax revenues attributable to the Can Company's construction before the tax credit became payable.

State Tax Credit Investment	$3.76 million
Less: Construction Taxes	($2.20 million)
Net State Expense	$1.56 million
State Incremental Revenues	
Property Taxes	$ .18 million
Income Taxes	$7.00 million
Total	$7.18 million
State Net Present Value	**$5.62 million**

The net present value is positive for the State. The $7.18 million value of the permanent tax revenue stream supported by the Can Company is 4.6 times the State's original net tax credit payment of $1.56 million. For every $1.00 of tax credit expense to the State, it is receiving $4.60. This project has been a solid fiscal investment for the State.

In addition, Baltimore City received $1,092,478 in construction period revenues documented above. The City has also derived benefits from the Can Company's addition to its assessable tax base and from the piggyback taxes paid by the Can Company workers, a high proportion of whom are City dwellers.

City Incremental Revenues	
Property Taxes	$4.95 million
Piggyback Taxes	$3.47 million
Total Present Value	$8.42 million

The City, then, benefits from a present value of $9.51 million in potential incremental revenues attributable to the Can Company project: 11.5% during the construction period and 88.5% from the permanent revenue stream.

This project has been a solid fiscal investment for the State, when considering total public revenues. The State's investment of $3.76 million has been more than matched by total public revenues of $18.89 million: about one-half each going to the State and the City. Each $1.00 of State investment has been matched by a return of $5.02.

V. Summary and Conclusion

Lipman Frizzell & Mitchell finds that the Can Company redevelopment project has offered the State of Maryland a solid return on the investment which it has made through the historic preservation tax credit. In particular, the State's tax credits have made possible the following benefits:

- Redeveloping an Historic Property - Without the tax credits, redevelopment of the Can Company would not have been possible.

- Canton Revitalization - Without the redevelopment of the "gateway" Can Company property, the revitalization of the Canton neighborhood would likely have been seriously impeded and its historic character impaired.

- Economic Benefits - Construction activity at the Can Company generated about 200 jobs on-site and a payroll of $7.5 million. Four hundred jobs were created throughout the Maryland economy. Employment within the Can Company currently totals approximately 500 persons, with an annual payroll estimated at $20.0 million. A high proportion of employees are Baltimore City residents, many of them living in Canton.

- Fiscal Benefits - Before the State paid out its $3.76 million in tax credits, it had already received $2.2 million in net new income and sales tax revenues. The present value of the stream of incremental future tax revenues to the State is estimated at $7.18 million. The State's investment also made possible incremental City revenues with a present value of $9.51 million.

- Leverage - For each $1.00 of net tax credit expenditure, the State will be receiving future property and income taxes with a present value of $4.60. The State's investment has also leveraged federal tax credits in the amount of $4.2 million: $1.12 in federal money for each $1.00 of State money. Finally, total public revenues have been increased by $18.89 million as a result of the State's investment.

We conclude that the Can Company has been a solid economic development and fiscal investment for the State.

CHAPTER IV
CANNON HILL
CITY OF FREDERICK

Introduction

In this case study Lipman Frizzell & Mitchell reviews the redevelopment of Cannon Hill (the former Farmers Co-operative Association property) in the City of Frederick's historic district by Daniel Lawton. We examine such issues as the historic nature of the property, its place in the revitalization of downtown Frederick, the need for State historic preservation tax credits within its financial structure, the economic and fiscal benefits generated by the project.

Cannon Hill has been selected as a case study because it is a success story. The redevelopment of the property has simultaneously: removed a blighting influence from the adjoining residential neighborhood, reinforced the historic character of the City's downtown and enabled the City to attract a dynamic and expanding business to locate within its borders.

I. History of Cannon Hill Property

The Cannon Hill property is located at 35 E. South Street, the southeastern limit of the Frederick Historic District. The site was developed initially as the Thomas & Co. Feed Grain & Fertilizer business, and was then further developed by the Farmers Co-operative Association in 1934. The Co-operative ran its seed, grain mixing and storage business at this location until 1985, at which time the property was vacated. It remained vacant and deteriorating, a magnet for trespassers, until its purchase by Daniel Lawton in August 1999.

The development of industry in the City of Frederick began with agricultural support industries (canning, grain, feed, etc.), and on the east side of the City because of the proximity to rail transportation. The property incorporates may features common to industrial sites in this district, including multiple buildings and diversity of forms (rail siding, warehousing, silos, roof-level connectors for conveyor belts) and materials (brick, wood, industrial metal cladding). In addition, the site contributes to the mix of industrial and residential buildings which were characteristic features of this working-class neighborhood.

II. Economic Development Success

The redevelopment of the Cannon Hill property is a small business success story, but also has furthered the revitalization of the Frederick's historic district and the economic development of the east side of downtown.

Cannon Hill Logistics

Daniel Lawton and his company, Cannon Hill Logistics, are a high tech product fulfillment services firm offering other companies integrated order-taking (via toll free phone lines and computer automated ordering systems), product warehousing and shipping, inventory control, marketing, accounts receivable management and other services. The firm services clients all over the United States and occasionally internationally.

Lawton relocated the firm to Frederick from upstate New York seven years ago in order to return to his boyhood roots in the Frederick area and increase his quality of life, but also to locate his business more centrally to the East Coast market which is his primary focus. Product receiving through the Port of Baltimore in particular has been expedited, as well as product shipping.

By 1998 the firm, located in 11,000 sq.ft. of office/warehouse space in an older industrial park in suburban Frederick County, had outgrown its facilities. It was leasing additional storage space across town, leading to strained operations. The need for larger and better quality quarters was apparent. The choices open to Lawton were either to build a new single-story warehouse building in another suburban location or to rehabilitate an existing structure. Lawton states that, though he appreciates the value of historic structures and does not see himself working in a metal-sided industrial park building for the rest of his career, still the fundamental economics of running his business has forced him to seek out the best bottom line solution to his needs. He found that the costs to accomplish either alternative were in the same ballpark, but that the historic tax credits enabled him to build a unique environment which meets the operational needs of the company and offers room to grow in the future.

The property is 2.08 acres in size and was purchased for $586,000 in 1999. Rehabilitation expenses in excess of $1.0 million have been invested in the property, renovating the exteriors of all of the buildings and much of the interiors for functional office and warehousing space. Related to the move, Cannon Hill Logistics has been able to expand its space to approximately 25,000 sq.ft. and its workforce from eight to 14 persons. The company's clientele has expanded from three to 12.

Room for further expansion over the next five to ten years is available on site, within certain unrenovated interior spaces but also on some land which has been cleared. Lawton finds that there is a marketing advantage in his historic district location, as he markets his image as well as his services to potential clients. Much of the cash received from the tax credit will likely be reinvested in the ongoing upgrading of the property.

Other Revitalization Activity

The redevelopment of Cannon Hill has been a boon to adjoining residential property owners along E. South Street. The property is no longer a decaying nuisance and eyesore, which brought their quality of life and values down. Though there had been some low activity level for rehabilitation ongoing for the historic homes (most of them more than a century old), increased activity has been reported recently. The neighborhood is socio-economically diverse, with a mixture of new and old, moderate and upper income residents.

Cannon Hill also makes a private sector contribution to the City of Frederick's continued redevelopment of its Carroll Creek Park and East Street Corridor assets. City-owned parcels are being offered for new private sector investment as part of the overall Carroll Creek Park plan. Public "seed money" investment has completed the Carroll Creek $65.0 million flood control project, which has sustained values throughout downtown (by averting flood danger) and enabled new development. Within two blocks of Cannon Hill, additional public investment has been made in the new MARC commuter rail terminal, the Delaplaine Visual Arts Center and the Governor William Donald Schaefer State Office Building, as well as ongoing construction and planning of the City's improved East Street gateway from I-70. Along South and Carroll streets and other commercial thoroughfares, private upgrading of historic industrial structures is evident.

III. Need for State Historic Preservation Tax Credits

Without the State's historic tax credits, the Cannon Hill property would likely still be derelict and decaying, awaiting a fate of complete demolition within the next 3-5 years. Lawton states that, without the State's estimated $273,375 tax credit investment, the economics of his business would certainly have forced him to build in a "green fields" suburban business park location.

IV. Economic and Fiscal Impact

Cannon Hill's positive impact on the Maryland, Frederick County and City economies, as well as their tax revenues is measurable. In this section, those effects will be quantified: for both the 2-year construction period and the project's ongoing operations. The leverage which the State has achieved through its tax credits is also quantified. Only net new revenues are analyzed, since the task is to determine the incremental impact of Cannon Hill's rehabilitation.

Construction Period

Here we have calculated construction period benefits using the same IMPLAN statistical model and methodology as used in Chapter I to analyze the entire tax credit portfolio, but now focusing on a single project.

Economic Benefits

Cannon Hill's rehabilitation was completed in July 2001 at a cost of $1,093,500. The economic impacts for the project's 2-year construction period have been calculated as follows:

Cannon Hill Economic Impact		
	Total	**Direct**
Economic Impact	$1,830,832	$398,295
Wage Impact	$584,389	$310,154
Job Creation	16.9	8.2

Source: IMPLAN

It is estimated, therefore, that approximately 8 jobs were created at the construction site, paying $310,000 in wages to Maryland workers. Direct purchases for the project totaled $398,000 from suppliers within the Maryland economy.

The total impact of Cannon Hill's construction on the Maryland economy amounted to approximately $1.8 million, creating 17 jobs with wages of $584,000. Though it is impossible to determine exactly how much of the economic impact was captured in the local jurisdictions, it is reasonable to assume that Frederick County and the City of Frederick benefited substantially.

Fiscal Benefits

The fiscal benefits to the State, Frederick County and City coffers during the construction period were also significant, as summarized below:

Cannon Hill Fiscal Impact	
	Total
State Income Tax	$46,565
State Sales Tax	$44,926

Total State Taxes	$91,491
Local Piggyback Tax	$26,579

Source: IMPLAN

During those two years, the project generated an estimated $91,500 in new sales and income tax revenues for the State. The County and City enjoyed an incremental $26,600 in piggyback taxes.

In addition to the revenues calculated by the IMPLAN model above, the County and City benefited from recordation and building permit/development fees paid in connection with the deal. We estimate them as follows:

Other Local Revenues (Construction Period)		
	Basis	**Total**
Recordation Tax	$5.00 per $500 of transaction	$11,600
Permits and Fees	1.5% of Rehab Cost	$15,400
Total		$27,000

Source: Lipman Frizzell & Mitchell LLC

In summary, during its construction period, Cannon Hill generated the following estimated new revenues to the State and local jurisdictions:

State	$91,491
Local	$53,579
Total	$145,070

The State's tax credit expense for Cannon Hill will be an estimated $273,375. Though the State has not yet paid the credit, it has already recovered an estimated one-third (33.5%) of its expense through net new tax revenues generated by the project. The net new revenues to all State and local jurisdictions offset over one-half (53.1%) of the credit expense.

It should also be noted that the State's tax credit investment will be matched by federal historic tax credits (available only to certified commercial rehabilitation projects) in the amount of approximately $218,700. For each $1.00 of State investment, then, the project leveraged an additional $.80 in federal investment benefiting Frederick County and City as well as the State.

Ongoing Operations

Though the construction period economic and fiscal benefits are considerable, the long-term benefits generated by Cannon Hill's operations are the real reason investors (including the State through its tax credits) have taken a stake in the project. It is axiomatic in investing that the value of any undertaking is the sum of future earnings, discounted back to the present. Cannon Hill's ongoing operations promise a solid return on the State's investment in terms of their economic and fiscal impact.

Economic Benefits

Cannon Hill Logistics has been able to add six full- and part-time employees to its workforce in conjunction with the move to its expanded quarters. We estimate the new direct wages and salaries at a total of $100,000 annually.

The company's total 14 employees' expenditures in the local and State economies also create significant indirect and induced benefits, which we do not calculate here.

Fiscal Benefits

The long-term fiscal benefits generated by Cannon Hill are primarily real property taxes and income taxes. We estimate the current value of those revenues first and then calculate the present value of their cashflows as a perpetuity (using a discount rate of 5.0%), in order to facilitate a comparison to the State's investment in the following section. Again, we deal here only with incremental revenues.

- Real Property Taxes - The Cannon Hill property's assessed value has increased to $817,400--an increment of $290,200 due to its redevelopment. Based on that increase, the State now collects $244 more annually than prior to construction. The County and City's incremental revenues total $2,902 and $1,822 respectively. The present value of the property's real property tax revenue stream is $4,880 to the State, $58,040 to Frederick County and $36,440 for the City of Frederick.

- Income Taxes - Based on net new employees' salaries attributable to the company's expansion, we estimate that the State's incremental increase in income taxes was approximately $3,500 for 2001. The local piggyback tax revenues (shared between County and City) are estimated as $2,100. The present value of the employees' income tax payment revenue stream is estimated as $70,000 to the State and $42,000 for the local jurisdictions.

The State's Leverage

A comparison of the State's **up-front investment** in Cannon Hill (through the historic preservation tax credit mechanism) with the benefits of the **long-term revenue stream** attributable to the property's ongoing operations is instructive.

For this analysis we have calculated the net State expense for the tax credits as $181,884, understanding that the State has collected $91,491 in new tax revenues attributable to Cannon Hill's construction before the tax credit becomes payable in 2002. The State's net contribution is further reduced by the present value of the incremental revenues to be received directly from the project in the future.

State Tax Credit Investment	$273,375
Less: Construction Taxes	($ 91,491)
Net State Expense	$181,884
State Incremental Revenues	
Property Taxes	$ 4,880
Income Taxes	$ 70,000
Total	$ 74,880
State Net Contribution	**$107,004**

In other words, the $74,880 value of the permanent tax revenue stream directly supported by Cannon Hill covers two-fifths (41.2%) of the State's original net tax credit payment of $181,884. This calculation is, in our opinion, conservative since it does not incorporate highly probable future increases in property values and expansion of the company's workforce, as both the neighborhood and business prospects of Cannon Hill Logistics improve. For every $1.00 of tax credit expense to the State, it is directly receiving back $.41.

Frederick County and the City of Frederick received $53,579 in construction period revenues, which we have documented above. In addition, the local jurisdictions have also derived benefits from this permanent addition to their assessable tax base and from the piggyback taxes paid by Cannon Hill Logistics workers, all of whom live locally.

Local Incremental Revenues		
County Property Taxes		$ 58,040
City Property Taxes	$ 34,440	
Piggyback Taxes		$ 42,000
Total Present Value	$136,480	

Local jurisdictions, then, benefit from a present value of $190,059 in incremental revenues attributable to the Cannon Hill project: 28.2% during the construction period and 71.8% from the permanent revenue stream.

This project has been a solid fiscal investment for the State, when considering total public revenues. The State's investment of $273,375 has been matched by public revenues of $356,430, split about evenly between the State and local jurisdictions: 46.7% to the State and 53.3% to the County and City. Each $1.00 of State investment has been matched by a return of $1.30.

V. Summary and Conclusion

Lipman Frizzell & Mitchell finds that the Cannon Hill redevelopment project has offered the State of Maryland a solid return on the investment which it has made through the historic preservation tax credit. In particular, the State's tax credits have made possible the following benefits:

- Redeveloping an Historic Property - Without the tax credits, redevelopment of the Cannon Hill would not have been possible.

- City of Frederick Revitalization - The redevelopment of the significant Cannon Hill property has removed a long-standing community eyesore, encouraging neighboring residential redevelopment within the City's historic district and furthering the City's Carroll Creek Park and East Side commercial revitalization plans.

- Economic Benefits - Construction activity at Cannon Hill generated 8 jobs on-site and a payroll of $310,000. Seventeen jobs were created in the Maryland economy. Employment at Cannon Hill Logistics currently totals 14 persons, a gain of 6 employees and $100,000 in payroll after the move to expanded quarters. All employees are Frederick County residents, many of them living in the City of Frederick.

- Fiscal Benefits - By the time the State pays out its $273,375 in tax credits, it will have already received an estimated $91,491 in net new income and sales tax revenues. The present value of the stream of incremental future tax revenues to the State is estimated at $74,880. The State's investment also made possible incremental local tax revenues with a present value of $190,059.
- Leverage - For each $1.00 of net tax credit expenditure, the State is receiving an incremental revenue stream of sales, property and income taxes with a present value of $.41. Total public revenue leverage within the State amounts to $1.30 for each $1.00 of tax credit investment. Additionally, the State's investment has leveraged federal tax credits in the amount of $218,700: $.80 in federal money for each $1.00 of State money.

We conclude that Cannon Hill has been a solid economic development and fiscal investment for the State.

MARYLAND HERITAGE STRUCTURE TAX CREDIT PROGRAM

ECONOMIC & FISCAL IMPACTS

Prepared For:

Maryland Historical Trust
Department of Housing & Community Development
100 Community Place
Crownsville, MD 21032

Submitted by:

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January 15, 2003

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January 15, 2003

Mr. Michael Day
Deputy State Historic Preservation Officer
Maryland Historical Trust
100 Community Place
Crownsville, MD 21032

SUBJECT: MARYLAND HERITAGE STRUCTURE TAX CREDIT PROGRAM ECONOMIC & FISCAL IMPACTS

Dear Mr. Day:

Enclosed please find Lipman Frizzell & Mitchell's analysis of certain economic and fiscal impacts of the Maryland Heritage Structure Tax Credit Program.

LF&M here examines issues including: the number of properties in the State which are eligible to receive historic tax credits; the number of eligible properties likely to require more than $15 million in rehabilitation expenditures; annual rehabilitation expenditures for which tax credits might be sought over the next ten years; benefits to the air quality of the Baltimore Region due to historic rehabilitation. The enclosed report summarizes our findings.

It has been a pleasure working with you and the Maryland Historical Trust staff on this project. Please call me at (410) 423-2372 should you have any questions or comments.

Sincerely,
LIPMAN FRIZZELL & MITCHELL LLC

Joseph M. Cronyn
Senior Associate

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Maryland Heritage Structure Tax Credit Program

EXECUTIVE SUMMARY

Lipman Frizzell & Mitchell, LLC (LF&M) has been engaged by the Maryland Department of Housing & Community Development (DHCD) to analyze certain fiscal, economic and other benefits of the Maryland Heritage Structure Rehabilitation Tax Credit Program (Tax Credit Program). This study follows upon LF&M's analysis presented to the Maryland General Assembly in 2002 of the economic and fiscal impacts of the Tax Credit Program, which demonstrated convincing economic development benefits and a solid leverage ratio for the State's investment.

Our findings provide DHCD with specific information which may prove useful in forecasting the fiscal impacts of the Tax Credit Program including the following:

Eligible Properties

The number of properties in the State of Maryland which are eligible to receive historic tax credits is now approximately 55,790 contributing structures. It is anticipated that the universe of eligible properties will continue to expand at the rate of 4.6% per year, reaching over 87,100 properties by the year 2013. The growth forecast can be met with the designation of an estimated 5-7 historic districts annually in the 2004-2007 period and 3-4 historic districts annually thereafter, supplemented by individual designations.

High Rehabilitation Cost Properties

The number of potentially eligible high rehabilitation cost properties (requiring more than $15 million in rehabilitation) is estimated at approximately 300 properties statewide. That universe is comprised of properties of at least 150,000 sq.ft. which were constructed no later than 1950. The known universe of such properties is 102, of which 76 are located in Baltimore City. It is estimated that public, utility, institutional, non-profit and similar properties which are under-reported in available sources constitute an additional 198 properties which could be eligible for historic preservation tax credits. No judgment is made concerning the appropriateness of historic designation for any of the properties.

Rehabilitation Expenditures

The 2003-2013 forecast for usage of the historic tax credit program envisions significantly increasing residential use of the program and slower growth of commercial

use. Eligible costs for the rehabilitation of the typical residential property are, however, only one-sixteenth of those for the typical commercial property.

As the inventory of eligible properties throughout the State grows, it is assumed that usage will also grow--with an average of .7% of eligible properties being rehabilitated in any given year. The most likely usage scenario projects the number of applications rising from 391 ($137.5 million in expenditures) in 2003 to 610 ($256.2 million) in 2013. At that expenditure level and at a tax credit rate of 20%, the cost to the State for historic tax credits is estimated at only $51.2 million in 2013, which is still within the range of the target maximum of $50.0 million per year embedded in the current law.

Environmental Benefits

The relocation of households and employment opportunities to historically rehabilitated properties in Baltimore City from elsewhere in the Region has been a benefit to the environment, resulting from the changed driving behavior of those households and workers. Such relocations are estimated at 1,292 net new households and 2,500 new jobs through 2002. Annual benefits include a reduction of up to 16.38 million vehicle miles traveled, a reduction of 268.1 tons of carbon monoxide emissions and other benefits resulting in a .08%-.1% improvement in environmental factors for the Baltimore Region.

Lipman Frizzell & Mitchell's conclusions are based on estimates and assumptions which are considered reasonable and which have been documented in this report. Actual results achieved will certainly differ from our forecasts and will depend on a variety of factors including the performance of public authorities, the impact of changes in general and local economic conditions and the absence of material changes in the regulatory or competitive environment.

I. INTRODUCTION

Lipman Frizzell & Mitchell, LLC (LF&M) has been engaged by the Maryland Department of Housing & Community Development (DHCD) to analyze certain fiscal, economic and other benefits of the Maryland Heritage Structure Rehabilitation Tax Credit Program (Tax Credit Program).

A. Purpose of This Analysis

This analysis has been conducted to provide DHCD with information which may be useful in forecasting the fiscal impacts of the Tax Credit Program. Specific tasks within LF&M's scope of work include:

1. Eligible Properties - Quantify the number of properties in the State of Maryland which are eligible to receive historic tax credits, then forecast how that universe might be expected to expand over the next ten years if the program is to remain unchanged.

2. High Rehab Cost Properties - Quantify and locate on a jurisdiction basis which of the above eligible properties are likely to require more than $15 million in rehabilitation expenditures.

3. Rehabilitation Expenditures - Forecast total annual rehabilitation expenditures for which tax credits might be sought over the next ten years for residential and commercial properties.

4. Environmental Benefit - Quantify benefits to the air quality of the Baltimore Region due to historic rehabilitation of dwelling units or places of employment.

In this analysis, LF&M has used its knowledge of the economic and fiscal impacts of historic preservation programs generally and Maryland's Tax Credit Program in particular. To complete this analysis, LF&M has:

- interviewed Maryland Historical Trust staff, received database and other materials from them;

- interviewed Maryland Department of Planning and Maryland Department of Assessments & Taxation staffs, received database and other materials from them;

- consulted the Maryland Property View geographic information system and other sources concerning various property valuation issues;

- interviewed Baltimore City's Commission on Historical and Architectural preservation (CHAP), Maryland Association of Historic District Commissions, Preservation Maryland and other preservation groups;

- interviewed staff in the National Park Service, Environmental Protection Agency and in state agencies responsible for historic preservation tax credits in Missouri, North Carolina and Virginia--receiving data from each of them.

This study has been completed in accordance with the scope of work defined in DHCD's contract number S00P3200576.

B. Organization of the Report

Following this introduction, the report is organized in four sections relating to the principal areas of inquiry noted above. Each section includes a discussion of methodology, historical background of the topic, analysis and conclusions.

Throughout the text, maps and tables will be inserted immediately following the narrative reference to them. They are not assigned page numbers.

C. Underlying Assumptions and Limiting Conditions

The conclusions reached in an economic and fiscal analysis such as this are inherently subjective and should not be relied upon as a determinative predictor of results that will actually occur. There can be no assurance that the estimates made or assumptions employed in preparing this report will in fact be realized or that other methods or assumptions might not be appropriate. The conclusions expressed in this report are as of the date of this report, and an analysis conducted as of another date may require different conclusions. The actual results achieved will depend on a variety of factors including the performance of public authorities, the impact of changes in general and local economic conditions and the absence of material changes in the regulatory or competitive environment. LF&M's underlying assumptions and limiting conditions are further delineated in Appendix A.

II. ELIGIBLE PROPERTIES

In this section, LF&M quantifies the number of properties in the State of Maryland which are eligible to receive historic tax credits and then forecasts how that universe might be expected to expand over the next ten years, assuming the program remains unchanged.

A. Methodology

To quantify the number of currently eligible properties, LF&M has pulled statistics from the Maryland Historical Trust and the National Park Service concerning the number of contributing buildings in National Register and local historic districts in the State, as well as the pace at which those buildings were added to the inventory.

To forecast how that universe might increase over the next ten years, past trends in nominations to the National Register have been reviewed: not only in Maryland but also in three states whose historic tax credit programs most closely resemble ours. Adjusting past trendlines for the new interest stirred by state-level tax credit programs in recent years, the ten year forecast has been made.

B. Maryland Properties Currently Eligible

Properties eligible for historic preservation tax credits must be located in either a National Register or a local historic district, or they must be individually listed as an historic property. Though most listings are for individual properties, the vast majority of buildings are eligible because they are located in historic districts ranging in size from a few to thousands of properties. Buildings within districts which do not contribute to their historical character are not eligible properties. The two types of districts are briefly described as follows:

- National Register Districts - The National Register of Historic Places is the nation's official list of cultural resources worthy of preservation. The Register was authorized under the National Historic Preservation Act of 1966 and includes districts, sites, buildings, structures and significant objects. There are over 90,000 listings in the National Register, many of which are historic districts containing multiple contributing buildings. National Register designation confers status on properties, but does not **require** preservation of historic structures unless federal funds are in some way involved. Designated buildings can be commercial or residential, though only commercial buildings are eligible for federal historic tax credits.

- Local Historic Districts - There are 40 local historic district commissions in the State, which administer historic districts designated by local authorities under their zoning powers. Most commissions are in smaller municipalities and deal with one historic district, but Baltimore City's Commission for Historical and Architectural Preservation

(CHAP) administers more than 47 local and National Register districts. Preservation of at least the exteriors of historic properties can be more strictly enforced under local historic district regulations.

The two types of districts sometimes overlap. The lower regulatory impact of the National Register has often favored this form of designation.

In 1995, the Maryland Historical Trust developed a comprehensive inventory of all contributing buildings within National Register and local historic districts in the State. Records from the early days of the National Register and local districts were often lacking in precise counts of structures within their boundaries, so MHT's survey effort was considerable. The resulting inventory is reliable, but still an estimate based on many imprecise calculations at the local level. That list, contained in Table I-1, is the starting point for the task of bringing the inventory current. The following should be noted:

- Of the 47,937 properties identified by MHT at that time, the vast majority were under National Register designation. Only 8,087 properties (16.9%) were solely under local designation.

- Baltimore City contained 22,162 properties or almost half (46.2%) of all historically designated properties in the State. Frederick County followed as a distant second, having 3,384 properties (7.1%).

- Individual designations numbered fewer than 1,000 or about 2.0% of total properties.

In Table I-2, the earlier inventory is brought up to date, noting the annual designations incrementally from 1996 to 2002. Individual listings and the number of contributing buildings within new historic districts are distinguished. As of December 31, 2002 the number of contributing buildings in the State is estimated as 64,072. The following observations can be made:

- With the exception of Garrett County, all jurisdictions added properties to the historically designated inventory over the past seven years. Increments were typically small, such as Dorchester County's two properties. Six jurisdictions added more than 100 properties.

- National Register designations constitute 97.5% of all additions to the inventory. Locally designated properties since 1995 are estimated to number only 402, among the total additions of 16,135.

- Baltimore City has increased its share of the historically designated inventory to 54.3% by the addition of 12,625 properties. The City's additions represented 78.3% of all additions within the State. Prince George's County was the only other

Table I-1
Eligible Historic Properties
State of Maryland by County
National Register & Local Designations
1995

	National Register		Local			
	Individual	Hist. Dist.	Designations	Overlap	Total	Percent
Allegany	32	1,054	650	(562)	1,174	2.4%
Anne Arundel	55	1,227	900	(913)	1,269	2.6%
Baltimore City	160	18,040	7,000	(3,038)	22,162	46.2%
Baltimore County	52	1,895	332	(307)	1,972	4.1%
Calvert	14	0	55	(7)	62	0.1%
Caroline	12	214	0	0	226	0.5%
Carroll	27	2,288	152	(135)	2,332	4.9%
Cecil	33	346	442	(338)	483	1.0%
Charles	34	20	0	0	54	0.1%
Dorchester	16	750	75	(78)	763	1.6%
Frederick	57	3,332	2,000	(2,005)	3,384	7.1%
Garrett	15	320	0	(1)	334	0.7%
Harford	56	1,549	38	(23)	1,620	3.4%
Howard	24	313	430	(305)	462	1.0%
Kent	27	668	511	(518)	688	1.4%
Montgomery	41	737	2,165	(109)	2,834	5.9%
Prince George's	63	1,962	550	0	2,575	5.4%
Queen Anne's	27	82	0	(2)	107	0.2%
St. Mary's	19	19	2	(2)	38	0.1%
Somerset	47	566	7	(9)	611	1.3%
Talbot	24	1,202	1,089	(759)	1,556	3.2%
Washington	61	2,273	2,269	(2,260)	2,343	4.9%
Wicomico	12	25	741	(3)	775	1.6%
Worcester	13	47	100	(47)	113	0.2%
Total	921	38,929	19,508	(11,421)	47,937	100.0%

Source: Maryland Historical Trust, 1995.

Table I-2
Eligible Historic Properties
State of Maryland by County
National Register & Local Designations
1996 - 2002

	1995	*Additions:* 1996-2001		2002		2003	
	Total	Indiv.	Dist.	Indiv.	Dist.	Base Total	Percent
Allegany	1,174	1	18	0	0	1,193	1.9%
Anne Arundel	1,269	28	0	0	0	1,297	2.0%
Baltimore City	22,162	83	6,039	49	6,454	34,787	54.3%
Baltimore County	1,972	4	0	0	377	2,353	3.7%
Calvert	62	7	0	0	0	69	0.1%
Caroline	226	4	0	0	3	233	0.4%
Carroll	2,332	66	303	0	1	2,702	4.2%
Cecil	483	3	0	0	4	490	0.8%
Charles	54	30	0	0	0	84	0.1%
Dorchester	763	2	0	0	0	765	1.2%
Frederick	3,384	40	0	0	13	3,437	5.4%
Garrett	334	0	0	0	0	334	0.5%
Harford	1,620	9	0	0	1	1,630	2.5%
Howard	462	12	0	0	0	474	0.7%
Kent	688	4	0	0	0	692	1.1%
Montgomery	2,834	16	6	0	0	2,856	4.5%
Prince George's	2,575	13	300	0	1,181	4,069	6.4%
Queen Anne's	107	9	0	0	0	116	0.2%
St. Mary's	38	4	0	0	0	42	0.1%
Somerset	611	7	0	12	0	630	1.0%
Talbot	1,556	0	0	3	0	1,559	2.4%
Washington	2,343	53	841	11	0	3,248	5.1%
Wicomico	775	8	0	0	0	783	1.2%
Worcester	113	15	0	1	100	229	0.4%
Total	47,937	418	7,507	76	8,134	64,072	100.0%

Source: Maryland Historical Trust

jurisdiction which increased its share of the inventory, rising from 5.4% to 6.4% since 1995.

C. Inventory Growth Factors

Factors which have influenced the growth in the eligible inventory of structures in Maryland and peer states are here examined, as well as a particular program which is encouraging National Register applications.

National Register Growth 1966-2002

The growth of contributing buildings on the National Register list for Maryland, Missouri, North Carolina and Virginia since the list's inception in 1966 is summarized in Table I-3. The underlying data has been captured from the National Register database and is current as of November 2002.

The annual increment in contributing structure listings has tremendous variation for Maryland and the other states. Increments range from single digits in certain years up to thousands of properties in other years, typically driven by the addition of one or more large historic districts in those years. Additions have averaged 1,508 structures per year in Maryland since 1966 and 598-1,429 per year for the other states.

There has been a rising trend of additions in recent years, attributable to the demand fostered by historic preservation tax credit programs in Maryland and the other states. That trend can be gauged by comparing the annual average additions to the National Register across the following periods:

National Register Additions (Avg. Ann. by Period)				
	MD	MO	NC	VA
1966 - 1979	424	151	326	411
1980 - 1997	1,951	733	1,628	1,779
1998 - 2002	2,949	1,362	2,141	3,023
1966 - 2002	1,508	598	1,205	1,429
98-02 vs. 66-02	196%	228%	178%	212%

Average annual increases in the historically eligible inventory for 1998-2002 have approximated 200% of the long-term average increases. Maryland shows a 196% increase, with the other states ranging from North Carolina's 178% to Missouri's 228%.

The National Register officials in the other states all confirm an experience similar to Maryland's: with designations burgeoning after the adoption of their state-level historic tax credit programs. All confirm that requests for designation continue to grow at least in the short run. The North Carolina official, for example, stated that as soon as she had completed her 2002 designations--she already had a nine month backlog of applications stretching into 2003, with many more in the early stages of their review pipeline.

Table I-3
National Register of Historic Places
Contributing Buildings Added to Register
Maryland & Peer States
1966 - 2002

	Maryland	Missouri	North Carolina	Virginia
1966	184	247	54	666
1967	0	0	0	1
1968	1	3	25	8
1969	490	46	0	213
1970	74	122	65	987
1971	40	21	127	94
1972	89	563	390	554
1973	707	34	444	669
1974	1,255	89	449	899
1975	1,112	80	304	179
1976	372	234	415	779
1977	60	28	959	30
1978	557	326	234	144
1979	991	324	1,100	524
1980	10,511	945	1,490	2,186
1981	0	46	5	12
1982	3,938	1,104	509	1,913
1983	5,560	1,472	1,502	2,712
1984	2,354	1,923	1,327	1,695
1985	258	2,228	2,228	4,905
1986	2,177	1,995	2,799	2,516
1987	521	586	3,895	1,045
1988	2,553	515	3,375	1,304
1989	95	590	1,223	1,248
1990	2,419	81	2,286	2,756
1991	13	779	2,161	1,178
1992	256	143	1,114	2,857
1993	2,286	70	1,084	846
1994	991	136	1,969	2,363
1995	4	26	958	825
1996	922	321	886	759
1997	255	235	499	899
1998	385	606	705	862
1999	51	242	3,927	2,436
2000	691	1,122	1,666	2,428
2001	5,512	2,218	1,960	1,576
2002	8,106	2,620	2,447	7,815
Total	**55,790**	**22,120**	**44,581**	**52,883**
Avg. Ann.	1,508	598	1,205	1,429
66 - 79	424	151	326	411
80 - 97	1,951	733	1,628	1,779
98 - 02	2,949	1,362	2,141	3,023

Source: National Register of Historic Places, National Park Service, 11/02.

Pre-1950 Structures

There is certainly at least a theoretical maximum number of historically significant properties in Maryland and the other states, based on the number of structures which are at least 50 years old and which have the architectural/cultural attributes required. Recognizing the fact that most structures in each of the states are residential and most National Register structures are also residential, the following rough comparison is made to determine whether Maryland is to be within an appropriate range for eligible structures:

National Register Buildings and Pre-1950 Housing Inventory				
	MD	**MO**	**NC**	**VA**
Total Housing Units	2,145,283	2,442,017	3,523,944	2,904,192
Units Built Pre-1950	439,180	577,060	449,819	453,297
- Percent Pre-1950	20.5%	23.6%	12.8%	15.6%
National Register Buildings	55,790	22,120	44,581	52,883
- Percent of Pre-1950	12.7%	3.8%	9.9%	11.7%

Sources: 2000 U.S. Census, SF-3; National Park Service.

Census statistics for the number of pre-1950 residential structures in each state are compared to the number of National Register structures. Maryland (20.5%) and Missouri (23.6%) have a significantly higher proportion of pre-1950 properties than the other states. Maryland (12.7%) and Virginia (11.7%) show the highest proportions of pre-1950 structures which have been designated. Though this is a very rough measure, Maryland does not seem to have dramatically over- or under-shot the practice of other states in policies for additions to the historic preservation inventory to date.

Historic Communities Investment Fund

As the economic development benefits of the historic preservation tax credits have been recognized, more communities have accomplished the requisite research and then applied for National Register designation.

Many of those communities have been assisted in their preparations by Preservation Maryland's **Historic Communities Investment Fund**. This fund is specifically available to retain professional consultants to complete National Register documentation. It offers grants of up to $18,000 to community associations, 501(c)(3) non-profits, community development corporations and local governments. The fund has received support from the Abell Foundation and the Baltimore Community Foundation, but operates statewide. A total of approximately $258,000 in grants to 29 recipients (identified in Table I-4) has been approved in two funding cycles. It is not certain whether new funding cycles will be available in the future.

Almost one-half (14) of grant recipients are located in Baltimore City, with no other jurisdiction having more than three recipients. Eleven jurisdictions across the State are represented. The application process for the National Register is extremely

Table I-4
Historic Communities Investment Fund
Projects Approved for Funding
State of Maryland
2000 - 2002

	Sponsor/Facilitator	Jurisdiction
2000 Grants		
Washingtonville/Cowhill	Jubilee Baltimore	Baltimore City
Franklintown Land Trust, Inc.		Baltimore City
Patterson Park Community Development Corporation	Baltimore County Historical Trust	Baltimore City
Stone Hill	Greater Homewood Community Corp.	Baltimore City
Tuscany-Canterbury Neighborhood Association	Greater Homewood Community Corp.	Baltimore City
Lauraville Improvement Association	HARP	Baltimore City
Windsor Hills Neighbors		Baltimore City
Ruxton-Riderwood-Lake Roland Area Impr. Assoc.		Baltimore County
Old Catonsville		Baltimore County
Stoneleigh Community	Historic Towson	Baltimore County
Town of Oakland		Garrett
Town of Riverdale Park		Prince George's
City of College Park		Prince George's
Commissioners of Leonardtown		St. Mary's
Town of Keedysville		Washington
Williamsport		Washington
Spirit of Newtown Committee		Worcester
2002 Grants		
Owensville	Anne Arundel County Trust for Pres.	Anne Arundel
Lake Evesham	Greater Homewood Community Corp.	Baltimore City
Concerned Citizens of Woodberry		Baltimore City
Mayfield Improvement Association	HARBEL	Baltimore City
Federal Hill South/Historic Federal Hill Main Street		Baltimore City
Radnor-Winston Improvement Association	Greater Homewood Community Corp.	Baltimore City
Oakenshawe Improvement Association	Greater Homewood Community Corp.	Baltimore City
Ednor Gardens	Greater Homewood Community Corp.	Baltimore City
Town of Middletown		Frederick
Town of Centreville		Queen Anne's
Deale Island	Somerset County Historical Trust	Somerset
Leitersburg	Washington County Historical Trust	Washington

Source: Preservation Maryland

decentralized, but it is known that some of the Year 2000 grantees have made application and none of the Year 2002 grantees.

Baltimore City's CHAP alone estimates that application will be made for 10,000 contributing structures in 2003.

D. Forecasting Future Growth

The recent growth in Maryland's inventory of historic properties is unprecedented, as has been that in peer states. Forecasting future growth trends in this environment is difficult at best.

Growth in the inventory of eligible historic properties over the next ten years is forecast using the following principal parameters:

- 1998 - 2002 Trend - It is assumed that the recent trend is temporary and will ultimately be self-limiting as--at the outer limit--the supply of older and historically significant structures all becomes eligible. After a very high 2003, this trend is assumed in place for the succeeding four years as the **Historic Communities Investment Fund** grantees work their way through the system.

- Base Trend - It is assumed that growth will return to historic norms in the final five years of the forecasting period.

Growth in the number of eligible Maryland properties is assumed to be driven by Baltimore City, which has the largest concentrated stock of older structures and the best developed community development organization system. For 2003 alone, CHAP already anticipates designation of the Patterson Park/Highlandtown, Oakenshawe and Cedarcroft historic districts with a total of over 5,800 properties.

Table I-5 outlines the growth forecast. It is anticipated that the total inventory of eligible properties will grow to over 87,000 structures over the next ten years. That represents a growth of 31,336 properties or 56.2% in total. The compound annual growth rate for the inventory is 4.6%. In general, the growth forecast can be met with the designation of an estimated 5-7 historic districts annually in the 2004-2007 period and 3-4 historic districts annually thereafter. Those numbers are always, of course, supplemented by individual designations.

Judging the plausibility of the forecast by comparison to the U.S. Census count of pre-1950 residential units in the state, approximately 20% of that inventory will have been designated by 2013 if the forecast is realized. There is no hard norm against which to determine the reality factor in the forecast, but it does not seem inherently impossible (i.e., it does not exceed the supply of pre-1950 units) nor implausible. In addition, another ten years of construction activity deriving from a boom time in the U.S. economy (1950-1960) will have been added to the group from which historic properties

Table I-5
Forecast
Additions to Eligible Inventory
State of Maryland
2003 - 2013

	Start	Growth: One-Time	98-02 Trend	66-02 Trend	Year-End
2003	55,790	12,000			67,790
2004	67,790		2,949		70,739
2005	70,739		2,949		73,688
2006	73,688		2,949		76,637
2007	76,637		2,949		79,586
2008	79,586			1,508	81,094
2009	81,094			1,508	82,602
2010	82,602			1,508	84,110
2011	84,110			1,508	85,618
2012	85,618			1,508	87,126
2013	87,126				

can be drawn. This respects the rule that properties must typically be at least 50 years old before they can be considered historic.

It should be noted that all growth in the eligible inventory is not the same. The State needs to be most interested in those properties with a higher likelihood to be rehabilitated. Certain historic commercial properties are more likely to be rehabilitated (due to federal credits, profit motivation, etc.) and at a higher cost amount. Residential properties are more likely to be rehabilitated in neighborhoods with higher socio-economic levels. Many properties added to the inventory today may be located in neighborhoods which are not yet supportive of private investment.

E. Summary

The growth forecast anticipates that the total inventory of eligible properties will grow to over 87,000 structures over the 2003-2013 period. That represents a growth of 31,336 properties or 56.2% in total. The compound annual growth rate for the inventory is 4.6%.

The growth forecast can be met with the designation of an estimated 5-7 historic districts annually in the 2004-2007 period and 3-4 historic districts annually thereafter, as supplemented by individual designations.

III. HIGH REHAB COST PROPERTIES

In this section, LF&M quantifies and locates on a jurisdiction basis the eligible properties which are likely to require more than $15 million in rehabilitation expenditures.

A. Methodology

There is no count of historic structures in the State of Maryland which are of such a size and nature that the cost to rehabilitate them will exceed $15 million. There is no complete listing of properties in the State which are of such a size and nature.

In approaching this task, the analyst has employed a methodology which utilizes the best available data sources using makes the following assumptions:

- Property Type - It is assumed that such properties are commercial, industrial or institutional in character. All current ownership types are considered eligible: private, public, nonprofit ownership, utility, etc. since they can change over time. Residential properties are not analyzed.

- Cost Hurdle - It is assumed that, at an average cost of $100 per sq.ft. to rehabilitate, the properties must be at least 150,000 sq.ft. in size in order to require the expenditure of $15 million.

- Date of Construction - It is assumed that the properties typically must have been built prior to 1950 in order to meet typical National Register standards.

The analysis, then, seeks to identify Maryland commercial, industrial and institutional properties which were built before 1950 and which have an enclosed area of at least 150,000 sq.ft.

For this research, the Maryland Department of Assessments & Taxation (MDAT) has made available data extracted from its CAMA files for non-residential properties in the State. The files have been processed through the Maryland Department of Planning and all jurisdictions are included with the exception of Anne Arundel and Carroll counties. (Due to technical difficulties, the data for those two counties could not be retrieved in time for this analysis.) The CAMA data includes 39 fields of descriptive information concerning each non-residential property such as: tax identification number, ownership, address, zoning, last sale, type and date of construction, building and parcel areas.

The analytical process is impeded by the reality that all data fields are not filled in by the assessors. This is principally a result of the assessment process itself, whereby only certain data need be collected by the assessor depending on the approach(es) to valuation chosen. It is also a result of the assessors' prioritization of tax-paying

properties over exempt (e.g., public, religious and non-profit) properties which pay no real estate taxes. The descriptive data on the latter are often less complete. Nonetheless, the MDAT data is the most comprehensive information available concerning all non-residential properties in the State of Maryland. There is a record for virtually every non-residential property, improved and unimproved, in the State. There is at least some descriptive information about each property.

The methodology employed in this assignment is straightforward. All CAMA records for each jurisdiction have been sorted, first, according to date of construction and, then, according to total square foot area of structures for each property. Properties built before 1950 with improved areas reported at or exceeding 150,000 sq.ft. are identified and captured.

LF&M also supplements the list of properties identified in the CAMA data with properties matching the same criteria from CoStar Realty Information's commercial multiple list system, which surveys the Washington and Baltimore metropolitan areas.

B. High Rehab Cost Properties

The analysis of CAMA records included a review of 112,581 non-residential properties throughout the State (excepting Anne Arundel and Carroll counties), as outlined in Table II-1. The analysis reveals the following:

- Jurisdictional Variation - As might be expected, there is tremendous variation among jurisdictions regarding the size of their non-residential property inventories. Kent County reports the lowest number of such properties (1,047) and Baltimore City reports the highest number (19,037) with other more urbanized jurisdictions not far behind: Baltimore, Montgomery and Prince George's counties. Again, these counts include essentially all non-residential properties in each jurisdiction.

- Pre-1950 Construction - The analysis reveals that the "Date of Construction" field has been filled in for 51% of the available records. In some cases, this is due to the fact that the property is vacant and not improved with a structure. In most cases, however, it is assumed that the field has simply been neglected.

  The analysis finds that 20,570 properties throughout the State are reported as being built in 1950 or earlier. Records include construction dates as early as the 17th Century, with most jurisdictions having their earliest captured dates in the 18th Century. It is not apparent that there is any systematic bias in the CAMA records regarding whether date of construction has been collected, though it is assumed that older properties are more likely to be under-reported--given the age of some of the records, file maintenance procedures, etc.

  Given the historical patterns of growth in the State, the distribution of pre-1950 properties is not surprising. While Baltimore City represents 16.9% of the reported statewide inventory of non-residential properties, it accounts for 34.1% of the

Table II-1
Non-Residential Properties
By Jurisdiction, Construction Date and Size
State of Maryland
2002

	Properties	Construction 1950 or Earlier	Greater than 150,000 Sq.Ft.
Allegany	4,055	1,249	1
Anne Arundel*	0	0	0
Baltimore City	19,037	7,011	53
Baltimore County	16,164	1,446	4
Calvert	1,321	182	0
Caroline	1,180	407	0
Carroll*	0	0	0
Cecil	3,450	559	1
Charles	3,234	220	0
Dorchester	2,192	744	2
Frederick	5,768	1,255	3
Garrett	2,066	350	1
Harford	3,789	643	1
Howard	4,160	264	0
Kent	1,047	248	0
Montgomery	11,077	673	1
Prince George's	14,837	1,946	3
Queen Anne's	1,852	288	0
St. Mary's	2,026	237	0
Somerset	1,301	205	0
Talbot	1,745	378	1
Washington	4,098	593	1
Wicomico	4,441	881	0
Worcester	3,741	791	0
Total	112,581	20,570	72

* Anne Arundel and Carroll counties not available

Source: CAMA Files, Maryland Dept. of Assessments & Taxation;
Maryland Dept. of Planning

pre-1950 properties.

- 150,000+ Sq.Ft. Properties - Among the 20,570 properties remaining in our search group, only 72 are identified as consisting of at least 150,000 sq.ft. of total building area. While it is understood that the universe of large historic properties is certainly larger than 72, nonetheless the universe is expected to be small relative to the total supply of non-residential properties. The 72 properties are identified in Table II-2, with abbreviated ownership and street address information (the best available in the CAMA extract) for each as well as its MDAT tax identification number.

  To test the plausibility of this number, CoStar Realty Information's commercial multiple list system has been consulted. An inquiry was made, first asking the system to search for all Baltimore City non-residential properties of 150,000+ sq.ft. and with construction dated 1950 or earlier. The search turned up 36 properties, of which over one-third (13) had already been listed in Table II-2 above. The additional 23 City properties include industrial, office and retail uses and are listed in Table II-3. Nine of the properties are downtown, some of the properties have heavy industrial/warehousing uses, many properties have already been substantially rehabilitated. The known universe of Baltimore City properties, then, is 76: 53 derived from the MDAT records and 23 from CoStar. Even this number is not all-inclusive since it does not include many public, utility and non-profit owned properties.

  Additional CoStar inquiries were made for Anne Arundel, Baltimore, Montgomery and Prince George's counties using the same parameters. An additional 7 properties have been identified, which are also listed in Table II-3. Most of the properties are industrial/warehouse in use

It must be noted that the search has been designed to be as inclusive as possible. Properties have been listed which may seem unlikely for historic rehabilitation given their current use and/or location. The list includes properties which have already been rehabilitated sensitive to historic preservation standards, but also some properties which--regardless of age--cannot pass muster as regards historic significance or integrity of historic structures. Multifamily and utility properties are probably underrepresented. Some public and institutional buildings are included, but that category is certainly underrepresented in the CAMA and CoStar lists, especially in light of the trend toward privatization in those spheres of activity and increased rehabilitation demand coming from those quarters.

Using available CAMA and CoStar data, then, the known number of large potentially historic properties is 102. That number should be reasonably good as regards commercial properties. Building from that number and then estimating the number of additional properties which are in underrepresented groups, the total universe of large historic properties is estimated as 300 properties--triple the number of known properties. Major considerations in arriving at this estimate include:

Table II-2
Non-Residential Properties over 150,000 Sq.Ft.
By Jurisdiction, Construction Date and Size
State of Maryland
2002

	Properties	Owner/Address	Tax ID	Sq.Ft.	Construction Date
Allegany	1	Board of Education/Greenway	104007425	184,242	1934
Baltimore City	53	Alpha One Enterprises/Lanvale	316252347	155,150	1927
		Durrett Sheppard/Wicomico	321080818	160,786	1900
		Metropolitan Transit/Washington	321050773	161,870	1920
		Devonshire Assoc/Benzinger	325017653	162,960	1942
		Regional Assoc/10th	325067117	168,272	1945
		Caral Garden Assoc/Thornfield	325012530	169,344	1948
		Northeast Foods/Franklintown	320232219	178,000	1942
		Are-2001 Aliceanna/Wolfe	302071847	184,962	1940
		Box USA Group/Hollins Ferry	325037880	187,573	1930
		Washington Bo/Washington	325027822	211,864	1942
		Ed, LLC/Mountwood	316062528	220,584	1945
		Housing Authority/Fremont	318130173	224,986	1940
		Harry & Jeanette Weinberg/Edmondson	328057958	236,744	1947
		Mayor & City Council/Ellwood	301141752	284,466	1934
		College Gardens/Parkton	325012530	316,426	1950
		Mark Eisenberg/Light St	324061038	335,359	1920
		Tindeco Wharf/Boston	301091902	373,311	1920
		Maryland Stadium/Eutaw	322020873	412,000	1920
		Mayor & City Council/Wicomico	321080811	417,318	1900
		Monastery Ltd/Frederick Ave	320042245	603,350	1940
		Locke Insulators/	323101079	615,986	1920
		Ahi, Inc./Key Hwy	324121987	914,679	1922
		Washington-Monroe/Washington	321040731	999,998	1924
		Center City Storage/Monument	310061234	150,370	1928
		Mayor & City Council/Fulton	313063411	150,504	1920
		Petroleum Fuel & To/Haven	326026526	153,973	1925
		Canton Marine Ter/Newgate	326026607	159,201	1920
		State of Maryland/Keith	326016874	166,400	1918
		Secretary of Housing/Calhoun	315130296	167,725	1924
		Row Clothing Enterpr/Gwynns Falls	315183200	179,940	1950
		St. Paul Street/St. Paul	311110553	189,000	1928
		Harry & Jeanette Weinberg/Park	311100549	193,446	1942
		Mayor & City Council/North	312083802	204,624	1912
		3901 Dillon/Dillon	326046474	215,694	1942
		3601 LLC/Dillon	326046474	219,777	1885
		Mayor & City Council/Gwynns Falls	315183262	221,523	1926
		Johns Hopkins Univ/33rd	309024047	221,530	1935
		Chas. Lankford/Guilford	312101119	232,680	1906
		AUSA Holding Co/Charles	311120496	234,222	1925
		Rotunda Assoc/40th	313013555	234,480	1921
		Mayor & City Council/The Alameda	309174139	249,500	1926
		Oles Envelope Corp/25th	309054062	254,190	1920
		South Highland Ave/Highland	326026526	271,478	1920
		Johns Hopkins Univ/Washington	307121634	294,066	1925
		Newkirk LLC/ODonnell	326026544	317,543	1949
		National Gypsum/Newkirk	326026607	406,556	1946
		State of Maryland/Eager	310061197	535,125	1881
		Lever Bros/Holabird	326016871	561,260	1925
		Connecticut General/Broening	326016916	662,445	1929
		State of Maryland/Lombard	304090663	165,853	1914

		Mayor & City Council/Cathedral	304020564	179,360	1882
		Assoc. Jewish Charities/Belvedere	327194724	193,537	1939
		Mayor & City Council/Calvert	304010624	360,900	1900
Baltimore County	4	Avesta Mill	4152200022659	842,000	1950
		Board of Education/Milford Mill	4020202571272	162,386	1948
		Locust Properties/Halethorpe	4131600001537	150,308	1950
		B. Green & Co./Washington Blvd.	4131323153360	344,598	1942
Cecil	1	Union Hospital/Bow	803059030	193,004	1943
Dorchester	2	Bloch & Guggenheim	1015004126	157,270	1940
		Dorchester General	1007173938	186,103	1903
Frederick	3	Moore Business Forms/Apple Church	1115343974	164,156	1950
		Board of Education/Carroll	1102020920	204,694	1940
		Frederick Memorial/Seventh	1102046504	345,400	1904
Garrett	1	Indresco, Inc.	1203013715	151,031	1950
Prince George's	3	2 Rivertech LLC/Lafayette	17192734432	156,600	1940
		St. Thomas More, Inc./ LaSalle	17171853035	204,000	1950
		Maryland National Capital/Glenn Dale	17141699529	184,154	1937
Harford	1	Parcel 3 Wilson Street LLC/Wilson	1306029302	201,800	1941
Montgomery	1	May Department Store/Wisconsin	160700438721	176,188	1950
Talbot	1	Cougar Acquisition/Idlewild	2101025414	196,500	1949
Washington	1	Pangborn Corporation/Pangborn	2222010670	176,901	1915
Total Properties	**72**				

Source: CAMA Files, Maryland Dept. of Assessments & Taxation; Maryland Dept. of Planning

Table II-3
Metropolitan Commercial Properties over 150,000 Sq.Ft.
By Jurisdiction, Location, Construction Date and Size
CoStar System
2002

	Properties	Building	Address	ZIP	Sq.Ft.	Construction Date
Anne Arundel	1	Specialty Filaments Building	8335 Telegraph Road	21113	150,000	1947
Baltimore City	23	B & O Building	2 N. Charles Street	21201	215,650	1906
		BG&E Building	39 W. Lexington Street	21201	367,600	1916
		Fidelity & Deposit Building	210 N. Charles Street	21201	181,725	1894
		First Center (Allfirst) Building	110 S. Paca Street	21201	238,000	1906
		Stewart's Building	230 W. Lexington Street	21201	225,000	1911
		Baltimore Sun	501 N. Calvert Street	21202	450,000	1949
		Candler Building	111 Market Place	21202	537,363	1911
		Equitable Building	10 N. Calvert Street	21202	183,105	1889
		Mayor & City Council	7 E. Redwood Street	21202	153,400	1924
		Telecomm Carrier Hotel	540 E. Monument Street	21202	175,000	1928
		Clipper Mill (Part)	1760 Union Avenue	21211	318,200	1942
		Clipper Mill (Part)	3600 Clipper Mill Road	21211	200,000	1930
		Pepsi-Cola Company	1650 Union Avenue	21211	187,500	1937
		Erdman Avenue Partners	4311 Erdman Avenue	21213	343,600	1920
		Mars Supermarkets	1301 Edison Highway	21213	276,990	1947
		Westvaco Container Division	3400 E. Biddle Street	21213	180,000	1943
		Northwood Shopping Center	1600 Havenwood Road	21218	160,000	1950
		Berg Corporation	2519 Wilkens Avenue	21223	200,000	1939
		Continental Foods	2730 Wilmarco Avenue	21223	170,850	1947
		Crown Associates/Bldg 40	4401 Eastern Avenue	21224	183,225	1917
		The Can Company	2400 Boston Street	21224	185,000	1892
		Harris Heller Terminal	4501 Curtis Avenue	21226	450,000	1943
		1700 Ridgely Street LP	1700 Ridgely Street	21230	300,000	1950
Baltimore County	4	Black & Decker Building	701 E. Joppa Road	21286	370,000	1917
		Middle River Aircraft Systems	103 Chesapeake Park	21220	1,379,000	1940
		Kaiser Aluminum	1999 Halethorpe Farms	21227	705,000	1942
		Signode Building	4505 North Point Blvd	21219	200,000	1950
Montgomery	0					
Prince George's	2	Cabin Branch Distrib. Center	1501 Cabin Branch Road	20785	438,546	1950
		University of Maryland/Warehouse	6501 Lafayette Avenue	20737	165,000	1940
Total	**30**					

Source: CoStar Realty Information, Inc.

- Substantial development was concentrated historically in Baltimore City as the principal economic center of the State from the 17th to the 20th centuries.

- Smaller scale development was typical of rural and suburban jurisdictions historically.

- In the scheme of things, properties of 150,000+ sq.ft. are very large and do not represent a high proportion of buildings constructed in these (2002) times--much less so in the past when construction methods and needs for economies of scale (in distribution, manufacturing, office employment, etc.) were less supportive of this scale of construction.

- Public, utility, institutional, non-profit and similar properties were often larger structures. Some of those may be privatized, adaptively reused and otherwise eligible for historic tax credits.

There is little science involved in this estimate, but it seems reasonable to the analyst and to knowledgeable MDAT personnel based on available information and a "gut feeling" for the issues involved. It is not likely that the estimate is in error by orders of magnitude.

C. Summary and Conclusion

The total universe of large potentially historic properties in the State of Maryland is estimated at 300 properties. Those properties are over 50 years old and of such a size that they could require at least $15 million in rehabilitation expenditures.

The known universe of such properties is 102, of which 76 are located in Baltimore City. It is estimated that public, utility, institutional, non-profit and similar properties which are under-reported in available sources constitute an additional 198 properties which could be eligible for historic preservation tax credits.

No judgment is made concerning the appropriateness of historic designation for any of the properties identified in this section.

IV. REHABILITATION EXPENDITURES

In this section, LF&M forecasts total annual rehabilitation expenditures for which tax credits might be sought over the next ten years for residential and commercial properties.

A. Methodology

Total annual rehabilitation expenditures are forecast for the 2003-2013 period based on an analysis of the range of experience in state and federal historic preservation tax credit programs to date. State programs in Maryland and its peer states are very recent and forecasting based on a few years of data is somewhat speculative. The federal program has a longer track record and yields additional information. Based on available information, three trendlines are forecast which relate to specific sets of assumptions governing potential historic tax credit usage.

B. Maryland Experience to Date

The Maryland historic tax credit program has been in operation since 1997. Usage of the program is here analyzed primarily on the basis of Part II certifications by the Maryland Historical Trust, essentially stating that credits will be available to projects if they are properly executed. Part II certifications do not guarantee that projects will be completed and credits will be granted, but they do reasonably gauge potential demand for tax credits--allowing for some lag time (<24 months) for construction and for some fall-out of projects which are not completed.

Residential (owner-occupied) and commercial projects are considered separately in this section since they have distinct usage and cost characteristics which must be isolated before usage forecasts are attempted. Multifamily rental properties are considered commercial properties.

Residential Properties

Residential Part II certifications from program inception through October 2002 have totaled 803, as summarized in Table III-1. This analysis shows that 356 properties (44.3%) have been located in Baltimore City, triple the number represented by even the second jurisdiction--Montgomery County at 119 properties and 14.8%. Baltimore, Prince George's, Frederick, Washington and Carroll counties follow. Only Charles County is not represented on the list.

A steady growth in demand from residential property owner-occupants is evident. Certifications ramp up from only 20 in the initial program year, increasing to 286 properties by 2002. The number of properties added to the list each year has ranged from 28 to 74, with the annual growth rate declining as the portfolio base has increased.

Table III-1
Historic Tax Credit Applications
State of Maryland by County
Residential Properties
1997 - 2002

	1997	1998	1999	2000	2001	2002	Total	Percent
Allegany	0	0	0	0	1	0	1	0.1%
Anne Arundel	1	4	3	2	8	20	38	4.7%
Baltimore City	9	17	19	57	83	171	356	44.3%
Baltimore County	2	3	7	19	28	24	83	10.3%
Calvert	0	0	0	1	2	0	3	0.4%
Caroline	0	0	0	0	0	1	1	0.1%
Carroll	3	1	5	6	4	4	23	2.9%
Cecil	0	1	0	2	1	2	6	0.7%
Charles	0	0	0	0	0	0	0	0.0%
Dorchester	0	1	0	3	2	2	8	1.0%
Frederick	0	1	5	8	14	6	34	4.2%
Garrett	0	0	1	0	2	1	4	0.5%
Harford	1	1	2	3	4	2	13	1.6%
Howard	1	0	3	2	1	1	8	1.0%
Kent	0	0	2	4	6	4	16	2.0%
Montgomery	2	12	23	29	35	18	119	14.8%
Prince George's	0	3	2	8	6	19	38	4.7%
Queen Anne's	0	0	0	1	0	0	1	0.1%
St. Mary's	0	0	0	0	1	0	1	0.1%
Somerset	1	0	0	1	1	3	6	0.7%
Talbot	0	2	2	1	7	0	12	1.5%
Washington	0	4	3	5	9	4	25	3.1%
Wicomico	0	0	0	0	2	3	5	0.6%
Worcester	0	0	1	0	0	1	2	0.2%
Total	**20**	**50**	**78**	**152**	**217**	**286**	**803**	**100.0%**
Chge. from Prior Yr. (#)		*30*	*28*	*74*	*65*	*69*		
Chge. from Prior Yr. (%)		*150.0%*	*56.0%*	*94.9%*	*42.8%*	*31.8%*		

Source: Maryland Historical Trust

The cost of rehabilitation has similarly increased through the period, as summarized in Table III-2, totaling $79.89 million in reinvestment over the six year period. Once again, Baltimore City accounts for the largest share of rehab costs (40.5%), trailed now by Baltimore County with 14.9%. Montgomery, Anne Arundel and Kent counties follow. The year-over-year percentage growth in expenditures follows a pattern similar to that noted above for the number of projects. It is important to see, however, that while the number of projects almost doubled between 2000 and 2002, the cost of those projects almost tripled.

That calculation is reinforced by the average cost data contained in Table III-3. Though the average cost for residential rehabilitation over the program life is just shy of $100,000 per project--the 2002 projects post a $121,239 average cost, rising from just over $80,000 per project in the program's initial years. The 2002 figure is driven by high costs in Kent ($912,385 per project), Washington ($308,250) and Baltimore ($264,924) counties in particular. By comparison, Baltimore City residential projects averaged only $92,745 in 2002.

The distribution of project costs for all 803 cases analyzed is instructive (Table III-4). While over 50% of all residential projects estimate expenditures at $50,000 or less--those projects represent only 10.1% of the potential expenditures under the program. At the other end of the spectrum, though residential projects exceeding $500,000 in cost have accounted for only 2.9% of certifications--they represent 29.3% of all expenditures.

Commercial Properties

Commercial Part II certifications from program inception through October 2002 have totaled 222, as summarized in Table III-5. This analysis shows that 143 properties or almost two-thirds (64.4%) have been located in Baltimore City. This is almost ten times the number in the next closest jurisdiction, Frederick County with only 15 projects and 6.8% of the total. No other jurisdiction has more than six projects. Four jurisdictions are not represented on the list.

Total project expenditures eligible for historic tax credits are summarized by year in Table III-6. Total expenditures for all jurisdictions from program inception amount to $717,038,797. Baltimore City has represents the lion's share of historic reinvestment: 89.2% of all eligible costs have been in the City. Baltimore, Anne Arundel and Frederick counties follow, with the three together only totaling 7.8% of eligible costs.

Total expenditures and average expenditures show significant variations year-to-year, due to the impact of specific high cost projects in certain years. The 2001 numbers, for example, are impacted by the $85.0 million Montgomery Park project in Baltimore City--representing 30.8% of statewide costs for that year. Similarly, the 1999 figures are affected by the $62.0 million Tide Point and $40.0 million Hippodrome theater projects in Baltimore City--together representing 59.3% of statewide costs for that year.

Table III-2
Historic Tax Credit Applications
State of Maryland by County
Residential Properties (Rehab Cost)
1997 - 2002

	1997	1998	1999	2000	2001	2002	Total	Percent
Allegany	$0	$0	$0	$0	$11,626	$0	$11,626	0.0%
Anne Arundel	$7,083	$167,705	$445,000	$50,125	$1,229,010	$3,540,493	$5,439,416	6.8%
Baltimore City	$610,000	$2,031,384	$1,685,827	$4,498,763	$7,672,548	$15,859,404	$32,357,925	40.5%
Baltimore County	$41,000	$70,617	$1,210,504	$1,775,710	$2,395,878	$6,430,171	$11,923,880	14.9%
Calvert	$0	$0	$0	$6,000	$33,544	$0	$39,544	0.0%
Caroline	$0	$0	$0	$0	$0	$125,000	$125,000	0.2%
Carroll	$105,298	$16,471	$287,487	$155,004	$264,659	$118,691	$947,610	1.2%
Cecil	$0	$10,000	$0	$221,000	$170,000	$76,215	$477,215	0.6%
Charles	$0	$0	$0	$0	$0	$0	$0	0.0%
Dorchester	$0	$12,000	$0	$44,749	$35,000	$30,900	$122,649	0.2%
Frederick	$0	$157,515	$627,037	$1,007,215	$987,911	$560,925	$3,340,603	4.2%
Garrett	$0	$0	$100,000	$0	$177,658	$19,368	$297,026	0.4%
Harford	$30,000	$468,500	$52,158	$60,000	$109,240	$176,440	$896,338	1.1%
Howard	$18,000	$0	$121,840	$350,000	$9,128	$145,000	$643,968	0.8%
Kent	$0	$0	$354,093	$124,067	$524,600	$3,649,541	$4,652,301	5.8%
Montgomery	$44,000	$674,055	$751,682	$2,200,522	$3,741,141	$1,857,689	$9,269,088	11.6%
Prince George's	$0	$245,000	$65,500	$1,056,719	$369,349	$680,278	$2,416,846	3.0%
Queen Anne's	$0	$0	$0	$159,775	$0	$0	$159,775	0.2%
St. Mary's	$0	$0	$0	$0	$75,000	$0	$75,000	0.1%
Somerset	$750,000	$0	$0	$293,328	$142,235	$96,878	$1,282,441	1.6%
Talbot	$0	$391,333	$247,090	$72,583	$1,627,500	$0	$2,338,506	2.9%
Washington	$0	$113,000	$354,970	$658,000	$609,094	$1,233,000	$2,968,064	3.7%
Wicomico	$0	$0	$0	$0	$20,000	$62,922	$82,922	0.1%
Worcester	$0	$0	$12,000	$0	$0	$11,412	$23,412	0.0%
Total	**$1,605,381**	**$4,357,580**	**$6,315,188**	**$12,733,560**	**$20,205,120**	**$34,674,326**	**$79,891,156**	**100.0%**
Chge. from Prior Yr. ($)		*$2,752,199*	*$1,957,609*	*$6,418,372*	*$7,471,559*	*$14,469,207*		
Chge. from Prior Yr. (%)		*171.4%*	*44.9%*	*101.6%*	*58.7%*	*71.6%*		
Avg. Ann. Cost	*$80,269*	*$87,152*	*$80,964*	*$83,773*	*$93,111*	*$121,239*	*$99,491*	

Source: Maryland Historical Trust

Table III-3
Historic Tax Credit Applications
State of Maryland by County
Residential Properties (Avg. Rehab Cost)
1997 - 2002

	1997	1998	1999	2000	2001	2002	Total
Allegany	$0	$0	$0	$0	$11,626	$0	$11,626
Anne Arundel	$7,083	$41,926	$148,333	$25,063	$153,626	$177,025	$143,143
Baltimore City	$67,778	$119,493	$88,728	$78,926	$92,440	$92,745	$90,893
Baltimore County	$20,500	$23,539	$172,929	$93,458	$85,567	$267,924	$143,661
Calvert	$0	$0	$0	$6,000	$16,772	$0	$13,181
Caroline	$0	$0	$0	$0	$0	$125,000	$125,000
Carroll	$35,099	$16,471	$57,497	$25,834	$66,165	$29,673	$41,200
Cecil	$0	$10,000	$0	$110,500	$170,000	$38,108	$79,536
Charles	$0	$0	$0	$0	$0	$0	$0
Dorchester	$0	$12,000	$0	$14,916	$17,500	$15,450	$15,331
Frederick	$0	$157,515	$125,407	$125,902	$70,565	$93,488	$98,253
Garrett	$0	$0	$100,000	$0	$88,829	$19,368	$74,257
Harford	$30,000	$468,500	$26,079	$20,000	$27,310	$88,220	$68,949
Howard	$18,000	$0	$40,613	$175,000	$9,128	$145,000	$80,496
Kent	$0	$0	$177,047	$31,017	$87,433	$912,385	$290,769
Montgomery	$22,000	$56,171	$32,682	$75,880	$106,890	$103,205	$77,891
Prince George's	$0	$81,667	$32,750	$132,090	$61,558	$35,804	$63,601
Queen Anne's	$0	$0	$0	$159,775	$0	$0	$159,775
St. Mary's	$0	$0	$0	$0	$75,000	$0	$75,000
Somerset	$750,000	$0	$0	$293,328	$142,235	$32,293	$213,740
Talbot	$0	$195,667	$123,545	$72,583	$232,500	$0	$194,876
Washington	$0	$28,250	$118,323	$131,600	$67,677	$308,250	$118,723
Wicomico	$0	$0	$0	$0	$10,000	$20,974	$16,584
Worcester	$0	$0	$12,000	$0	$0	$11,412	$11,706
Total	**$80,269**	**$87,152**	**$80,964**	**$83,773**	**$93,111**	**$121,239**	**$99,491**
Chge. from Prior Yr. ($)		*$6,883*	*($6,188)*	*$2,809*	*$9,338*	*$28,128*	
Chge. from Prior Yr. (%)		*8.6%*	*-7.1%*	*3.5%*	*11.1%*	*30.2%*	

Source: Maryland Historical Trust

Table III-4
Historic Tax Credit Applications
Stratification by Project Size
Residential Properties (Rehab Cost and Number)
1997 - 2002

Project Size	Expenditures	Percent	Projects	Percent
Less than $25,000	$3,371,164	4.2%	260	32.4%
$25,000 - $49,999	$4,713,255	5.9%	142	17.7%
$50,000 - $74,999	$6,188,466	7.7%	103	12.8%
$75,000 - $99,999	$6,578,615	8.2%	79	9.8%
$100,000 - $124,999	$5,639,928	7.1%	53	6.6%
$125,000 - $149,999	$4,622,613	5.8%	34	4.2%
$150,000 - $174,999	$4,218,034	5.3%	27	3.4%
$175,000 - $199,999	$3,074,902	3.8%	17	2.1%
$200,000 - $224,999	$4,293,261	5.4%	21	2.6%
$225,000 - $249,999	$1,175,000	1.5%	5	0.6%
$250,000 - $274,999	$2,525,000	3.2%	10	1.2%
$275,000 - $299,999	$1,458,329	1.8%	5	0.6%
$300,000 - $349,999	$2,720,000	3.4%	9	1.1%
$350,000 - $399,999	$2,898,386	3.6%	8	1.0%
$400,000 - $449,999	$1,633,715	2.0%	4	0.5%
$450,000 - $499,999	$1,376,500	1.7%	3	0.4%
$500,000 - $749,999	$6,485,923	8.1%	11	1.4%
$750,000 - $999,999	$3,295,523	4.1%	4	0.5%
$1,000,000 - $1,999,999	$6,138,200	7.7%	5	0.6%
Greater than $2,000,000	$7,484,341	9.4%	3	0.4%
Total	**$79,891,156**	**100.0%**	**803**	**100.0%**
Average	*$99,491*			
Median	*$50,000*			

Source: Maryland Historical Trust

Table III-5
Historic Tax Credit Applications
State of Maryland by County
Commercial Properties
1997 - 2002

	1997	1998	1999	2000	2001	2002	Total	Percent
Allegany	1	0	1	2	4	0	8	3.6%
Anne Arundel	0	0	1	0	2	4	7	3.2%
Baltimore City	9	11	14	18	61	29	142	64.3%
Baltimore County	0	0	2	0	3	1	6	2.7%
Calvert	0	0	1	0	0	0	1	0.5%
Caroline	0	0	1	0	0	1	2	0.9%
Carroll	0	2	1	0	2	1	6	2.7%
Cecil	0	0	0	1	0	0	1	0.5%
Charles	0	0	0	0	0	0	0	0.0%
Dorchester	0	0	0	1	0	1	2	0.9%
Frederick	0	0	2	6	4	3	15	6.8%
Garrett	0	0	0	0	0	0	0	0.0%
Harford	0	0	0	0	0	1	1	0.5%
Howard	1	1	1	1	0	1	5	2.3%
Kent	0	0	0	0	0	3	3	1.4%
Montgomery	0	0	0	2	2	2	6	2.7%
Prince George's	0	0	0	0	1	0	1	0.5%
Queen Anne's	0	0	1	1	0	0	2	0.9%
St. Mary's	0	0	0	0	0	0	0	0.0%
Somerset	0	0	0	0	0	0	0	0.0%
Talbot	0	0	1	1	2	2	6	2.7%
Washington	2	0	0	0	0	1	3	1.4%
Wicomico	0	0	1	1	0	1	3	1.4%
Worcester	0	0	1	0	0	0	1	0.5%
Total	**13**	**14**	**28**	**34**	**81**	**51**	**221**	**100.0%**
Chge. from Prior Yr. (#)		*1*	*14*	*6*	*47*	*-30*		
Chge. from Prior Yr. (%)		*7.7%*	*100.0%*	*21.4%*	*138.2%*	*-37.0%*		

Source: Maryland Historical Trust

Table III-6
Historic Tax Credit Applications
State of Maryland by County
Commercial Properties (Rehab Cost)
1997 - 2002

	1997	1998	1999	2000	2001	2002	Total	Percent
Allegany	$2,470,000	$0	$490,000	$2,050,000	$590,000	$0	$5,600,000	0.8%
Anne Arundel	$0	$0	$142,050	$0	$657,000	$14,870,000	$15,669,050	2.2%
Baltimore City	$34,983,147	$30,434,982	$166,547,911	$91,699,000	$266,077,147	$50,098,996	$639,841,183	89.2%
Baltimore County	$0	$0	$970,000	$0	$1,052,000	$22,454,000	$24,476,000	3.4%
Calvert	$0	$0	$300,000	$0	$0	$0	$300,000	0.0%
Caroline	$0	$0	$175,000	$0	$0	$89,000	$264,000	0.0%
Carroll	$0	$260,525	$350,000	$0	$205,000	$400,000	$1,215,525	0.2%
Cecil	$0	$0	$0	$175,000	$0	$0	$175,000	0.0%
Charles	$0	$0	$0	$0	$0	$0	$0	0.0%
Dorchester	$0	$0	$0	$800,000	$0	$68,500	$868,500	0.1%
Frederick	$0	$0	$1,185,000	$9,456,365	$4,265,000	$875,000	$15,781,365	2.2%
Garrett	$0	$0	$0	$0	$0	$0	$0	0.0%
Harford	$0	$0	$0	$0	$0	$500,000	$500,000	0.1%
Howard	$250,000	$250,000	$169,000	$225,000	$0	$180,000	$1,074,000	0.1%
Kent	$0	$0	$0	$0	$0	$660,000	$660,000	0.1%
Montgomery	$0	$0	$0	$2,899,946	$206,175	$913,634	$4,019,755	0.6%
Prince George's	$0	$0	$0	$0	$90,000	$0	$90,000	0.0%
Queen Anne's	$0	$0	$483,519	$80,000	$0	$0	$563,519	0.1%
St. Mary's	$0	$0	$0	$0	$0	$0	$0	0.0%
Somerset	$0	$0	$0	$0	$0	$0	$0	0.0%
Talbot	$0	$0	$200,000	$175,000	$3,050,000	$350,900	$3,775,900	0.5%
Washington	$360,000	$0	$0	$0	$0	$400,000	$760,000	0.1%
Wicomico	$0	$0	$625,000	$300,000	$0	$80,000	$1,005,000	0.1%
Worcester	$0	$0	$400,000	$0	$0	$0	$400,000	0.1%
Total	**$38,063,147**	**$30,945,507**	**$172,037,480**	**$107,860,311**	**$276,192,322**	**$91,940,029**	**$717,038,797**	**100.0%**
Chge. from Prior Yr. ($)		*($7,117,640)*	*$141,091,973*	*($64,177,169)*	*$168,332,011*	*($184,252,293)*		
Chge. from Prior Yr. (%)		*-18.7%*	*455.9%*	*-37.3%*	*156.1%*	*-66.7%*		
Avg. Ann. Cost	*$2,927,934*	*$2,210,393*	*$6,144,196*	*$3,172,362*	*$3,409,782*	*$1,802,746*	*$3,244,519*	

Source: Maryland Historical Trust

Once again, the distribution of project costs for all 222 cases analyzed is instructive (Table III-7). While 50% of all commercial projects estimate expenditures at $500,000 or less--those projects represent only 3.4% of the potential expenditures under the tax credit program. At the other end of the spectrum, though the 21 commercial projects exceeding $10,000,000 in cost have accounted for only 9.5% of certifications--they represent almost two-thirds (65.8%) of all expenditures.

Had the current $3 million cap for commercial properties been in place above, the proportion of eligible costs attributable to Baltimore City would have been dramatically affected. Nine City projects have estimated eligible costs exceeding $15 million:

American Can Company ($16 million)
Munsey Building ($21 million)
Peabody Institute ($24 million)
The Hippodrome ($40 million)
Montgomery Ward ($85 million)
Posner Building ($17 million)
One Charles Center ($21 million)
Coca Cola ($29 million)
Procter & Gamble Plant/Tide Point ($62 million)

Those expenditures total $315 million. Assuming that all would have proceeded (a very large assumption) under the $3 million cap, eligible expenditures would have been reduced to $135 million--a 57.1% reduction. In reality, a number of these largest projects either could not have happened or alternate sources of public subsidy would have been required to fill the projects' financing gaps. In that scenario, Baltimore City's total eligible expenditures would have been reduced from $639.8 million to $459.8 million over the life of the tax credit program--a 28.1% reduction. Further, the City's share of statewide eligible expenditures would have been reduced from 89.2% to 85.6%.

Taking into account the one additional non-City project above the cap (Oella Mill, Baltimore County at $22.5 million)--total eligible expenditures for the life of the tax credit program would have been reduced from $717 million to $529 million--a 26.2% reduction.

C. Peer State Tax Credit Programs

A review of the provisions and production levels of tax credit programs in three peer states (Missouri, North Carolina and Virginia) which are reasonably comparable to the Maryland program is useful in the forecasting process. Brief descriptions of the peer programs follow:

- Missouri - This tax credit program became effective January 1, 1998. It offers a 25% credit for homeownership and commercial properties. A minimum investment of 50% of basis is required and Secretary of the Interior standards must be followed. The credit can be carried back three years and forward 10 years. (Interpretation of this provision until recently made the credit effectively fully refundable since taxpayers always took advantage of the carryback and the state's Finance Department actually paid interest on the refunded back taxes.) Credits can be distributed to investors in any proportion according to their agreement or they can be

Table III-7
Historic Tax Credit Applications
Stratification by Project Size
Commercial Properties (Rehab Cost and Number)
1997 - 2002

Project Size	Expenditures	Percent	Projects	Percent
Less than $100,000	$1,351,124	0.2%	22	9.9%
$100,000 - $249,999	$6,934,051	1.0%	40	18.0%
$250,000 - $499,999	$15,740,124	2.2%	47	21.2%
$500,000 - $749,999	$11,038,219	1.5%	18	8.1%
$750,000 - $999,999	$13,707,101	1.9%	16	7.2%
$1,000,000 - $1,499,999	$14,912,769	2.1%	13	5.9%
$1,500,000 - $1,999,999	$18,521,492	2.6%	11	5.0%
$2,000,000 - $2,999,999	$22,056,507	3.1%	9	4.1%
$3,000,000 - $3,999,999	$10,150,000	1.4%	3	1.4%
$4,000,000 - $4,999,999	$21,691,642	3.0%	5	2.3%
$5,000,000 - $9,999,999	$109,001,768	15.2%	17	7.7%
$10,000,000 - $14,999,999	$119,480,000	16.7%	10	4.5%
$15,000,000 - $19,999,999	$48,000,000	6.7%	3	1.4%
$20,000,000 - $24,999,000	$88,454,000	12.3%	4	1.8%
Over $25,000,000	$216,000,000	30.1%	4	1.8%
Total	**$717,038,797**	**100.0%**	**222**	**100.0%**
Average	*$3,244,519*			
Median	*$500,000*			

Source: Maryland Historical Trust

sold. Involvement by non-for-profits in the sale of credits is not allowed. There is no dollar cap: either at the project or at the program level. Public properties are being rehabbed with program assistance via privatization and state procurement preferences are given for such projects.

Production levels for Missouri's program as of Part III certification are summarized in Table III-8. Over $529 million in rehabilitation expenditures have been made, with the number of projects and dollars increasing significantly each year. Number of new jobs and housing units created are self-reported by the applicant and not verified by program staff, but are felt to be reasonable. In FY2002, virtually all (95.8%) of expenditures wee made for commercial projects, though almost three-fifths (58.1%) of projects were residential. In 2002, the average commercial project size was $5.9 million and the average residential project size was $187,411. The majority of program impact has been felt in St. Louis, which has been home for 56.7% of projects and 70.2% of expenditures.

- North Carolina - This tax credit program became effective January 1, 1998. It offers a 20% credit for income-producing properties which also qualify for the federal credit, requiring a minimum investment equal to the property's adjusted basis or $5,000 whichever is greater. There is a 30% credit for non-income producing structures (including residential), with a minimum expenditure amount of $25,000. Credits must be taken in five equal installments beginning in the year the property is placed in service, but may be extended up to an additional five years. This program has replaced an earlier program which awarded only a 5% commercial credit. Since the new program's inception, the state's Study List (preliminary step to National Register nomination) has doubled, presaging further Register additions and staff already has a nine-month backlog of nominations awaiting action.

  Production levels for the North Carolina program for its first 4.5 years in operation are summarized in Table III-9. This program has resulted in 933 projects and $479 million in expenditures. While residential projects have constituted 65.0% of the total project count, commercial projects have represented 79.9% of expenditures. In 2002, the average commercial project size was $1.4 million and the average residential project size was $272,492.

- Virginia - The Virginia tax credit program became effective January 1, 1997. It offers a 25% credit for homeownership and commercial properties. A minimum investment of 50% of building's assessed value for commercial and 25% of building's assessed value for owner-occupied residential properties is required. Secretary of the Interior standards must be followed. The credit can be carried forward up to 10 years. Credits can be distributed to investors in any proportion according to their agreement. There is no dollar cap: either at the project or at the program level.

  Production levels for the Virginia program since 1996 at the initial application and Part III certification points are summarized in Table III-10. The high fall-out rate

Table III-8
Production Statistics*
State Historic Tax Credit Program
Missouri
FY 1998 - 2002

	Rehabilitation Expenditures	% Increase from Prior Yr	New Jobs	Housing Units
1998	$98,604		3	0
1999	$40,687,654		217	547
2000	$82,804,186	103.5%	1,209	1,074
2001	$166,184,147	100.7%	700	453
2002	$240,045,529	44.4%	1,296	509
Total	**$529,820,120**		**3,425**	**2,583**

	Commercial			*Residential*		
	Projects	Expenditures	% of Annual	Projects	Expenditures	% of Annual
1998	1	$98,604	100.0%	0	$0	0.0%
1999	10	$40,090,456	98.5%	10	$597,197	1.5%
2000	14	$78,959,628	95.4%	18	$3,844,558	4.6%
2001	23	$157,967,983	95.1%	41	$8,216,164	4.9%
2002	39	$229,925,354	95.8%	54	$10,120,175	4.2%
Total	**87**	**$507,042,025**		**123**	**$22,778,094**	

	Commercial		*Residential*		*Total*			
	Projects	Expenditures	Projects	Expenditures	Projects	Percent	Expenditures	Percent
Independence	3	$2,348,500	9	$1,447,138	12	5.7%	$3,795,638	0.7%
Jefferson City	3	$14,790,920	4	$952,443	7	3.3%	$15,743,363	3.0%
Kansas City	17	$104,161,065	5	$1,022,100	22	10.5%	$105,183,165	19.9%
Lexington	5	$689,397	0	$0	5	2.4%	$689,397	0.1%
Springfield	3	$722,596	3	$325,124	6	2.9%	$1,047,720	0.2%
St. Louis	43	$357,127,989	76	$14,621,352	119	56.7%	$371,749,342	70.2%
University City	1	$375,063	7	$1,619,644	8	3.8%	$1,994,707	0.4%
Other	12	$26,826,496	19	$2,790,292	31	14.8%	$29,616,788	5.6%
Total	**87**	**$507,042,025**	**123**	**$22,778,094**	**210**	**100.0%**	**$529,820,119**	**100.0%**

* Projects completed/tax credits approved by FY finalized.

Source: Missouri Department of Economic Development

Table III-9
Production Statistics
State Historic Tax Credit Program
North Carolina
1998 - 2002

	Projects	*Proposed:* Expenditures	Avg. Cost
Income-Producing			
1998	67	$84,625,522	$1,263,067
1999	73	$56,284,274	$771,017
2000	75	$124,385,637	$1,658,475
2001	88	$84,260,140	$957,502
2002 (6 mos.)	24	$33,627,172	$1,401,132
Total	327	$383,182,745	$1,171,813
Non-Income-Producing			
1998	134	$9,985,249	$74,517
1999	123	$12,011,056	$97,651
2000	114	$18,355,618	$161,014
2001	167	$37,272,571	$223,189
2002 (6 mos.)	68	$18,529,456	$272,492
Total	606	$96,153,950	$158,670
Total Program			
1998	201	$94,610,771	$470,700
1999	196	$68,295,330	$348,446
2000	189	$142,741,255	$755,245
2001	255	$121,532,711	$476,599
2002 (6 mos.)	92	$52,156,628	$566,920
Total	933	$479,336,695	$513,759
Percent Income-Producing			
1998	33.3%	89.4%	
1999	37.2%	82.4%	
2000	39.7%	87.1%	
2001	34.5%	69.3%	
2002 (6 mos.)	26.1%	64.5%	
Total	35.0%	79.9%	

Source: Restoration Branch, North Carolina State Historic Preservation Office.

Table III-10
Production Statistics
State Historic Tax Credit Program
Virginia
1996 - 2001

	New Projects Submitted	*Rehab Projects Completed:* Number	Expenditures	Avg. Cost
1996*	31	27	$8,690,734	$321,879
1997	86	37	$19,866,351	$536,928
1998	78	32	$14,661,486	$458,171
1999	125	68	$63,117,141	$928,193
2000	138	89	$126,537,809	$1,421,773
2001	189	99	$160,932,760	$1,625,583
Total	647	352	$393,806,281	$1,118,768

* Prior to enactment of the state's tax credit.

Source: Virginia Department of Historic Resources

(46.6%) between submission and completion is due to the fact that Virginia is tracking the former number as Part I applications. A total of 325 projects have been undertaken since the program became effective, with a total expenditure of $393.8 million. The number and size of projects has been steadily rising. For 2001, program staff estimates that 49 projects (49.5%) and $89.2 million in expenditures (55.4%) were for commercial properties. Program staff estimates that 80% of expenditures have taken place in Richmond.

The Missouri tax credit program is the closest to Maryland's in terms of the type of motivation offered commercial developers in particular. Though all states see a wide diffusion of projects throughout their geography, both Missouri and Virginia see a high proportion of investment targeting the major historic urban center--as is Maryland's experience regarding Baltimore City. Production levels for all states have been rising

D. Federal Tax Credit Program

Only rehabilitation of income-producing properties to the U.S. Secretary of the Interior standards are eligible for federal historic preservation tax credits. Usage of the federal program for Maryland and its peer states as well as the U.S. as a whole is outlined in Table III-11. The period covered is federal fiscal years 1989-2001 and the activity monitored is the Part III certification of a project by the National Park Service, which is the final determination that the rehabilitation has been completed properly. As compared to the Part II certification used above as the point in time used for tracking Maryland's state tax credit projects, the Part III certification can be considered to follow the Part II by 12-18 months.

Over the 13 year period, Maryland projects totaled 128 with a total expenditure of $215.6 million. Though average annual production was 10 projects at a cost of $1.68 million each, four years (FY89,90,00,01) accounted for almost three-fifths (57.8%) of all projects and over one-third (35.9%) of all expenditures. Those years were at/close to the peak of the national/regional economic cycle. It should be expected that FY02 production statistics for Maryland will also be high, reflecting projects in the pipeline during the peak of the most recent economic cycle but also due to the extra demand created by the state tax credit. Five of the 13 years show expenditure levels above the mean. There is tremendous variability in number and average size of projects throughout the study period.

The peer states' and national statistics show similar variability, with a definite fall-off in production through the economic trough years of the mid-1990's. Four of the years show expenditure levels above the mean. Maryland's projects have tended to have about one-third higher average cost than Missouri's and the U.S. The State's projects have been two- to three-times the size of North Carolina's and Virginia's.

Usage of the federal tax credit has also been correlated with usage of the State's tax credit for commercial properties. The Maryland Historical Trust acts as clearinghouse for both the State and federal credit processes. As outlined in Table III-12, 89.9% of

Table III-11
Federal Tax Credit for Rehabilitating Historic Buildings
Certified Rehabilitations & Expenses*
Fiscal Years 1989 - 2001

	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	Summary (89 - 01) Total	Summary (89 - 01) Avg. Annual
Certified Rehabilitations															
Maryland	28	22	10	9	6	4	5	2	3	8	7	11	13	128	10
Missouri	42	36	27	35	20	16	9	10	19	35	19	21	30	319	25
North Carolina	36	41	30	22	25	25	35	32	22	21	28	38	34	389	30
Virginia	50	31	28	14	28	15	22	38	14	36	26	38	77	417	32
United States	994	814	678	655	566	518	548	509	480	697	558	723	753	8,493	653
Certified Expenses															
Maryland	$33,200,000	$7,950,000	$2,030,000	$40,220,000	$5,703,900	$7,336,300	$1,738,664	$547,700	$30,444,444	$5,341,433	$44,955,629	$21,428,907	$14,722,263	$215,619,240	$16,586,095
Missouri	$31,510,000	$28,510,000	$10,550,000	$46,580,000	$9,155,900	$17,673,400	$3,410,079	$7,425,529	$12,735,912	$10,017,437	$87,559,498	$24,324,452	$113,129,899	$402,582,106	$30,967,854
North Carolina	$18,230,000	$13,920,000	$8,450,000	$9,960,000	$25,747,100	$12,143,000	$11,038,586	$14,814,567	$11,068,746	$6,597,650	$6,499,308	$47,107,584	$18,449,772	$204,026,313	$15,694,332
Virginia	$11,810,000	$6,030,000	$27,580,000	$220,000	$12,791,400	$1,778,500	$5,283,231	$39,964,426	$17,861,890	$15,445,825	$18,287,386	$37,201,357	$129,732,718	$323,986,733	$24,922,056
United States	$927,150,000	$750,040,000	$608,500,000	$777,070,000	$547,484,900	$486,134,600	$468,635,675	$757,235,851	$687,773,158	$694,648,152	$945,264,029	$1,675,718,247	$1,663,038,293	$10,988,692,905	$845,284,070
Average Cost per Project															
Maryland	$1,185,714	$361,364	$203,000	$4,468,889	$950,650	$1,834,075	$347,733	$273,850	$10,148,148	$667,679	$6,422,233	$1,948,082	$1,132,482		$1,684,525
Missouri	$750,238	$791,944	$390,741	$1,330,857	$457,795	$1,104,588	$378,898	$742,553	$670,311	$286,212	$4,608,395	$1,158,307	$3,770,997		$1,262,013
North Carolina	$506,389	$339,512	$281,667	$452,727	$1,029,884	$485,720	$315,388	$462,955	$503,125	$314,174	$232,118	$1,239,673	$542,640		$524,489
Virginia	$236,200	$194,516	$985,000	$15,714	$456,836	$118,567	$240,147	$1,051,695	$1,275,849	$429,051	$703,361	$978,983	$1,684,840		$776,947
United States	$932,746	$921,425	$897,493	$1,186,366	$967,288	$938,484	$855,175	$1,487,693	$1,432,861	$996,626	$1,694,022	$2,317,729	$2,208,550		$1,293,853

* Certified (Part III) rehabilitation and expenses.

Source: National Park Service, 11/02.

Table III-12
Historic Tax Credit Applications
Usage of State and Federal Programs
Commercial Properties (Rehab Cost and Number)
1997 - 2002

	Expenditures	Percent	Projects	Percent
Used State Credit	$717,038,797	92.7%	222	89.9%
with federal	$623,346,787	80.6%	155	62.8%
without federal	$93,692,010	12.1%	67	27.1%
No State Credit	$56,120,013	7.3%	25	10.1%
Total	$773,158,810	100.0%	247	100.0%

Source: Maryland Historical Trust

Part II certifications by the Maryland Historical Trust for commercial properties have involved use of the State tax credit and those projects accounted for 92.7% of program expenditures. Only 25 projects (10.1%) were applying for federal credits alone and those projects represented 7.3% of total expenditures. Over three-fifths (62.8%) of projects using State tax credits also used the federal credits--but those projects accounted for over **four-fifths (80.6%)** of total expenditures.

E. Penetration Analysis

One crude way of gauging usage of the historic preservation tax credit programs is to compare the number of projects attempted annually to the inventory of eligible historic properties. This comparison results in a calculated penetration rate which states the proportion of eligible properties being rehabilitated in a given year. The comparison is crude because:

- States tracks tax credit activities differently: some by Part II, some by Part III certifications--which necessitates allowance for up to two years of timing difference to accommodate the construction period.

- States use differing tax credit years: some calendar and some fiscal--necessitating additional allowances for timing.

The following chart compares tax credit usage (residential and commercial) for the most recent years to the total eligible inventory in those years for Maryland and peer states. A gross penetration rate is calculated using the data presented earlier in this report. An adjusted penetration rate is also calculated, attempting to conform all states' reporting procedures to Maryland's. The following adjustments have been made:

- Maryland's 10 months' CY 2002 production have been annualized

- Peer states' Part III certifications have been increased by 20% to emulate Maryland's Part II tracking

Tax Credit Penetration Rate: Maryland & Peer States				
	MD	**MO**	**NC**	**VA**
Year Considered	CY 2002	FY 2002	CY 2001	CY 2001
Tax Credit Projects	409	93	255	99
Eligible Inventory	55,790	22,120	42,134	45,068
Penetration Rate (Gross)	0.73%	0.42%	0.61%	0.22%
Penetration Rate (Adjusted)	0.73%	0.53%	0.76%	0.27%

Excluding Virginia which has a penetration rate only one-half to one-third of the other three states, an annual production range of .53% to .75% of the eligible inventory is the most recent experience of Maryland and its peers.

F. Tax Credit Usage Forecast (2003-2013)

Forecasting historic tax credit usage over the next 10 years is a process fraught with difficulties. In making the forecast, it has been assumed that Maryland's 2002 production levels (Table III-13) are a good baseline. That judgment incorporates in particular the probability that 2001's applications were high attributable to a rush for grandfathering under the prior, more generous 25% tax credit guidelines. In 2002, the 337 documented projects (through October) included 286 residential and 51 commercial properties with average expenditures of $121,239 and $1,802,746 respectively.

Proceeding from a 2002 baseline, three distinct forecasts for 2003 - 2013 have been built in Table III-14. The "low penetration rate" scenario assumes an overall .6% penetration rate, the "moderate" and "high" penetration rate scenarios assume .7% and .8% rates respectively. All in the same range as 2002's penetration rate noted above, allowing for the dilutative effect of the significant additions to the eligible inventory but also for increased "word of mouth" marketing. It is assumed that the historic tax credit program as currently structured remains in place throughout the period. Other major assumptions driving the forecasting process are:

- The inventory of eligible historic properties will continue to grow as forecast in the Table I-5 above.

- Average annual usage is forecast understanding that the timing of national economic events (economic expansion/contraction) cannot be predicted but will likely affect an individual year's production.

- Residential projects will continue to grow in number and their individual expenditure levels will grow only with inflation.

- Commercial projects will continue to grow, but adding only two projects per year. Individual expenditures will grow only with inflation since the $3.0 million project cap on credits will reduce the number of projects larger than $15.0 million.

- A high proportion of program usage will remain in Baltimore City for both residential and commercial projects. Adding thousands of properties to the City's list of eligible properties will likely not add proportionately to program usage, however, since residential program usage in particular is linked to neighborhood socio-economics and many of the new National Register properties are in neighborhoods with difficult real estate markets. Commercial program usage should remain strong in the City through the forecasting period.

The moderate usage scenario is believed to be the most likely. Under that scenario, total rehabilitation projects in 2013 could amount to 610, with associated expenditures totaling $256 million. At that expenditure level and at a tax credit rate of 20%, the cost

Table III-13
Historic Tax Credit Applications
State of Maryland by County
Residential & Commercial Properties
2002

	Projects:			*Expenditures:*		
	Resid.	**Comm.**	**Total**	**Resid.**	**Comm.**	**Total**
Allegany	0	0	0	$0	$0	$0
Anne Arundel	20	4	24	$3,540,493	$14,870,000	$18,410,493
Baltimore City	171	29	200	$15,859,404	$50,098,996	$65,958,399
Baltimore County	24	1	25	$6,430,171	$22,454,000	$28,884,171
Calvert	0	0	0	$0	$0	$0
Caroline	1	1	2	$125,000	$89,000	$214,000
Carroll	4	1	5	$118,691	$400,000	$518,691
Cecil	2	0	2	$76,215	$0	$76,215
Charles	0	0	0	$0	$0	$0
Dorchester	2	1	3	$30,900	$68,500	$99,400
Frederick	6	3	9	$560,925	$875,000	$1,435,925
Garrett	1	0	1	$19,368	$0	$19,368
Harford	2	1	3	$176,440	$500,000	$676,440
Howard	1	1	2	$145,000	$180,000	$325,000
Kent	4	3	7	$3,649,541	$660,000	$4,309,541
Montgomery	18	2	20	$1,857,689	$913,634	$2,771,322
Prince George's	19	0	19	$680,278	$0	$680,278
Queen Anne's	0	0	0	$0	$0	$0
St. Mary's	0	0	0	$0	$0	$0
Somerset	3	0	3	$96,878	$0	$96,878
Talbot	0	2	2	$0	$350,900	$350,900
Washington	4	1	5	$1,233,000	$400,000	$1,633,000
Wicomico	3	1	4	$62,922	$80,000	$142,922
Worcester	1	0	1	$11,412	$0	$11,412
Total	**286**	**51**	**337**	**$34,674,326**	**$91,940,029**	**$126,614,356**
Average Expenditures				*$121,239*	*$1,802,746*	

Source: Maryland Historical Trust

Table III-14
Historic Tax Credit Applications
State of Maryland
Three Forecast Scenarios
2003 - 2013

Low Penetration (.6%):

	Eligible Inventory	Forecast Projects	*Residential* Projects	*Residential* Expenditures	*Commercial* Projects	*Commercial* Expenditures	Total Expenditures
2003	55,790	335	285	$34,521,565	50	$90,137,284	$124,658,849
2004	67,790	407	355	$44,083,496	52	$96,086,344	$140,169,840
2005	70,739	424	370	$47,184,632	54	$102,276,522	$149,461,154
2006	73,688	442	386	$50,413,273	56	$108,716,155	$159,129,428
2007	76,637	460	402	$53,773,855	58	$115,413,847	$169,187,702
2008	79,586	478	418	$57,270,958	60	$122,378,476	$179,649,434
2009	81,094	487	425	$59,693,681	62	$129,619,202	$189,312,883
2010	82,602	496	432	$62,201,745	64	$137,145,478	$199,347,224
2011	84,110	505	439	$64,797,904	66	$144,967,057	$209,764,961
2012	85,618	514	446	$67,484,995	68	$153,093,998	$220,578,992
2013	87,126	523	453	$70,265,941	70	$161,536,681	$231,802,623

Moderate Penetration (.7%):

	Eligible Inventory	Forecast Projects	*Residential* Projects	*Residential* Expenditures	*Commercial* Projects	*Commercial* Expenditures	Total Expenditures
2003	55,790	391	341	$47,347,429	50	$90,137,284	$137,484,713
2004	67,790	475	423	$58,969,784	52	$96,086,344	$155,056,129
2005	70,739	495	441	$63,073,465	54	$102,276,522	$165,349,987
2006	73,688	516	460	$67,345,473	56	$108,716,155	$176,061,628
2007	76,637	536	478	$71,791,660	58	$115,413,847	$187,205,507
2008	79,586	557	497	$76,418,067	60	$122,378,476	$198,796,542
2009	81,094	568	506	$79,812,691	62	$129,619,202	$209,431,894
2010	82,602	578	514	$83,329,286	64	$137,145,478	$220,474,765
2011	84,110	589	523	$86,971,828	66	$144,967,057	$231,938,884
2012	85,618	599	531	$90,744,416	68	$153,093,998	$243,838,413
2013	87,126	610	540	$94,651,275	70	$161,536,681	$256,187,957

High Penetration (.8%):

	Eligible Inventory	Forecast Projects	*Residential* Projects	*Residential* Expenditures	*Commercial* Projects	*Commercial* Expenditures	Total Expenditures
2003	55,790	446	396	$48,049,402	50	$90,137,284	$138,186,686
2004	67,790	542	490	$60,932,006	52	$96,086,344	$157,018,350
2005	70,739	566	512	$65,205,622	54	$102,276,522	$167,482,144
2006	73,688	590	534	$69,654,836	56	$108,716,155	$178,370,992
2007	76,637	613	555	$74,285,758	58	$115,413,847	$189,699,605
2008	79,586	637	577	$79,104,692	60	$122,378,476	$201,483,167
2009	81,094	649	587	$82,497,307	62	$129,619,202	$212,116,509
2010	82,602	661	597	$86,010,113	64	$137,145,478	$223,155,591
2011	84,110	673	607	$89,646,998	66	$144,967,057	$234,614,054
2012	85,618	685	617	$93,411,971	68	$153,093,998	$246,505,968
2013	87,126	697	627	$97,309,163	70	$161,536,681	$258,845,844

$121,239 Avg. Expenditures (Residential)
$1,802,746 Avg. Expenditures (Commercial)
2.50% Annual CPI Adjustment for 2004-2013

to the State for historic tax credits is estimated at $51.2 million, which is within the range of the target maximum of $50.0 million per year embedded in the current law.

G. Summary and Conclusion

The 2003 - 2013 forecast for usage of the historic tax credit program envisions significantly increasing residential use of the program and slower growth of the commercial use. As the inventory of eligible properties throughout the State grows, it is assumed that usage will also grow proportionately. Of the three usage forecasts provided, the moderate usage scenario seems most likely with the number of projects rising to 610 in 2013 and their expenditures totaling $256 million.

V. ENVIRONMENTAL BENEFITS

In this section, LF&M quantifies potential benefits to the air quality of the Baltimore Region due to historic rehabilitation of dwelling units and places of employment in Baltimore City.

A. Background & Methodology

The U.S. Environmental Protection Agency (EPA), working with the Baltimore Metropolitan Council, has estimated the changes in vehicle travel and resulting reductions in emissions which can be derived from the addition of new residents and jobs to Baltimore City through historic rehabilitation.

In general, EPA's model quantifies the difference in driving patterns between City dwellers/workers and their suburban counterparts. As rehabilitation of City buildings leads to more residents and workers in the City, it is assumed they relocate from within the Region. Faced with the activity and travel choices in the City, these new residents and workers will tend to choose to drive less. Looking at current travel patterns in the City and suburban counties can help to estimate future benefits of rehabilitation. The Baltimore Region consists of the City and its five surrounding jurisdictions: Baltimore, Harford, Carroll, Anne Arundel and Howard counties. All results contrast average characteristics of City residents and workers with those of the Counties.

On average, City residents/workers drive fewer than half as many miles than their suburban counterparts because City places of work, shopping opportunities and other principal destinations tend to be located closer to their homes. Urban residents/workers can walk to more destinations, since they are closer together and typically in more pedestrian-friendly settings. Baltimore City also has more frequent and dense transit service than the surrounding counties. As a result, City residents drive only 18.6 miles per day, for example, as compared with 42.7 miles per day by suburbanites. Similarly, City residents daily experience only 4.5 average vehicle minutes of delay (sitting in traffic) as compared with 7.2 minutes per day for suburbanites. Overall, each City resident produces 300 fewer pounds of pollutants per year. The differences in amount of travel, delay, and pollution are also large for workers in the City relative to those in the suburbs.

The model offers only general multipliers, which can be used to convert overall changes in residents and jobs into changes in travel and emissions; they cannot be used for analyses of smaller areas or other market segments. Results are based on conditions existing in 2000 and so cannot be uncritically applied to the distant future or dramatically different circumstances. Other major assumptions which have been made in building the model include:

- Inasmuch as new households in the City are often connected with the new jobs, this method may overestimate the trip reductions. Both per-household and per-employee estimates include changes in work travel, which Region-wide accounts for 20-25% of all vehicle-miles traveled.

- The calculations do not control for any demographic characteristics beyond residence and workplace location. For example, no attempt is made to stratify rates by vehicle-ownership or income level. The method assumes that relocating households and employment "behave like" their existing non-City counterparts before relocating and like their new City counterparts afterwards.

- Delay savings are conservative because they do not capture the travel time savings for other drivers due to new City drivers being on the road less.

B. Quantification of Benefits

The EPA statistical model estimates the environmental savings attributable to relocating in the City from its suburbs as shown in the following matrix:

Savings through Relocating to City			
	Key Term	per Household	per Job
VMT/Day	Vehicle Miles Traveled	24.0	11.0
VMD/Day	Vehicle Minutes of Delay	2.7	1.3
NOx/Year	Nitrogen Oxide	44.1 lbs.	20.0 lbs.
CO/Year	Carbon Monoxide	225.4 lbs.	98.0 lbs.
VOC/Year	Volatile Organic Compounds	13.8 lbs.	5.5 lbs.

Source: U.S. Environmental Protection Agency, Baltimore Metropolitan Council

Emissions from an individual car are relatively small, but the cumulative impact of hundreds of thousands of cars per day is serious in the Baltimore Region which is classified by EPA in Severe Nonattainment of the National Ozone standards. Emissions from highway vehicles represent one-third of the national volatile organic compounds and two-fifths of overall nitrogen oxide emissions; each of these chemicals contributes to formation of ozone and smog.

Residential Benefits

Based on Maryland Historical Trust's database concerning historic tax credit applications, the number of net new housing which has been added to the City's housing stock is estimated to be at least 1,292 units. This is a conservative number since it only includes new multifamily rental units rehabilitated with tax credit assistance and does not include: new single family homeownership residential units nor another previously existing 1,002 units which are being upgraded.

LF&M estimates the environmental benefits derived from the addition of 1,292 new resident households to Baltimore City are quantified as follows:

Residential Benefits		
	per Household	Total Annual
VMT/Day	24.0	8,682,240 VMT per Year
VMD/Day	2.7	976,752 VMD per Year
NOx/Year	44.1 lbs.	56,977 lbs. per Year
CO/Year	225.4 lbs.	291,217 lbs. per Year
VOC/Year	13.8 lbs.	17,830 lbs. per Year

Data obtained from the Baltimore Metropolitan Council and Maryland State Highway Administration indicate that the savings for each of the criteria pollutants above represent an average of .04%-.05% of total environmental impact of household travel in the Baltimore Region.

Employment Benefits

A number of major Baltimore City redevelopment projects with significant employment impact have been undertaken with the assistance of historic preservation tax credits. Those projects include the Can Company in Canton, Tide Point in Locust Point, Bagby Furniture Building in Inner Harbor East, Mount Washington Mill in Mount Washington and Stieff Silver Building in Hampden. (For purposes of this analysis the 1.3 million square foot Montgomery Park project has not be included since it has not yet completed lease-up.) It is estimated that approximately 2,500 net new jobs have been drawn to Baltimore City through the projects across the full range of the employment spectrum from retail to high technology.

The environmental benefits derived from the addition of 2,500 new employment opportunities to Baltimore City are quantified as follows:

Employment Benefits		
	per Job	Total Annual
VMT/Day	11.0	7,700,000 VMT per Year
VMD/Day	1.3	910,000 VMD per Year
NOx/Year	20.0 lbs.	50,000 lbs. per Year
CO/Year	98.0 lbs.	245,000 lbs. per Year
VOC/Year	5.5 lbs.	13,750 lbs. per Year

It should be noted that there is likely some offset between the residential and employment benefits, since some households will decide to change both their residential and employment location at the same time. Nonetheless, conservative household and job numbers have been used as the basis for the calculations. The calculated benefits, therefore, remain credible in the analyst's opinion.

Once again comparing these savings to regional environmental statistics, the addition of these employment opportunities has diminished the environmental impact for each of the critical factors an average of .04% on an annual basis.

C. Summary and Conclusion

The relocation of households and employment opportunities to historically rehabilitated properties in Baltimore City from elsewhere in the Region has already provided a benefit to the environment, resulting from the changed driving behavior of those households and workers. The positive impacts are totaled as follows:

Total Savings through Locating to City			
	Residential Annual	Employment Annual	Total Annual
VMT	8,682,240 VMT	7,700,000 VMT	16.38 million VMT
VMD	976,752 VMD	910,000 VMD	1.89 million VMD
NOx	56,977 lbs.	50,000 lbs.	53.49 tons
CO	291,217 lbs.	245,000 lbs.	268.11 tons
VOC	17,830 lbs.	13,750 lbs.	15.79 tons

A significant beneficial impact of these projects, therefore, has been a total reduction in vehicle miles traveled, emissions and other transportation factors of .08%-.1% for the Baltimore Region.

APPENDIX A
UNDERLYING ASSUMPTIONS & LIMITING CONDITIONS

In conducting the study, Lipman Frizzell & Mitchell LLC has made the following assumptions, except as otherwise noted in our report:

1. There are no zoning, building, safety, environmental or other federal, state or local laws, regulations or codes which would prohibit or impair the development, marketing or operation of the subject project in the manner contemplated in our report, and the subject project will be developed, marketed and operated in compliance with all applicable laws, regulations and codes.

2. No material changes will occur in (a) any federal, state or local law, regulation or code (including, without limitation, the Internal Revenue Code) affecting the subject project, or (b) any federal, state or local grant, financing or other program which is to be utilized in connection with the subject project.

3. The local, national and international economies will not deteriorate, and there will be no significant changes in interest rates or in rates of inflation or deflation.

4. The subject project will be served by adequate transportation, utilities and governmental facilities.

5. The subject project will not be subjected to any war, energy crisis, embargo, strike, earthquake, flood, fire or other casualty or act of God.

6. The subject project will be on the market at the time and with the product anticipated in our report, and at the price position specified in our report.

7. The subject project will be developed, marketed and operated in a highly professional manner.

8. No projects will be developed which will be in competition with the subject project, except as set forth in our report.

9. There are no existing judgments nor any pending or threatened litigation which could hinder the development, marketing or operation of the subject project.

The analysis is subject to the following limiting conditions, except as otherwise noted in our report:

1. The analysis contained in this report necessarily incorporates numerous estimates and assumptions with respect to property performance, general and local business and economic conditions, the absence of material changes in the competitive environment and other matters. Some estimates or assumptions, however, inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will vary from our estimates and the variations may be material.

2. Our absorption estimates are based on the assumption that the product recommendations set forth in our report will be followed without material deviation.

3. All estimates of future dollar amounts are based on the current value of the dollar, without any allowance for inflation or deflation.

4. We have no responsibility for considerations requiring expertise in other fields. Such considerations include, but are not limited to, legal matters, environmental matters, architectural matters, geologic considerations, such as soils and seismic stability, and civil, mechanical, electrical, structural and other engineering matters.

5. Information, estimates and opinions contained in or referred to in our report, which we have obtained from sources outside of this office, are assumed to be reliable and have not been independently verified.

6. The conclusions and recommendations in our report are subject to these Underlying Assumptions and Limiting Conditions and to any additional assumptions or conditions set forth in the body of our report.

APPENDIX B
ANALYST QUALIFICATIONS

Lipman Frizzell & Mitchell LLC is a multifaceted real estate consulting and appraisal firm serving the Mid-Atlantic since 1977. LF&M is one of the largest real estate advisory firms headquartered in the Region, with 16 professionals in our Columbia, MD headquarters.

LF&M provides clients with objective advice and practical assistance at every stage of decision-making on the development, use or reuse of all types of real estate. Our clients include corporations, institutions, real estate owners, builders, developers, and government entities. Our professional staff has an exceptional capability to use a vast array of information and resources to assist clients in making sound, timely decisions through the real estate planning, financing and development process. Eight senior members of the firm hold the MAI designation and other advanced degrees. Professional licenses are held by various members of the firm in Maryland, District of Columbia, Pennsylvania, Delaware and Virginia.

Joseph Cronyn is well known in Maryland for his analyses of the fiscal and economic benefits of historic preservation within the state, including:

- Property Tax Credit for Historic Restorations and Rehabilitations (City of Baltimore) - Analysis of program structure, economic and fiscal benefits.

- Class B Office Building Conversion Analysis (Downtown Partnership of Baltimore, Inc.) - Analysis of rehab, financing, market and fiscal issues of adaptive reuse.

- Heritage Structure Rehabilitation Tax Credit (Maryland Historical Trust) **-** Analysis of the implications of the proposed tax credit and projection of its impact on such factors as: employment, incomes, local government revenues and expenses, State revenues and expenses.

- Economic Benefits of Heritage Conservation Zoning (MAHDC) **-** Analysis of the economic and fiscal benefits generated by six historic districts located throughout the State of Maryland.

- State of Maryland Heritage Structure Rehabilitation Tax Credits: Economic & Fiscal Impacts (Preservation Maryland) - Analysis of economic and fiscal benefits of the Maryland tax credit program including case studies of three completed projects.

Cronyn's resume is attached. Additional information on LF&M is available on our website at "lfmvalue.com".

JOSEPH M. CRONYN
Resume

Joseph Cronyn has a broad professional background in real estate research, sales and marketing, development, financing and appraisal. His experience includes market and financial feasibility analyses of major real estate projects; land acquisition and marketing for residential development; tax-motivated and conventional financing for single family and multifamily residential projects; and advising public, non-profit and private clients concerning real estate decision-making.

PROFESSIONAL EXPERIENCE

Lipman Frizzell & Mitchell, LLC, Baltimore, MD (1997 - present)
Senior Associate

Conducts market feasibility analyses for commercial and residential real estate projects throughout the Mid-Atlantic area. Analyzes commercial real estate markets and specializes in determining the economic and fiscal outcomes of real estate decision-making. Building on strong skills in economic and demographic research, also advises clients on economic development, public sector housing policy, historic preservation and fiscal impact issues. Recent assignments include:

- HOPE VI Public Housing Redevelopment: Baltimore City, Hagerstown, Philadelphia
- Convention Center Hotel Feasibility, Baltimore City
- Owings Mills Metro Station Master Redevelopment Plan, Baltimore County
- National Business Park Feasibility, Anne Arundel County
- Springfield and Spring Grove State Hospital Redevelopment: Carroll, Baltimore counties
- State Housing Needs Assessment: Delaware, Maryland and Louisiana
- Class B Office Conversion to Apartments Feasibility, Baltimore City
- For-Sale Residential Feasibility in Bolton Hill, Baltimore City

Legg Mason Realty Group, Inc., Baltimore, MD (1989 - 1997)
Vice President

Built a professional practice within the real estate advisory subsidiary of a major regional securities firm. Served private, public and non-profit clients throughout the Mid-Atlantic states in dealing with their real estate-related issues: residential and commercial development, market and financial feasibility, fiscal and economic impacts.

Financial Associates of Maryland, Baltimore, MD (1987 - 1989)
Vice President

Responsible for land acquisition and marketing for firm specializing in real estate development and venture capital investment. Analyzed financial and sales feasibility for residential lot development and home construction projects.

Baltimore Federal Financial, F.S.A., Baltimore, MD (1982 - 1987)
Director of Sales & Marketing. Senior Vice President

Responsible for all marketing and public relations for one of the largest thrift organizations in Maryland. Directed all retail sales efforts and administration of statewide branch banking network, stock brokerage, insurance agency and business development functions.

Neighborhood Reinvestment Corporation, Washington, DC (1978 - 1982)
Assistant Director

Discovered and developed innovative urban revitalization projects throughout the United States for prominent national non-profit corporation. Supervised allocation of grant budget and researched impact of programs. Trained staff and local non-profits in real estate practices and housing finance.

Baltimore Federal Savings & Loan, Baltimore, MD (1976 - 1978)
Mortgage Underwriter and Urban Lending Coordinator

Evaluated residential purchase and rehabilitation mortgage loans for investment. Assisted in the development of urban lending techniques in cooperation with public, non-profit and private sector partners.

St. Ambrose Housing Aid Center, Baltimore, MD (1973-1976)
Principal and Housing Counselor

Counselor and non-profit real estate agent. Sold over 200 homes to low- and moderate-income families throughout the Baltimore Metropolitan Area. Researched local housing issues.

EDUCATION

Master of Business Administration
Loyola College, Executive Program, 1986

B.A. in English & Philosophy
Boston College, 1969

AFFILIATIONS

Neighborhood Housing Services of Baltimore, Chairman of the Board
Citizens Planning and Housing Association, Member
Downtown Partnership of Baltimore, Class B Commercial Re-Use Task Force
Maryland Industrial Development Association (MIDAS), Member
Regional Development Advisory Committee, Baltimore Metropolitan Council
Lambda Alpha International Land Economics Society, Member
Lambda Alpha International Land Economics Society/Baltimore Chapter, Board Member
MD Route 32 Land Use Expert Panel, MD State Highway Administration, Member

PROFESSIONAL LICENSES

State of Maryland Real Estate Agent's License

Maryland Department of Housing and Community Development

Selected Project Name: CBIZ Building, Cumberland, Maryland
Reporting Period: 9/24/2003 to 9/24/2003

Present Value of Revenues and Expenditures

Present Value of Additional State Revenues	$4,637,539
Present Value of Additional State Expenditures	$589,319
Net Present Value of Additional State Tax Receipts	$4,048,220
Discount Term	5
Discount Rate	2.60%

Breakeven Analysis

Number of Years to Break-even	0.57

Economic Impact Analysis

	Annual Operations		Construction Period	
	Direct Impact	Total Impact	Direct Impact	Total Impact
Expenditures	$34,135,492	$55,391,796	$2,424,707	$4,105,119
Wages and Salaries	$12,176,279	$20,589,214	$1,134,890	$1,680,391
Employment (FTE Jobs)	190	462	28	46
State Taxes	**$529,121**	**$960,461**	**$44,973**	**$72,533**
State Retail Sales Tax	$117,420	$239,492	$12,728	$20,527
State Personal Income Tax	$408,500	$717,768	$32,245	$52,006
State Real Property Tax	$3,201	$3,201	na	na
Local Taxes	**$277,158**	**$473,159**	**$20,436**	**$32,959**
Local Personal Income Surtax	$253,299	$449,300	$20,436	$32,959
Local Real Property Tax	$23,859	$23,859	na	na
Other Local Taxes	$0	$0	na	na
State and Local Taxes	**$806,278**	**$1,433,620**	**$65,408**	**$105,493**

Notes:
Figures are expressed in 2003 dollars.

FTE denotes full-time equivalent.
Expenditures category is inclusive of all expenses including operations, payroll and benefits

Maryland Department of Housing and Community Development

Selected Project Name: 8089 Main Street, Ellicott City, Maryland
Reporting Period: 9/23/2003 to 9/23/2003

Present Value of Revenues and Expenditures

Present Value of Additional State Revenues	$385,362
Present Value of Additional State Expenditures	$155,250
Net Present Value of Additional State Tax Receipts	$230,112
Discount Term	5
Discount Rate	2.60%

Breakeven Analysis

Number of Years to Break-even	1.79

Economic Impact Analysis

	Annual Operations		Construction Period	
	Direct Impact	Total Impact	Direct Impact	Total Impact
Expenditures	$2,578,326	$4,408,810	$621,000	$1,051,376
Wages and Salaries	$1,039,226	$1,678,621	$290,661	$430,371
Employment (FTE Jobs)	51	71	7	12
State Taxes	**$45,667**	**$77,170**	**$11,518**	**$18,577**
State Retail Sales Tax	$17,268	$26,184	$3,260	$5,257
State Personal Income Tax	$27,579	$50,167	$8,258	$13,319
State Real Property Tax	$820	$820	na	na
Local Taxes	**$21,881**	**$33,851**	**$4,376**	**$7,058**
Local Personal Income Surtax	$15,398	$27,368	$4,376	$7,058
Local Real Property Tax	$6,483	$6,483	na	na
Other Local Taxes	$0	$0	na	na
State and Local Taxes	**$67,548**	**$111,022**	**$15,894**	**$25,635**

Notes:
Figures are expressed in 2003 dollars.

FTE denotes full-time equivalent.
Expenditures category is inclusive of all expenses including operations, payroll and benefits.

Maryland Department of Housing and Community Development

Selected Project Name: American Brewery Housing, Baltimore, Maryland
Reporting Period: 9/24/2003 to 9/24/2003

Present Value of Revenues and Expenditures

Present Value of Additional State Revenues	$707,800
Present Value of Additional State Expenditures	$804,576
Net Present Value of Additional State Tax Receipts	-$96,776
Discount Term	5
Discount Rate	2.60%

Breakeven Analysis

Number of Years to Break-even	6.25

Economic Impact Analysis

	Annual Operations		Construction Period	
	Direct Impact	Total Impact	Direct Impact	Total Impact
Expenditures	$2,479,293	$4,573,142	$9,635,620	$16,313,463
Wages and Salaries	$1,114,367	$1,920,323	$4,509,975	$6,677,761
Employment (FTE Jobs)	25	49	113	182
State Taxes	**$49,800**	**$88,273**	**$178,718**	**$288,243**
State Retail Sales Tax	$12,175	$23,063	$50,578	$81,575
State Personal Income Tax	$37,625	$65,210	$128,140	$206,668
State Real Property Tax	$0	$0	na	na
Local Taxes	**$24,553**	**$42,751**	**$84,535**	**$136,342**
Local Personal Income Surtax	$24,553	$42,751	$84,535	$136,342
Local Real Property Tax	$0	$0	na	na
Other Local Taxes	$0	$0	na	na
State and Local Taxes	**$74,353**	**$131,024**	**$263,254**	**$424,584**

Notes:
Figures are expressed in 2003 dollars.

FTE denotes full-time equivalent.
Expenditures category is inclusive of all expenses including operations, payroll and benefits.

Maryland Department of Housing and Community Development

Selected Project Name: Visionary Art Museum Expansion, Baltimore, Maryland
Reporting Period: 9/24/2003 to 9/24/2003

Present Value of Revenues and Expenditures

Present Value of Additional State Revenues	$1,380,973
Present Value of Additional State Expenditures	$1,875,000
Net Present Value of Additional State Tax Receipts	-$494,027
Discount Term	5
Discount Rate	2.60%

Breakeven Analysis

Number of Years to Break-even	7.35

Economic Impact Analysis

	Annual Operations		Construction Period	
	Direct Impact	Total Impact	Direct Impact	Total Impact
Expenditures	$6,760,050	$12,501,129	$7,500,000	$12,697,779
Wages and Salaries	$3,402,551	$5,528,130	$3,510,393	$5,197,715
Employment (FTE Jobs)	308	371	88	142
State Taxes	**$142,988**	**$243,348**	**$139,107**	**$224,357**
State Retail Sales Tax	$71,648	$100,050	$39,368	$63,495
State Personal Income Tax	$71,340	$143,298	$99,739	$160,862
State Real Property Tax	$0	$0	na	na
Local Taxes	**$55,804**	**$103,275**	**$65,799**	**$106,123**
Local Personal Income Surtax	$55,804	$103,275	$65,799	$106,123
Local Real Property Tax	$0	$0	na	na
Other Local Taxes	$0	$0	na	na
State and Local Taxes	**$198,791**	**$346,623**	**$204,907**	**$330,480**

Notes:
Figures are expressed in 2003 dollars.

FTE denotes full-time equivalent.
Expenditures category is inclusive of all expenses including operations, payroll and benefits.

Maryland Department of Housing and Community Development

Selected Project Name: The Chateau Apartments, Baltimore, Maryland
Reporting Period: 9/24/2003 to 9/24/2003

Present Value of Revenues and Expenditures

Present Value of Additional State Revenues	$521,376
Present Value of Additional State Expenditures	$1,397,471
Net Present Value of Additional State Tax Receipts	-$876,095
Discount Term	5
Discount Rate	2.60%

Breakeven Analysis

Number of Years to Break-even	23.88

Economic Impact Analysis

	Annual Operations		Construction Period	
	Direct Impact	Total Impact	Direct Impact	Total Impact
Expenditures	$1,586,748	$2,926,811	$6,987,357	$11,829,855
Wages and Salaries	$713,195	$1,229,007	$3,270,449	$4,842,439
Employment (FTE Jobs)	16	32	82	132
State Taxes	**$41,095**	**$65,718**	**$129,599**	**$209,022**
State Retail Sales Tax	$7,792	$14,760	$36,677	$59,155
State Personal Income Tax	$24,080	$41,735	$92,922	$149,867
State Real Property Tax	$9,223	$9,223	na	na
Local Taxes	**$178,379**	**$190,026**	**$61,302**	**$98,869**
Local Personal Income Surtax	$15,714	$27,361	$61,302	$98,869
Local Real Property Tax	$162,666	$162,666	na	na
Other Local Taxes	$0	$0	na	na
State and Local Taxes	**$219,475**	**$255,745**	**$190,901**	**$307,891**

Notes:
Figures are expressed in 2003 dollars.

FTE denotes full-time equivalent.
Expenditures category is inclusive of all expenses including operations, payroll and benefits.

Maryland Department of Housing and Community Development

Selected Project Name: 300 North Charles Street, Baltimore, Maryland
Reporting Period: 9/24/2003 to 9/24/2003

Present Value of Revenues and Expenditures

Present Value of Additional State Revenues	$323,070
Present Value of Additional State Expenditures	$2,000,000
Net Present Value of Additional State Tax Receipts	-$1,676,930
Discount Term	5
Discount Rate	2.60%

Breakeven Analysis

Number of Years to Break-even	30.00

Economic Impact Analysis

	Annual Operations		Construction Period	
	Direct Impact	Total Impact	Direct Impact	Total Impact
Expenditures	$198,343	$365,851	$8,000,000	$13,544,297
Wages and Salaries	$89,149	$153,626	$3,744,419	$5,544,229
Employment (FTE Jobs)	2	4	94	151
State Taxes	**$14,544**	**$17,622**	**$148,381**	**$239,314**
State Retail Sales Tax	$974	$1,845	$41,993	$67,728
State Personal Income Tax	$3,010	$5,217	$106,388	$171,587
State Real Property Tax	$10,560	$10,560	na	na
Local Taxes	**$188,204**	**$189,660**	**$70,186**	**$113,198**
Local Personal Income Surtax	$1,964	$3,420	$70,186	$113,198
Local Real Property Tax	$186,240	$186,240	na	na
Other Local Taxes	$0	$0	na	na
State and Local Taxes	**$202,748**	**$207,282**	**$218,567**	**$352,512**

Notes:
Figures are expressed in 2003 dollars.

FTE denotes full-time equivalent.
Expenditures category is inclusive of all expenses including operations, payroll and benefits

Maryland Department of Housing and Community Development

Selected Project Name: 808 St. Paul Street, Baltimore, Maryland
Reporting Period: 9/24/2003 to 9/24/2003

Present Value of Revenues and Expenditures

Present Value of Additional State Revenues	$1,863,854
Present Value of Additional State Expenditures	$282,474
Net Present Value of Additional State Tax Receipts	$1,581,380
Discount Term	5
Discount Rate	2.60%

Breakeven Analysis

Number of Years to Break-even	0.67

Economic Impact Analysis

	Annual Operations		Construction Period	
	Direct Impact	Total Impact	Direct Impact	Total Impact
Expenditures	$9,938,992	$17,976,638	$1,151,584	$1,949,675
Wages and Salaries	$5,392,179	$8,432,571	$539,002	$798,081
Employment (FTE Jobs)	120	211	13	22
State Taxes	**$240,560**	**$384,901**	**$21,359**	**$34,449**
State Retail Sales Tax	$58,440	$99,289	$6,045	$9,749
State Personal Income Tax	$180,600	$284,091	$15,314	$24,700
State Real Property Tax	$1,520	$1,520	na	na
Local Taxes	**$144,661**	**$212,935**	**$10,103**	**$16,295**
Local Personal Income Surtax	$117,852	$186,127	$10,103	$16,295
Local Real Property Tax	$26,809	$26,809	na	na
Other Local Taxes	$0	$0	na	na
State and Local Taxes	**$385,221**	**$597,836**	**$31,462**	**$50,743**

Notes:
Figures are expressed in 2003 dollars.

FTE denotes full-time equivalent.
Expenditures category is inclusive of all expenses including operations, payroll and benefits

Maryland Department of Housing and Community Development

Selected Project Name: Charles Palace Hotel, Baltimore, Maryland
Reporting Period: 9/24/2003 to 9/24/2003

Present Value of Revenues and Expenditures

Present Value of Additional State Revenues	$13,950,020
Present Value of Additional State Expenditures	$2,000,000
Net Present Value of Additional State Tax Receipts	$11,950,020
Discount Term	5
Discount Rate	2.60%

Breakeven Analysis

Number of Years to Break-even	0.63

Economic Impact Analysis

	Annual Operations		Construction Period	
	Direct Impact	Total Impact	Direct Impact	Total Impact
Expenditures	$115,586,896	$187,778,080	$10,000,000	$16,930,372
Wages and Salaries	$35,579,680	$61,145,172	$4,680,524	$6,930,286
Employment (FTE Jobs)	969	1,806	117	189
State Taxes	**$1,546,336**	**$2,872,097**	**$185,476**	**$299,143**
State Retail Sales Tax	$433,888	$809,088	$52,491	$84,659
State Personal Income Tax	$1,099,248	$2,049,809	$132,985	$214,483
State Real Property Tax	$13,200	$13,200	na	na
Local Taxes	**$957,989**	**$1,585,087**	**$87,732**	**$141,498**
Local Personal Income Surtax	$725,189	$1,352,287	$87,732	$141,498
Local Real Property Tax	$232,800	$232,800	na	na
Other Local Taxes	$0	$0	na	na
State and Local Taxes	**$2,504,324**	**$4,457,184**	**$273,209**	**$440,640**

Notes:
Figures are expressed in 2003 dollars.

FTE denotes full-time equivalent.
Expenditures category is inclusive of all expenses including operations, payroll and benefits.

Maryland Department of Housing and Community Development

Selected Project Name: Mealey's Restaurant, New Market, Maryland
Reporting Period: 8/27/2003 to 9/10/2003

Present Value of Revenues and Expenditures

Present Value of Additional State Revenues	$532,891
Present Value of Additional State Expenditures	$106,838
Net Present Value of Additional State Tax Receipts	$426,053
Discount Term	5
Discount Rate	2.60%

Breakeven Analysis

Number of Years to Break-even	0.87

Economic Impact Analysis

	Annual Operations		Construction Period	
	Direct Impact	Total Impact	Direct Impact	Total Impact
Expenditures	$4,059,469	$6,686,635	$427,355	$723,528
Wages and Salaries	$1,548,340	$2,409,066	$200,025	$296,169
Employment (FTE Jobs)	99	127	5	8
State Taxes	**$66,076**	**$109,429**	**$7,926**	**$12,784**
State Retail Sales Tax	$30,572	$42,841	$2,243	$3,618
State Personal Income Tax	$34,940	$66,023	$5,683	$9,166
State Real Property Tax	$564	$564	na	na
Local Taxes	**$29,027**	**$48,928**	**$3,639**	**$5,869**
Local Personal Income Surtax	$24,753	$44,655	$3,639	$5,869
Local Real Property Tax	$4,274	$4,274	na	na
Other Local Taxes	$0	$0	na	na
State and Local Taxes	**$95,103**	**$158,357**	**$11,565**	**$18,653**

Notes:
Figures are expressed in 2003 dollars.

FTE denotes full-time equivalent.
Expenditures category is inclusive of all expenses including operations, payroll and benefits.

Maryland Department of Housing and Community Development

Selected Project Name: Prince Theatre, Chestertown, Maryland
Reporting Period: 8/27/2003 to 9/10/2003

Present Value of Revenues and Expenditures

Present Value of Additional State Revenues	$476,443
Present Value of Additional State Expenditures	$117,813
Net Present Value of Additional State Tax Receipts	$358,630
Discount Term	5
Discount Rate	2.60%

Breakeven Analysis

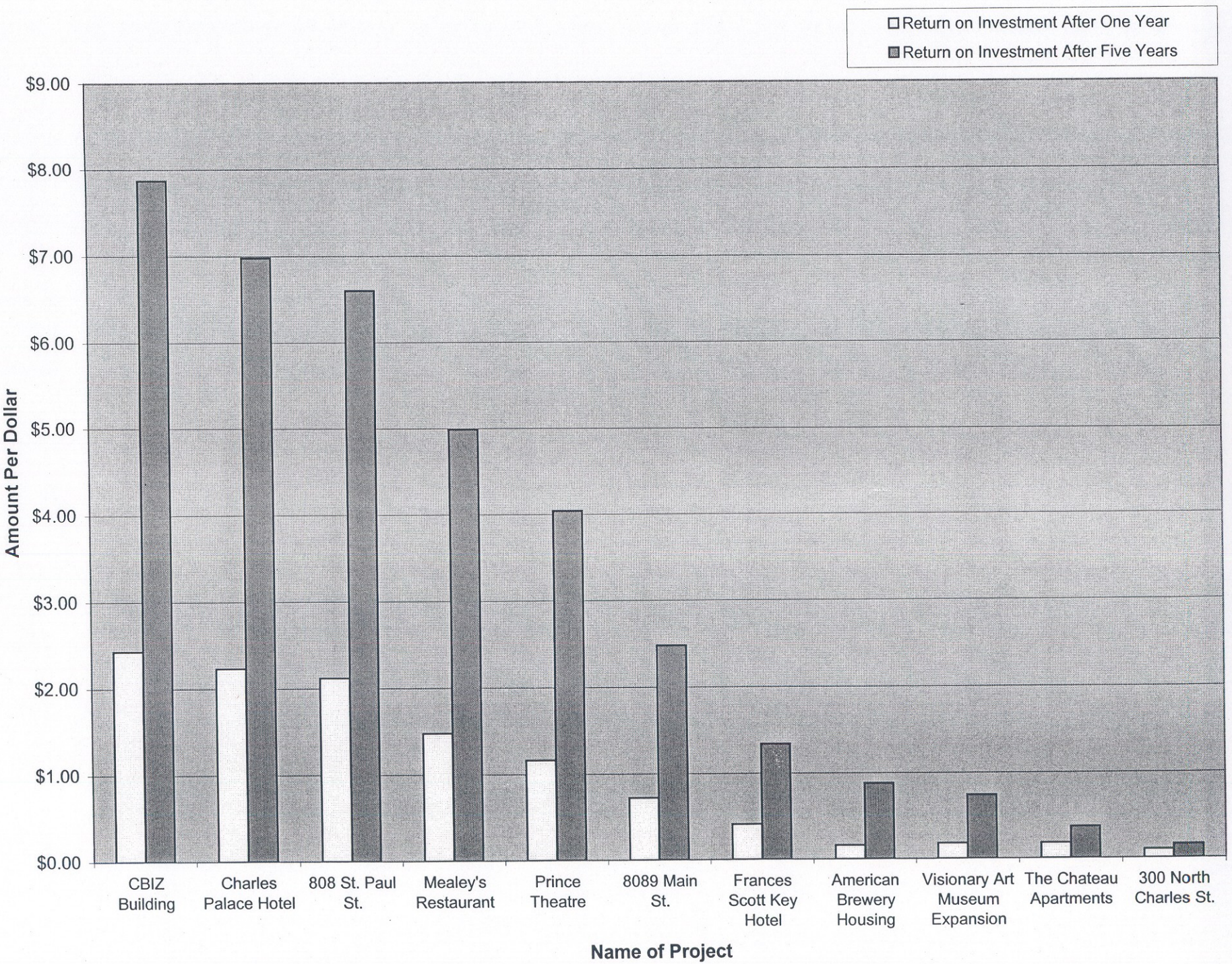
Number of Years to Break-even	1.07

Economic Impact Analysis

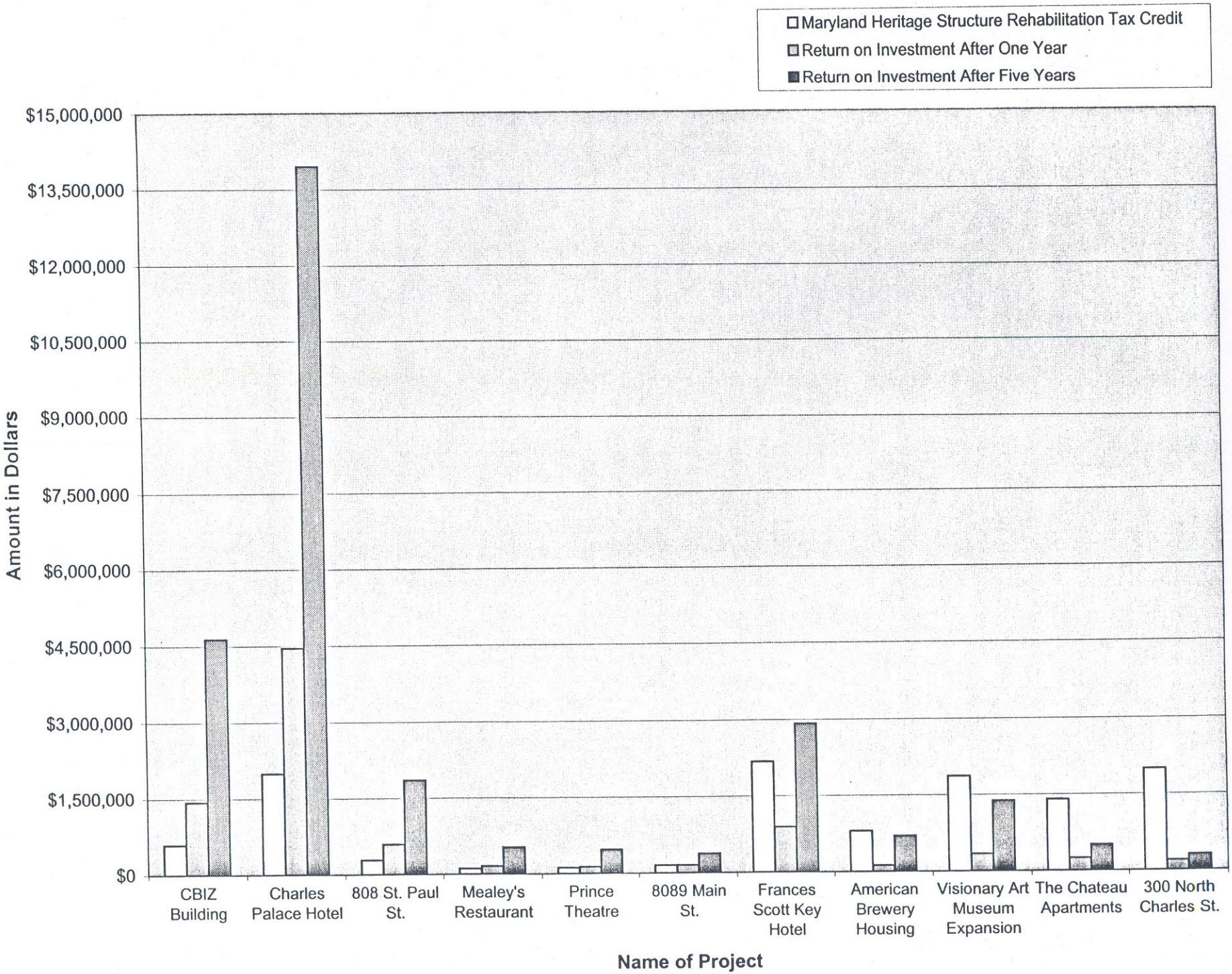
	Annual Operations		Construction Period	
	Direct Impact	Total Impact	Direct Impact	Total Impact
Expenditures	$4,721,190	$8,883,390	$471,254	$797,851
Wages and Salaries	$1,207,345	$2,704,046	$220,572	$326,592
Employment (FTE Jobs)	62	113	6	9
State Taxes	**$43,388**	**$97,276**	**$8,741**	**$14,097**
State Retail Sales Tax	$19,376	$38,195	$2,474	$3,990
State Personal Income Tax	$23,390	$58,458	$6,267	$10,108
State Real Property Tax	$622	$622	na	na
Local Taxes	**$19,078**	**$39,281**	**$3,497**	**$5,641**
Local Personal Income Surtax	$14,309	$34,512	$3,497	$5,641
Local Real Property Tax	$4,769	$4,769	na	na
Other Local Taxes	$0	$0	na	na
State and Local Taxes	**$62,466**	**$136,557**	**$12,238**	**$19,738**

Notes:
Figures are expressed in 2003 dollars.
FTE denotes full-time equivalent.
Expenditures category is inclusive of all expenses including operations, payroll and benefits.

Return on Investment-Expressed as Dollars Returned per One Dollar of Tax Credit



Return on Investment-Expressed as Actual and Projected Dollars



The Maryland Heritage Preservation Tax Credit Program: Encouraging Growth Through Re-Use

Presented on August 7, 2003

Jared Bosk, Gustav Eyler, Rachel Hadler, and Marina Hardy

Acknowledgements

Crenson, Dr. Matthew, Professor of Political Science, Johns Hopkins University. Personal Interview, 25 June 2003. Baltimore, MD.

Day, Michael, Deputy Director, Office of Preservation Services, Maryland Historical Trust. Personal Interview, 12 June 2003. Crownsville, MD.

Little, Rodney, Director and State Historic Preservation Officer, Maryland Historical Trust. Personal Interview, 19 June 2003. Crownsville, MD.

Gearhart, Tyler, Executive Director of Preservation Maryland. Personal Interview, 16 June 2003. Baltimore, MD.

The Historic Preservation Tax Credit Bill

The Maryland Heritage Structure Rehabilitation Tax Credit Program has been amended and revised many times since its inception in 1996. Because of this, there is confusion over how the tax credit operates. This section seeks to clear up these misunderstandings. First, a brief history and description will be given of the corresponding federal tax credit program. Second, a detailed account will be put forth of the legislative history of the Maryland program. This will illustrate what the key components of the program were at its establishment, what changes have been made to these components, and how the program currently operates.

History of the Federal Program

The Federal Historic Tax Incentives Program was established in 1976 through the passage of the Tax Reform Act. The program sought to provide a stimulus for the renovation of historic buildings and sites throughout the country. To be eligible a building must be an income-producing structure (i.e. a commercial site), and either be listed in the National Register of Historic Places (which requires it to be at least fifty years old) or considered a contributing element within a historic district.

While the program began as a five-year accelerated depreciation tax benefit, by the mid-1980s the program was amended to feature a 25% tax credit. 1986 tax legislation reduced the tax credit to 20%, which is where it currently stands.[1] A structure can be eligible for a state tax credit of similar nature in conjunction with the federal credit.

Since the program's inception, the federal government estimates that more than 27,000 historic properties have been rehabilitated, with the tax credits stimulating approximately $18 billion in private investment.[2] A 2001 National Park Services report claimed that it was "one of the most successful revitalization programs ever created."[3]

Early History of the Maryland Program

The Maryland Heritage Structure Rehabilitation Tax Credit Program was not established until 1996. The tax credit program was a small provision of HB 1, an act concerning Heritage Preservation and Tourism Areas. This major preservation bill, spearheaded by then-Speaker Casper Taylor, created the Maryland Heritage Areas Authority, and placed it within the Department of Housing and Community Development. The bill also established a Maryland System of Heritage Areas, as well as the Maryland Heritage Areas Authority Financing Fund.

The bill's main purpose was to promote Maryland's heritage and historic tourism areas, a large part of which included Canal Place in Cumberland, a part of Taylor's district. The tax credit was considered such a minor part of the legislation, it was barely

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[1] Article, *The Daily Record*, Rachel Mansour, 6/27/01
[2] Federal Historic Tax Incentives Program, "Program in Brief," http://www2.cr.nps.gov/TPS/tax/tax_p.htm
[3] Article, *The Daily Record*, Rachel Mansour, 6/27/01

mentioned in public testimony while the bill was debated.[4] Originally set at 25%, the credit was pared down to 10% before being signed into law.

The criteria for qualifying for a state tax credit is very similar to the criteria needed for a federal tax credit. If a structure is on the National Register, the building automatically qualifies for the tax credit. A site can also qualify for the tax credit if: it is designated as a historic property under local law; it is located in a historic district in the National Register, or in a local historic district; it is located in a certified heritage area.

There was only one major difference between the Maryland tax credit program and the federal tax credit program. Unlike the federal program, the Maryland program allowed for residential projects to be eligible for the credit.

Because of this, the program was seen as mainly benefiting homeowners. Indeed, the debate centered on whether 10% was enough of a credit to leverage investment in residential projects. A Legg Mason study conducted before the passage of the legislation estimated that the program would create about $9.7 million in investment.[5]

The program began on January 1, 1997, and almost immediately preservationists and developers pushed for an increase in the tax credit to 25%. Despite the lack of any reliable fiscal estimates for how this would impact investment, HB 1263 was passed, increasing the tax credit from 10% to 15%.[6]

In 1998 legislators were once again under pressure to increase the tax credit, as preservationists and developers claimed it was not being used enough.[7] HB 1199, co-sponsored by Speaker Taylor and supported by Senate Budget and Taxation Chair Barbara Hoffman, increased the credit from 15% to 25%, and passed easily.

The next major revision to the program came in 2001. SB 523/ HB 1109 was sponsored by Speaker Taylor, as well as by the chairpersons of the two tax committees, Sen. Hoffman and Del. Sheila Hixson. The bill made minor procedural changes in the credit, but most importantly it made the credit refundable. This meant that if a business or individual qualified for a tax credit that was greater than the amount of money they owed in state taxes the state would pay them the difference.

An example illustrates how this change affects the state's finances. If a developer began a $40 million renovation project, they would be eligible for a $10 million tax credit. If the developer owed the state $2 million in taxes, the state would pay them the remaining $8 million from its treasury. This change in the program made it far more lucrative. Legislators, however, were not aware of, as they were told that the change would not affect the cost of the program.[8]

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[4] "Historic Tax Credit Called 'Out of Control," *The Baltimore Sun*, Gady Epstein, 2/27/02
[5] "Maryland, Virginia Offer Restoration Tax Credits," *The Washington Post*, David Veasey, 1/18/97
[6] "Historic Tax Credit Called 'Out of Control," *The Baltimore Sun*, Gady Epstein, 2/27/02
[7] Ibid.
[8] Ibid.

Lawmakers were also given incorrect data on how much the tax credits had cost the state in the past. Analysts estimated that the program cost the state $1.9 million in 1999, when the true cost turned out to be $7.8 million.[9]

By 2002, the program had gone from a 10% non-refundable credit to a 25% refundable credit. At this point, all but twelve states in the country had preservation tax credit program. Maryland, however, was noted as having the most generous program.[10]

Recent Changes to the Tax Credit Program

By the 2002 legislative session, the General Assembly became aware of the increasing costs of the program. In 1997, the MHT had approved $2.4 million in tax credits. By 2001, this number had soared to $74 million. There were allegations from some in the legislature that the MHT had not been forthcoming when questioned about the costs of the program.

Even the legislators responsible for creating and improving the program began to question its costs. Speaker Taylor claimed, "It's really out of control… we did not realize how universally it was going to be used and how severely it would drain the treasury."[11] Del. Hixson echoed these concerns, asserting, "The state was taking, really, a big hit, a big loss."[12]

Legislators saw a major flaw in the program. There was no cap on the amount of tax credits that the state could hand out in any given fiscal year. Sen. Robert R. Neall reiterated this concern, saying, "Somehow or another, this thing has to be capped, so that there is some predictability."[13] Governor Paris Glendening agreed, stating, "We think there should be some limitations, because if it's totally open-ended, it's impossible to budget."

Proposals in mid-February would have greatly limited the amount of tax credits the state could give out. The changes discussed would have reduced the credit from 25% to 20%, capped the program at $20 million a year, and limited the maximum credit per project at $1 million.[14]

These proposed caps concerned many Baltimore leaders who believed that capping the credit in this manner would hinder development. Mayor Martin O'Malley came to Annapolis to testify against capping the credit, claiming, "it [the tax credit] has been the single most effective tool, I believe, to encourage growth and development in the city."[15] O'Malley and Baltimore City Council President Sheila Dixon even argued

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[9] Ibid.
[10] "Firms Join with Preservationists for State Tax Breaks," *The Kiplinger Letter*, 3/28/02
[11] "Historic Tax Credit Called 'Out of Control," *The Baltimore Sun*, Gady Epstein, 2/27/02
[12] "Md. May Cap Development Tax Credits," *The Baltimore Sun*, Gady Epstein and Scott Calvert, 2/20/02
[13] Tax Credits May Survive Feared Cuts," *The Baltimore Sun*, Gady Epstein, 3/14/02
[14] "House Moves on Tax Credit," *The Baltimore Sun*, Howard Libit, 3/24/02
[15] City Officials Lobby Against Tax-Credit Cap," *The Baltimore Sun*, Gady Epstein, 2/28/02

that the state should cancel its proposed two percent income tax cut, and instead put those funds towards the tax credit.

By March, the House and Senate had different versions of a bill to reign in the costs of the tax credit. Neither version restricted the tax credit as severely as the February proposal.

The original bill approved by the House would have imposed an overall cap of $50 million on the program. $20 million would have been reserved for large projects and $30 million would have been held for smaller projects that cost $12 million or less. The cap would not have applied to residential rehabilitation projects under $200,000. The credit would have remained at 25%.[16]

The Senate version of the bill did not mandate an overall cap on program. Instead, it called for a $3 million cap on individual projects, and a reduction of the credit to 20%.[17]

The changes that were eventually passed and signed into law in HB 759 (SB 496) mirrored the changes made in the Senate bill. In addition to the credit reduction and project cap, the bill created a sunset date for the program of June 1, 2004. In explaining the legislation, Sen. Hoffman asserted, "we were trying to make a reasonable approach to limits without benefiting only the biggest developers."[18]

The program faced more threats during the 2003 legislative session. Governor Robert L. Ehrlich Jr. sought to impose an overall cap on the program.[19] Meanwhile, HB 341, co-sponsored by Del. Hixson, and SB 203, sponsored by Sen. J. Lowell Stoltzfus, would have pushed the sunset date up to June of 2003, thus killing the program.

No action was taken on the House bill, and Sen. Stoltzfus later amended his bill so as to not terminate the program. A firm cap on the tax credit was finally established as a provision of HB 935 (SB 657), the Budget Reconciliation and Financing Act. The legislation capped the program at $23 million for 2003, and $15 million for 2004.

There were other changes that Governor Ehrlich backed, including making nonprofit groups ineligible, limiting any developer to three applications per tax year, and capping the credit for individual homeowner projects at $20,000.[20] None of these provisions were featured in the final version of the bill.

During hearings, there was debate as to how the MHT would decide who received the credits. While Secretary Victor L. Hoskins maintained the state would rank projects

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[16] "House Moves on Tax Credit," *The Baltimore Sun,* Howard Libit, 3/24/02
[17] "Lawmakers Close to Accord on Tax Credit," *The Balimore Sun,* Howard Libit, 4/3/02
[18] Ibid.
[19] "Historic Preservation Tax Credits Threatened by Ehrlich, Legislators," *The Baltimore Sun*, Scott Calvert, 2/12/03
[20] "Groups Oppose Limits on Use of Tax Credits," *The Baltimore Sun,* Scott Calvert, 2/13/03

to determine who would receive the credit, trust director J. Rodney Little stated the credits would be handed out on a first-come, first-served basis.[21] The actual legislation provided for the credits to be given out on a first-come, first served basis.

Current Situation of the Tax Credit Program

Currently the tax credit stands at 20%, and is still refundable. There is a $23 million cap for 2003 and a $15 million cap for 2004, with an individual project cap of $3 million. Credits are awarded on a first-come, first-served basis. The program will currently sunset on June 1, 2004 unless there is legislation to extend it.

Program History and Accomplishments

The Heritage Preservation Tax Credit focuses on encouraging heritage preservation as a means of perpetuating 'smart'—low environmental impact—growth. Although the tax credit's value and cost efficiency as a tool of the state has been in question since its passage in 1996, it has successfully encouraged rehabilitation in Maryland, and can be credited with creating jobs and expanding tax income for the state. The continuing successes of the tax credit suggest that heritage preservation can positively affect the state at many levels.

The Tax Credit in Context

Urban sprawl has been a source of concern in Maryland since the mid-1990s. Regional growth will push the state population to 6 million by 2025[22], from 5 million in 2000. Population growth requires corresponding growth in housing and services, land and utilities. The 'Baltimore-Washington corridor', an area encompassing ten counties in Central and Southern Maryland, stands to absorb much of this growth.[23] With population density in the area already high, 'Smart Growth' initiatives such as the Tax Credit were heralded as a "multi-pronged effort to at once preserve farm land, eliminate state funding for sprawl, and revive older communities to make them more appealing places to live." [24]

Many preservationists and politicians argue that the tax credit is specifically designed to benefit areas with declining/ undervalued properties such as Baltimore City (see usage graph below). The credit has been used to close funding gaps for otherwise unfeasible preservation projects. Expected tax credits can be traded with financial and architectural institutions in exchange for loans and services, significantly reducing the costs paid by property owners.[25] 'Gap financing' is particularly relevant for the

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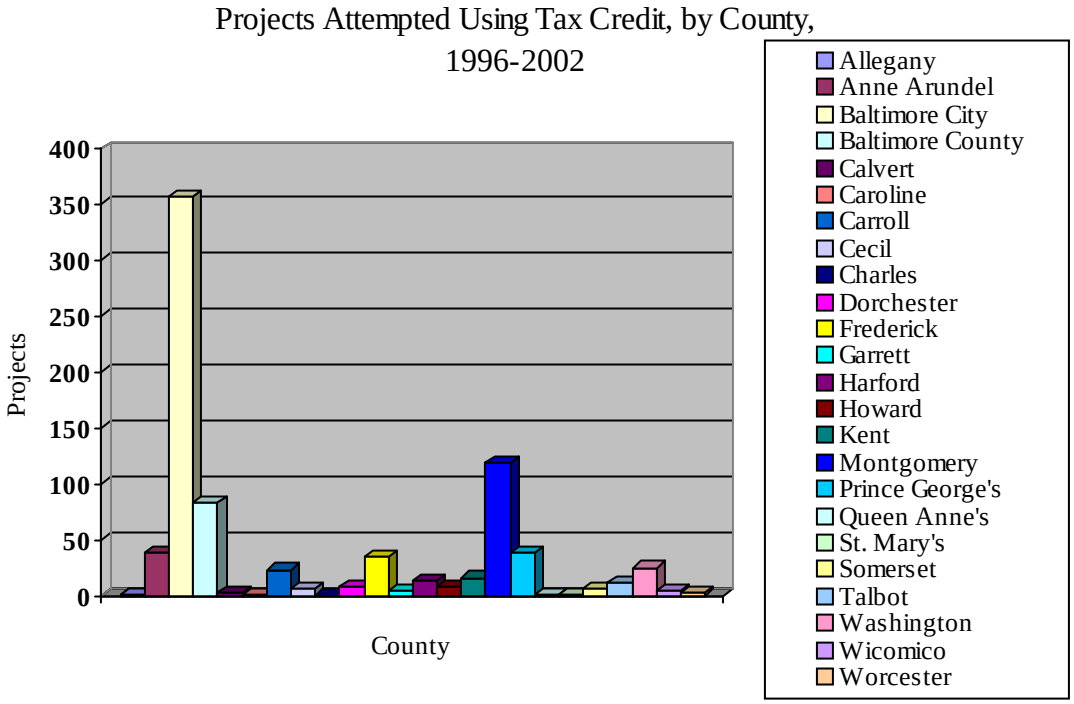
[21] Ibid.
[22] "Maryland Weighs 'Smart Growth.'" Common Ground. Vol. 8, No. 3 (1997): 1, 6. 22 July 2003. <http://www.conservationfund.org>.
[23] Leon Bouvier and Sharon McCloe Stein. "Maryland's Population in 2050: Is Smart Growth Enough?" Negative Population Growth. 22 July 2003. <http://www.npg.org.> (1)
[24] Peter S. Goodman. "Governor Banks on 'Smart Growth' but Even Supporters Have Doubts." The Washington Post. 6 Oct. 1998.
[25] Tyler Gearhart. Interview. 16 June 2003.

development of undervalued properties, where developers often have trouble attracting investors due to uncertain returns and high costs.

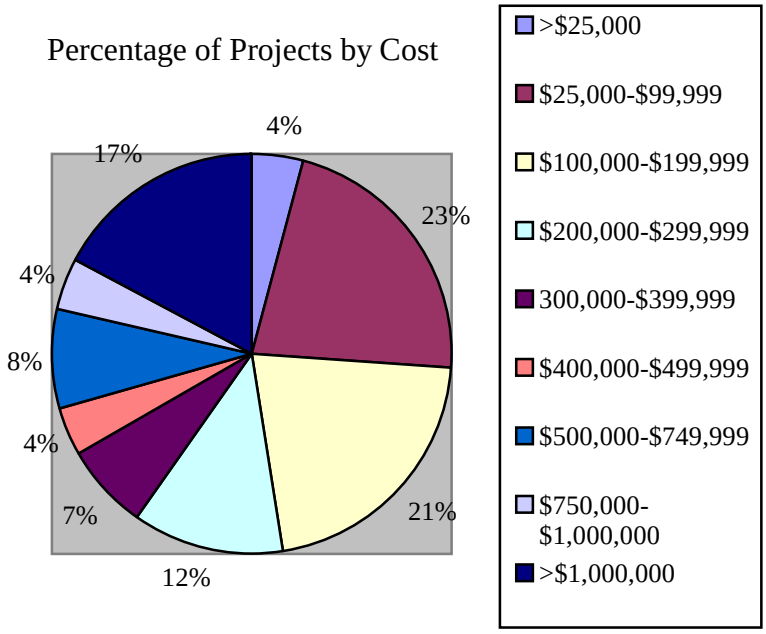
A history of higher usage in urban areas, particularly in Baltimore City, has contributed to opposition against the credit, as has the unpredictability of the program. While the two-year window between project completion and credit realization allows developers and homeowners to use the credit as they most need it, it prevents the state from concretely projecting annual expenditures on the credit. The number of credits claimed can vary considerably between years; making the assessment of actual costs very difficult.



Source: Lipman, Frizzell, and Mitchell.[26]

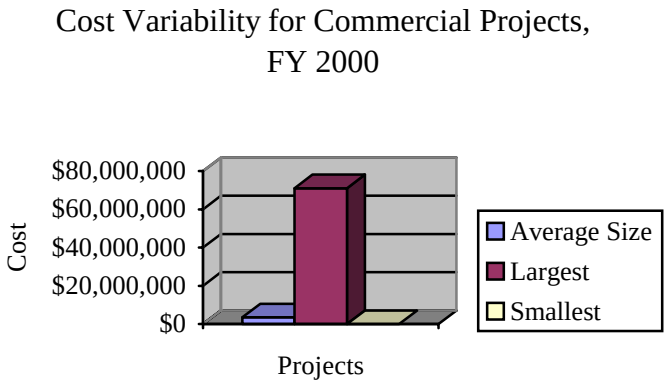
[26] Lipman, Frizzell, and Mitchell, LLC. State of Maryland Heritage Structure Rehabilitation Tax Credits: Economic and Fiscal Impacts. Columbia, MD: Lipman, Frizzell, and Mitchell, 2002. Part II: Table III-1.

The following graph depicts the percentage of projects falling into each cost category. Projects in the $100,000-$200,000 and $300,000-$400,000 cost range are most common.



Source: Lipman, Frizzell, and Mitchell.[27]

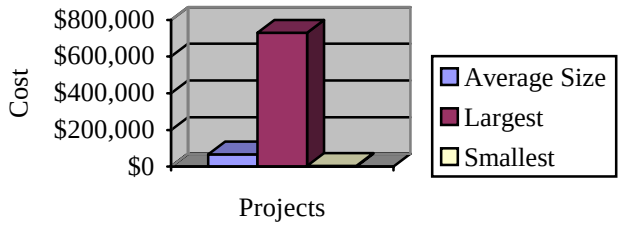
The following graphs depict the variability in cost which characterizes both residential and commercial programs.



Source: Lipman, Frizzell, and Mitchell.[28]

[27] Lipman, Frizzell, and Mitchell. Part II: Table III-4.
[28] Ibid. Part I, Table 3.

Cost Variability for Residential Projects, FY 2000



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Source: Lipman, Frizzell, and Mitchell.[29]

The public's perceptions of the tax credit are generally positive. The credit is credited with boosting heritage tourism in Maryland and instigating new research into community history. Community activists and developers alike note that renovation projects create jobs and increase local and state tax revenue while preserving traditional local aesthetics.[30]

Successes

A closer examination of the projects facilitated by the tax credit suggests that the credit has successfully promoted, and, in some cases, funded itself. State returns for projects range from $0.48 to nearly $5.00 for every dollar credited.[31] In many cases, use of the credit has facilitated local economic growth and encouraged area revitalization. The heritage preservation and renovation, in turn, are credited for the creation of short-term and long-term jobs and for increasing regional tax bases by encouraging migration.[32]

Examples of program successes and failures illustrate the role of the credit in historic preservation in Maryland. High revenue restoration is centered around Baltimore City and Cumberland, the state's oldest urban areas.

Baltimore's West Side

The tax credit encouraged the restoration of downtown Baltimore's West Side. Buildings renovated during the 1997-2003 period include the Steiff Silver Building in Hampden, the former YMCA at 300 N. Charles Street, the Redwood Trust on Redwood Street, all of which were transformed into revenue-producing commercial structures. Many structures were slated for removal, and likely would have been demolished without

[29] Lipman, Frizzell, and Mitchell. Part I: Table 3.
[30] Tyler Gearhart. Interview. 16 June 2003.
[31] Lipman, Frizzell, and Mitchell. Part I. (3)
[32] Ibid. (3-4)

investment encouraged by the tax credit[33]. The positive effects of the tax credit on Baltimore are obvious to residents of the area—restoration has attracted upscale entertainment and business enterprises to the area, leaving the neighborhoods in downtown West Baltimore safer and more commercialized.

The Can Company

The restoration of the Can Company in Baltimore's Canton neighborhood was one of the earliest projects funded by the tax credit. In 1997, one of Baltimore's largest architectural firms, Struever Brothers, Eccles & Rouse Inc., purchased the former American Can Company site and renovated it for multi-purpose commercial use.[34] As with many other restoration projects in Baltimore, the tax credit played a definitive role in determining the feasibility of the project. An asset manager for Fannie Mae, the principle equity investor in the Can Company restoration initiative, commented that without the tax credit, it would have been "extremely difficult for Fannie Mae to invest an additional sum equal to the State tax credit amount, given the risks involved in the project and its deal structure."[35]

The renovation of the Can Company generated approximately twenty five million dollars in building permit revenues alone. The residential tax base increased by 18% in the period between 1997 and 2001 (during which period major renovations took place, and credits were claimed), while the local commercial tax base increased by fifteen percent. The renovation also spurred a neighborhood revitalization movement in Canton, and created approximately 400 jobs in the area.[36] In total, state revenue, including income taxes, sales taxes, and property taxes, per dollar credited to the Can Company revitalization project was calculated to equal $1.21, a profit for the state.

Another program success is the CBIZ/BGS&G expansion in downtown Cumberland. CBIZ, a Midwestern company, has long held offices in Western Maryland. Tax credit options encouraged the corporation to expand its local headquarters into an adjacent historic property rather than constructing new offices out of state.[37]

The rehabilitation has positively affected the local economy through wage and revenue impacts. Construction itself created eighteen local jobs and generated roughly $670,000 in wages.[38] During its duration, the project generated $197,000 in income for the state (in income and sales taxes), as well as $100,000 in local tax revenues.[39] The nearly $300,000 in income generated repaid nearly half of state tax credit expenditures on the program, which totaled $589,319. Developers also made use of federal commercial rehabilitation credits, which generated an additional $0.80 of investment per state

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[33] Edward Gunts. "Wave of Downtown Plans Rushes Away from Harbor; Baltimore Development Could Spread Prosperity if Proposals Fit Together." The Baltimore Sun. 28 June 1998.
[34] Lipman, Frizzell, and Mitchell. Part I (17).
[35] Ibid. (20)
[36] Ibid. (21)
[37] Ibid. (27)
[38] Ibid. (30)
[39] Ibid. (30)

dollar.[40] In total, each $1.00 in state credit investment has been matched by $4.83 in returns to state and local jurisdictions[41], as calculated by real estate legal firm Lipman, Frizzell, and Mitchell. (Returns include calculation of property taxes, income taxes, and local income, property, and 'piggyback' tax revenues).

The renovation also encouraged tourism: "In order for the State's heritage tourism development plans to succeed, it is critical that visitors to the Canal Place historic attractions receive appropriate visual cues… The rehabilitated historical appearance of the CBIZ properties is important for reinforcing the historic mood and luring visitors to the Mall."[42] The CBIZ preservation project eventually instigated a wider downtown preservation initiative.

While opponents commonly complain about the fiscal unpredictability of the program, they also cite its very successes against the program's scale. Large commercial programs produce the majority of tax credit-based revenue for the state. Poor investment and the misdirection of funds to less lucrative projects have prevented the state from capitalizing on its investments. Casper Taylor, initial sponsor of the bill, notes that:

> "[If] one multiplies the $1.8 million average size of approved [commercial] projects by the thousands of potentially eligible commercial buildings in Baltimore alone, the potential state liability for this program is hundreds of millions of dollars… [No] objective community leader could urge that developers continue to have an unlimited state checkbook while all other state programs… are subject to appropriate budget review."[43]

In order to benefit fully from the credit, the state must choose its investments wisely—and developers must limit their plans according to feasibility, with greater attention given to costs and returns.

Impact

While opponents claim that costs to the state incurred through the Heritage Preservation Tax Credit are 'out of control'[44], they rarely quantify the returns generated by renovation projects. While obvious effects include tax revenue and job creation, the tax credit also provides less quantifiable effects, such as attracting local investment and tourism. Many of the fiscal and economic returns to the state are paid, in effect, before the credit is paid out—creating a partially self-funded system.[45]

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[40] Ibid. (31)
[41] Ibid. (33)
[42] Lipman, Frizzell, and Mitchell. Part I (28).
[43] Casper R. Taylor. "State Can't Afford Unlimited Credits for Preservation." The Baltimore Sun. 15 March 2002.
[44] Gady A. Epstein. "Historic Tax Credit Called 'Out of Control.'" The Baltimore Sun. 27 February 2002.
[45] Lipman, Frizzell, and Mitchell. Part I (16)

Economic Impact of Construction

Direct returns to the state on projects include the income generated through sales taxes (for purchase of renovation and restoration materials), purchase of construction permits, wages paid to construction workers, and all other related construction-based costs. The revenue generated by construction often disperses widely due to the multiplier effect created by the receipt of income and the resulting chain of events (e.g. sales taxes are paid on purchases made by employees).

Fiscal Impact

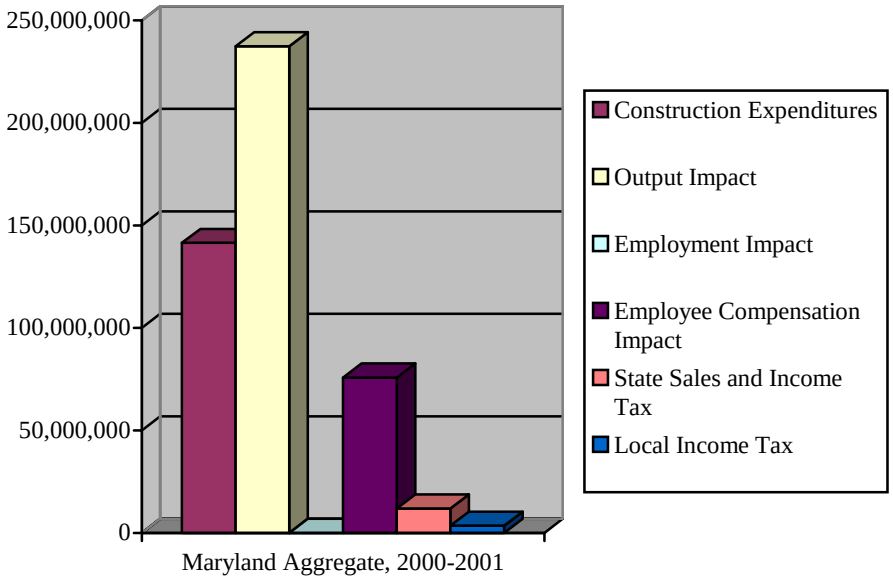
Tax returns are state and local jurisdictions' primary source of revenue from preservation projects. Restorations of commercial buildings attract new businesses to neighborhoods (as was demonstrated in Canton with the restoration of the Can Company); residential projects benefit neighborhoods by increasing property values and attracting new residents. A successful renovation project will generate income tax revenue from the wages paid to workers, as well as (potentially) from new residents attracted by the restored structures. Additional state income may result from an increase in property values, and the higher tax rates that accompany them. Increases in local commercial activity (in the case of restored commercial structures) can supplement local sales taxes. While many such returns are paid to the state during the construction period, increased tax bases will benefit the state well into the future.

Job Creation

The tax credit also creates employment opportunities and may attract new residents to the state (through job opportunities and expansion). Short-term opportunities are often related to the construction process; longer-term employment may result from company expansion (as in the case of CBIZ) or from the attraction of new enterprises. The size of the project generally corresponds to the number of short-term jobs it creates: larger jobs may require craftsmen skilled in traditional preservation technique as well as local construction labor. Additionally, commercial projects are credited with attracting new businesses and expanding local ones, thus diversifying the local job market and often attracting out-of-state workers.

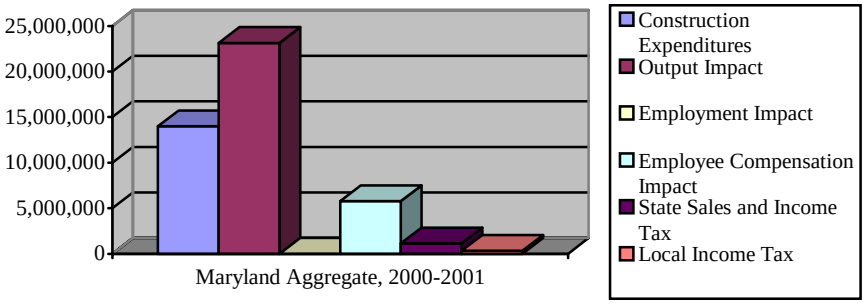
The following graphs demonstrate the impact of (a) commercial projects and (b) residential projects upon local and state economies.

(a) Aggregate Economic Impact of Commercial Projects for 2000-2001 (in dollars) (for 40 Commercial Projects)



Source: Lipman, Frizzell, and Mitchell[46]

(b) Aggregate Economic Impact of Residential Projects for 2000-2001 (for 207 Residential Projects, in dollars)



Source: Lipman, Frizzell, and Mitchell[47]

[46] Lipman, Frizzell, and Mitchell. Part I: Table 4.
[47] Ibid. Part I: Table 5.

Heritage Tourism and Increased Community

Unquantified effects of heritage preservation may include increases in tourism, particularly in 'heritage tourism', and an increased local sense of community. Expanded neighborhood sensibilities are obvious in Canton, where the Can Company project inspired additional local investment and encouraged the use of public areas in the neighborhood.[48] Similar effects were witnessed in Cumberland with the completion of the CBIZ project—a more attractive entry to the town's central space, the Cumberland Mall, attracted more locals (as well as tourists) to the area.[49] Both projects encouraged regional tourism by creating a more appealing local image.[50]

Heritage tourism is based around tours and sightings of rehabilitated residences and historic structures. Maryland in the past has relied primarily on heritage sites in Annapolis and Civil War battlefields such as Antietam to attract tourists. Rehabilitation projects in areas such as Western Maryland, St. Mary's County and Baltimore City attract tourists (and sales) to unexplored areas. Baltimore City, in particular, has benefited from the distinction of local historic sites, some of which attract tourists out of the Inner Harbor and into other areas of the city, such as Washington Monument and Federal Hill.

The Tax Credit Now

The Heritage Preservation Tax Credit currently distinguishes between three types of historic structures. Residential projects are limited to single-family non-rental homes; tax credits will be awarded for up to $50,000 of rehabilitation expenditures. Small commercial projects include multi-family residences and all other non-residential projects. Credits for rehabilitation expenditures of up to $500,000 are offered on small commercial projects. The distinction between small and large commercial projects is primarily cost—large scale commercial projects must incur over $500,000 in rehabilitation costs. Large commercial projects usually involve large sites and multiple structures. Examples include the Can Company in Canton and the Shot Tower Complex in Baltimore's Inner Harbor.

In order to apply for tax credits, property owners must register their site/ structure with the National Register of Historic places, or an equivalent state or local register. Accreditation generally involves site inspection and testimony in favor of the historic nature of the site. Applicants are required to send in detailed photographs of their structure and affirm its historical significance, often after receiving expert evaluation. Once the site has been registered, the project itself must be approved before it can receive

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[48] Edward Gunts. "The Recycling of American Can." The Baltimore Sun. 17 April 1997.
[49] Lipman, Frizzell, and Mitchell. Part I (28).
[50] Ibid. (18, 28)

tax credits. Applicants are required to send in detailed descriptions of the renovation and accurate cost estimates before receiving approval and the proposals must be approved before restoration is begun. The approval process itself can be quite stringent, and proposals considered inappropriate (proposals containing historically inaccurate and unnecessary elements, such as skylights, for example) can be rejected by the Maryland Historical Trust. A current $23 million cap on commercial projects forces applicants to compete against each other on a first-come, first-served basis for the limited pot of money allocated per fiscal year.

Renovations may commence immediately after approval by the Maryland Historical Trust. The owner of the tax credit must file within two years of completion to receive the credit. The rehabilitated structure may be inspected, and credits may be withheld, if the renovation has in any way compromised the historic nature of the structure.

Applicants may file for state, federal (for commercial properties), and often local tax credits in order to supplement their renovation costs. While much of the application process is similar (all three types of credits require some sort of accreditation as to the historical nature of the structure, as well as detailed renovation plans and budgets), the credits often apply to different types of rehabilitations, and are designed to be complementary rather than supplementary.

The Future of the Tax Credit: Eligibility and Use Projections

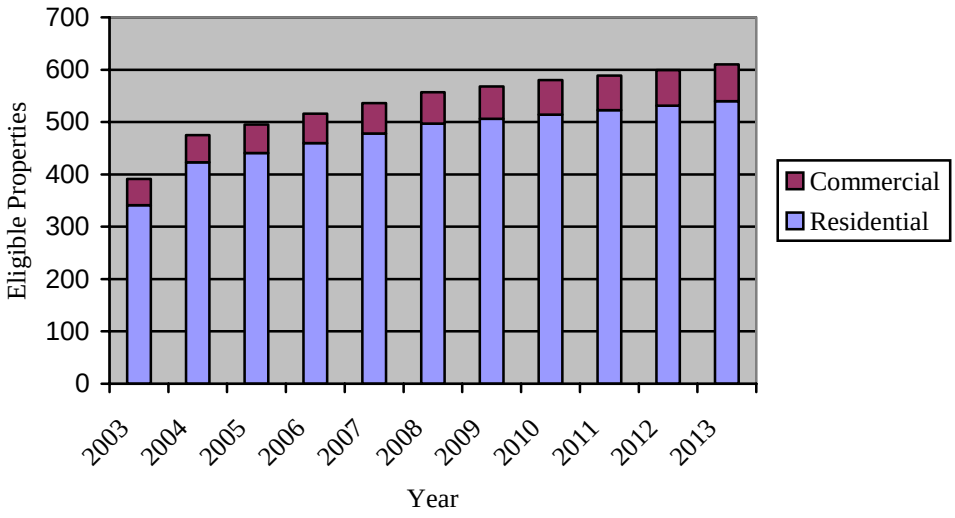
According to predictions made by architectural legal firm Lipman, Frizzell, and Mitchell, the number of properties eligible for the tax credit (designated National Register sites, etc.) is expected to grow over the next 10 years. By 2013, an estimated 87,000 properties are expected to be eligible for the credit, a 53% increase from 2003, with an average annual growth rate of 4.6%.[51] Designations are expected to increase quickly through 2007 (with an anticipated 3,000 structures designated per year), and more slowly through 2013 (1,508 structures per year).[52] However, not all properties eligible will be renovated. According to current use patterns, the structures most likely to be renovated are residential structures in neighborhoods with middle- to high-socioeconomic status, and large commercial projects.[53]

[51] Lipman, Frizzell, and Mitchell. Part II (10).
[52] Ibid. Part II: Table I-5.
[53] Ibid (10).

The following projections (from Lipman, Frizzell, and Mitchell) assumes a moderate penetration of 0.7%. Penetration rates are calculated through the comparison of "number of projects attempted annually to the inventory of eligible of historic projects."[54]

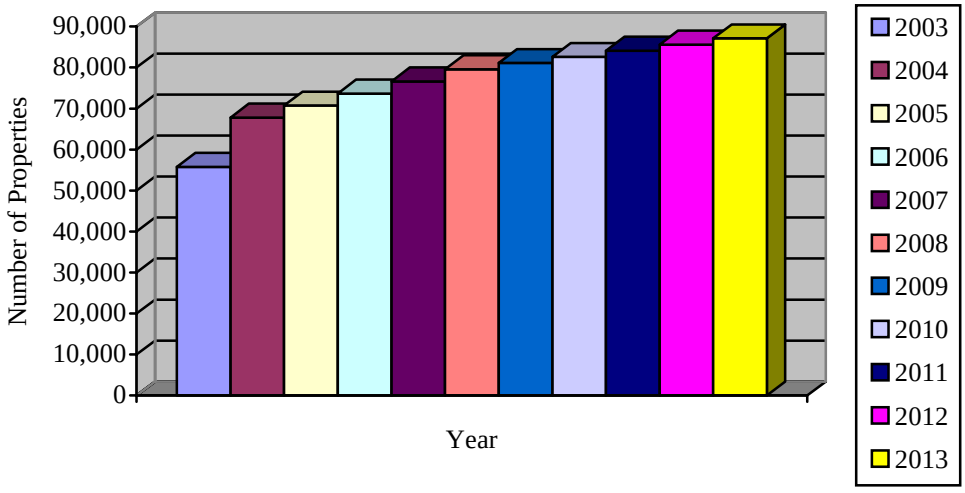
[54] Ibid. Part II (20).

Projected Application Scenario, 2003-2013



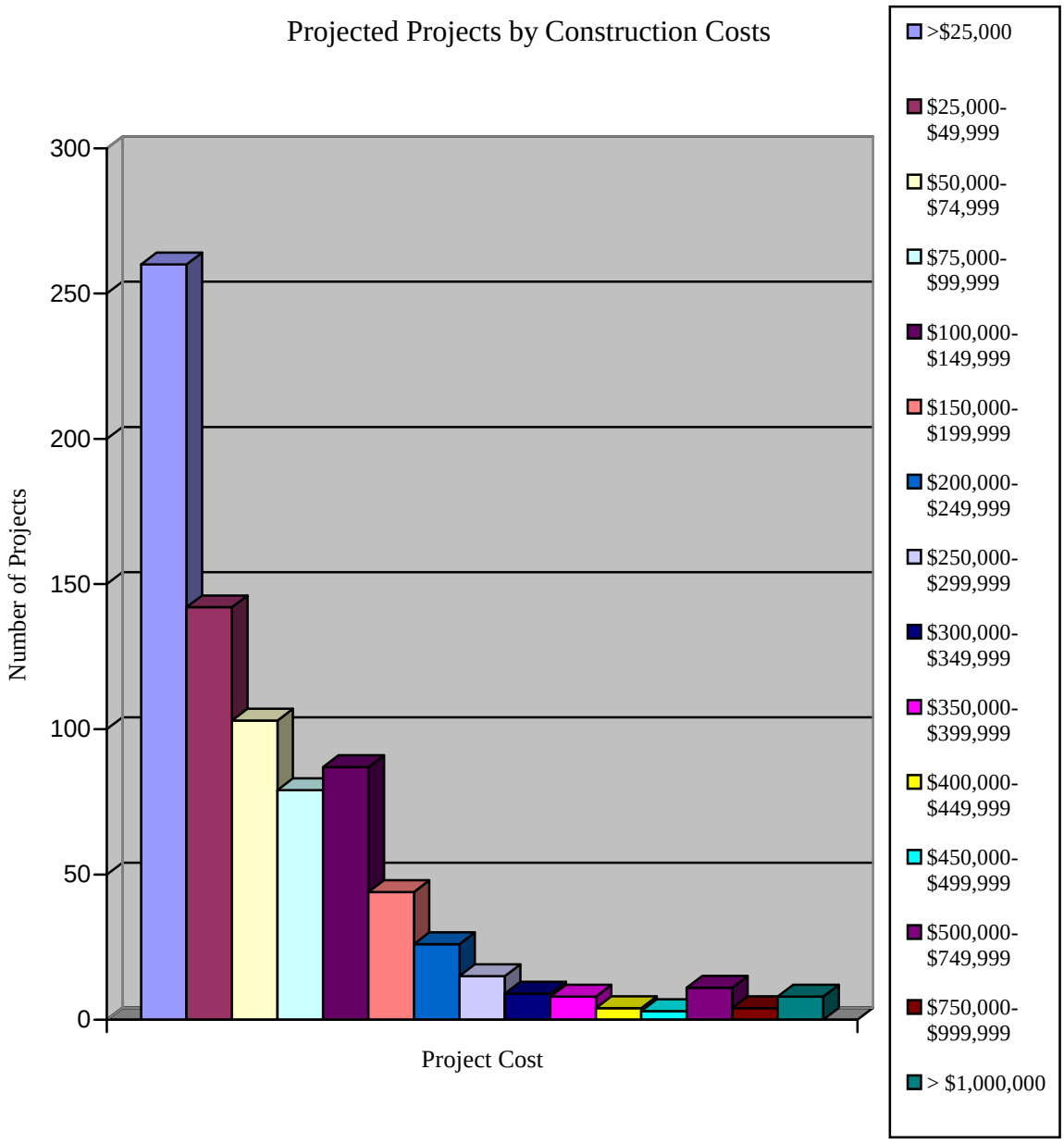
Source: Lipman, Frizzell, and Mitchell.[55]

Eligible Inventory 2003-2012



Source: Lipman, Frizzell, and Mitchell.[56]

[55] Ibid. Part II: Table III-14.
[56] Lipman, Frizzell, and Mitchell. Book II: Table III-14.



Source: Lipman, Frizzell, and Mitchell.[57]

The Heritage Preservation Tax Credit emerged as a spin-off from a similarly designed Federal program, and was designed to encourage 'Smart Growth'—the rehabilitation of existing structures rather than, or in addition to, the construction of new ones. The Tax Credit was designed to particularly benefit large-scale commercial investment in depressed areas—and has succeeded admirably in doing so. The Credit is particularly beneficial to renovators of undervalued properties, for whom promised credits can be used to attract loans and financial support. Positive effects of the credit

[57] Lipman, Frizzell, and Mitchell. Part II: Table III-4.

include increasing revenue for state and local jurisdictions, creating jobs (less controversially, by creating short-term construction jobs), and attracting increased investment and tourism into declining areas. Legislation related to the credit currently limits the number of projects and quantity of funds it promises; future changes may increase the program's predictability, hopefully without compromising its ability to strengthen Maryland's regions.

Increasing Predictability and Returns: Recommendations
Section III of Heritage Structure Rehabilitation Tax Credit Policy Paper

By virtually all accounts, the Maryland Heritage Structure Rehabilitation Tax Credit Program has been an unqualified success in revitalizing communities by giving private capital the confidence to buy and invest in the rehabilitation of dilapidated and undervalued historic commercial and residential buildings. Commercial interests, as well private home owners, now have an incentive to return to vacated areas and to properly rehabilitate historic structures. Through the Maryland Heritage Structure Rehabilitation Tax Credit Program, historic buildings and areas that were once written off as derelict are now prospering homes, businesses and neighborhoods.

This extensive revitalization and re-urbanization has furthermore made the tax credit program a key aspect of the Smart Growth Initiative. By improving areas in which few other revitalization programs have been effective, the Heritage Preservation Tax Credit has encouraged tangible Smart Growth results for a fraction of the actual development costs.

By gradually curbing suburban sprawl through private investment, the tax credit program has also facilitated impressive environmental achievements. Reducing the need for new buildings on open lands, the program saves hundreds of acres a year. Furthermore, this increased re-urbanization has allowed individuals to live and work in

existing urban areas, decreasing their need for personal transportation and lowering atmospheric carbon monoxide levels.

Economically, the program has benefited citizens by creating thousands of permanent and temporary jobs within both the development industry and the commercial offices that inhabit newly rehabilitated buildings. Additionally, through the creation of new jobs, new residents and customers, the restoration of historically significant buildings and neighborhoods, and increased tourism to historic areas, the Heritage Structure Rehabilitation Tax Credit Program has managed to raise property values and increase the tax base for both local and State governments.

While the related benefits of the program are important to recognize, it is notably more significant that very few of these benefits could have occurred in any other way. As our research has shown, almost none of the investment assisted by the tax credit would have been made in its absence. During the first year that the tax credit was instituted, only $1 million dollars were invested by the private sector into commercial projects meeting the qualifications outlined by the program. By 2002, however, over $120 million dollars had been privately invested into commercial projects. In total, during the five years of its operation, the tax credit program has encouraged $330 million dollars of new investment in historic structures.[58] This impressive figure is further augmented by the fact that most of this investment—particularly commercial projects—has been targeted towards undervalued properties and the historic areas that need are in the greatest need of financial help.

Although the benefits of the tax credit program are numerous, certain changes must be made to ensure that the program continues during these difficult financial times.

Most notably, the program must become more predictable and cost efficient for the State. After a great deal of consultation with individuals who are knowledgeable, interested and involved in the program, it was possible for us to draft several possible amendments to facilitate the current needs of the Tax Credit Program. These proposed amendments would help preserve the program by rectifying the predictability and profit problems that are its greatest shortcomings.

Our first program-wide recommendation is to limit the entire program to $27 million in available credits annually. This kind of aggregate cap will both restrict the cost of the program to an amount that is feasible to fund, and lend to it the absolute fiscal predictability that it has always lacked.

Of the proposed $27 million in funding, $20 million should be allotted for distribution to large commercial projects exceeding $500 thousand in cost, $3.5 million for small commercial projects costing $500 thousand or less, and $3.5 million for residential projects costing $200 thousand or less. By allocating the credits in this manner, the State will secure the financial returns and revitalization benefits of large commercial projects, and the historical refurbishment and re-urbanization initiatives associated with small commercial and residential projects.[59] We also recommend, however, that based on market conditions and the history of future demand statistics, the Secretary of the Department of Housing and Community development be given the authority to periodically adjust the amount of funding given to each of the three specific rehabilitation project categories under the aggregate cap.

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[58] Governor's Office of Smart Growth, *Historic Preservation and Smart Growth* (2003).
[59] Section II explains the benefits specific to each project category in greater detail.

In addition to placing aggregate and specific caps upon the program, we also recommend that the State increase the program's fiscal predictability by denying all retroactive credit applications. Projects that have been completed prior to submitting an application for approval of proposed work are difficult to fully review and verify, and, since they probably would have been accomplished with or without the credits, do not require the rehabilitation incentives of the program.

A final recommended program-wide amendment is to extend the legislatively determined sunset date of the program to December 31, 2009. This suggested date is believed to be optimal for several reasons. First, it will lend reliability to the program for developers and homeowners of historic structures who will need tax credits to complete planned projects. Second, this extended period of reliability may increase the number of projects planned and serve as a greater enticement for individuals to refurbish historic structures. Finally, this newly proposed sunset date would delay the period of required reconsideration of the program for a reasonable and convenient length of time.

While the program-wide amendments previously mentioned will effectively restrict the cost of the tax credit and give it greater predictability, more project-type-specific amendments will be needed to ensure the continued success of the program's preservation aspects and increase its economic return to the State. Currently, the only project-type-specific regulation contained within the program is the $3 million per project cap that is placed on all commercial projects.[60] This regulation has been extremely effective in eliminating the risk of exurbanite tax credit claims, and careful consideration of the program suggests that similar project-type-specific regulations would be equally effective. Based upon our research and the categories defined within the suggested $27

million general program cap, we advise separating the program into three distinct sections: large commercial projects costing more than $500 thousand; small commercial projects costing $500 thousand or less; and residential projects costing $200 thousand or less. A segmentation of the program in this manner will allow both the aggregate cap and further project-specific amendments to be most efficient and effective.

Due to their high cost of restoration and influential locations, large commercial projects exceeding $500 thousand in cost are the most important subset of projects to regulate. Our first recommendation pertaining to this category is to subject all proposed large commercial rehabilitation projects to a three part review that would aid in the selection of the most historically significant and lucrative tax generating projects to support. The first stage of review would determine a large commercial program's potential financial return to the State through an economic impact analysis designed by the Department of Business and Economic Development. This cost/benefit review would allow the Maryland Historic Trust to selectively support the most lucrative projects possible, procuring the greatest return to the State with the limited funds available. The second stage of review would consider a project's geographic location to help ensure that an equitable distribution of large commercial historic tax credits is being achieved throughout Maryland—something the current program unfortunately lacks. Finally, the third stage of review would rate a project's historical/cultural significance in order to guarantee that a project of great historical importance is not denied because of potentially low cost/benefit returns that may be calculated in stage one of the review. Vastly more efficient than the current first-come, first-serve system, this three stage selective approval

[60] See Section One for a more complete description of the existing $3 million per project cap.

of large commercial projects would protect the State-wide historic preservation goals of the program, while making the program profitable for the State.

Our second proposed amendment to this category is to narrow the window of time during which applications for the proposed rehabilitation of large commercial projects can be received. More specifically, the amendment would require that all Part Two applications for commercial projects exceeding $500 thousand in cost be submitted to the Maryland Historic Trust from January 1 to March 31 annually. Any application submitted at times other than these dates would be returned to the applicant and not considered for tax credits until the following year. Restricting the acceptance period for Part Two applications would reduce the amount of uncertainty regarding the number or large commercial applicants that may be received in a given year, increase the efficiency of the application process, and provide the Maryland Historic Trust with the period of time necessary to effectively conduct the three stage review of each large commercial project that we are also recommending.

In addition to narrowing the time window for Part Two applications, we also believe it to be advisable to amend the legislation so that no single applicant or developer may submit more than three large commercial projects for approval for each tax year. This limitation would prevent any one developer from using up all of the available credits in any given year, and significantly improves the current situation in which no restrictions are place on the number of projects any one developer can annually submit for tax credits.

Finally, we recommend reducing the large amount of tax credits that the State currently is required to refund in full by repealing the refundability of tax credits for large

commercial projects with proposed rehabilitation costs exceeding $500 thousand. With refunds no longer available, tax credits would become fully transferable and developers would be able to forward commit the credits into subsequent tax years. This new system would diminish the State's immediate loss of tax revenue and would reshape the large commercial aspect of the program into the strictly tax credit based program that was initially envisioned by the authors of the legislation.

As with large commercial projects in the program, small commercial projects have been encouragingly successful in reviving derelict areas of Maryland's cities and towns, creating new jobs, increasing tourism to historic areas, raising property values and increasing the State's tax base. Unlike large commercial projects, however, small commercial projects costing $500 thousand or less do not often have the potential of bringing great or equal returns to the State. Currently, this fact has not served as a reason for reviewing small commercial projects separately, but, under the suggested three stage review process for large commercial projects, it would be absolutely necessary to consider small commercial projects in a unique and separate manner.

Of the $3.5 million allotted to small commercial projects from the suggested $27 million budget, we recommend that each project only be eligible to receive a tax refund for up to $100 thousand. This number has been confirmed by the Maryland Historic Trust as an optimal amount for small commercial projects to receive and the State to pay, and would be a positive change from the current system in which all tax credits received are refundable. In conjunction with this limited refund clause, we feel that it would be advisable to allow recipients of tax credits for small commercial projects to forward commit the credit to subsequent tax years extending to the newly proposed sunset date of

December 31, 2009. Under the current legislation, forward commitment has not been allowed; however, we believe that this provision would benefit the State by reducing the amount of refunds paid annually and aid tax credit recipients by giving them an alternative to the current form of refunds that are taxed by the federal government as revenue.

Besides private investors who are rehabilitating a historic structure, we suggest that not for profit organizations that are subject to real estate taxes continue to be eligible to earn tax credits that are transferable for any project that costs $500 thousand or less. Furthermore, we recommend that the credits they receive be procured from the $3.5 million set aside for small commercial rehabilitation projects. While this suggestion would significantly change the current legislation, in which all not for profit organizations are currently eligible for tax credits in an amount proportionally equal to all other commercial projects, we consider it to be a necessary step towards limiting the cost of the program while allowing positive, tax paying, not for profit projects to continue.

. As with both of the commercial project categories, our research has also led us to recommend that the procedures regulating residential rehabilitation projects be reviewed and revised. In order to guarantee a greater degree of fiscal predictability, it has been suggested by the Maryland Historic Trust that a reasonable per project cap be made in addition to the aggregate residential project cap of $3.5 million. Their recommended cap—with which we agree—would prohibit residential projects costing more than $200 thousand from being eligible to receive a rehabilitation tax credit. This prohibition

against projects costing more than $200 thousand would consequently limit residential projects to a maximum credit of $40 thousand per project.[61]

In the past, some residential projects receiving the tax credit have been criticized for receiving large credits for the refurbishment of bathrooms and kitchens. To further prevent misuse of funds in this manner, we suggest that the maximum credit amount be limited to $20 thousand for the rehabilitation of residential bathrooms and kitchens.

Finally, we suggest that homeowners be granted the right to forward commit received tax credits to subsequent tax years, however, not extending past the newly proposed sunset date. This proposal mirrors the suggested forward commitment amendment to the small commercial category, and would be equally beneficial to both the State and homeowners.

The Maryland Heritage Structure Rehabilitation Tax Credit Program continues to be a multifaceted success that should be extended and supported by the State. With the implementation of amendments similar to our objective suggestions, the tax credit can furthermore become an initiative that is more fiscally predictable, profitable, and proportionate to the current budget. The Maryland Heritage Structure Rehabilitation Tax Credit Program has consistently proven its worth in a multitude of ways. Accordingly, we believe the program should be further considered by the State and ultimately supported and extended.

[61] These figures reflect the current tax credit level of 20% of total rehabilitation cost.