

**MEMORANDUM**

TO: County Council

FROM: Jeffrey L. Zyontz, <sup>12</sup>Legislative Attorney

SUBJECT: **Public Hearing:** Expedited Bill 14-13, Historic Preservation – Tax Credit

Expedited Bill 14-13, Historic Preservation – Tax Credit, sponsored by Councilmembers Rice, Floreen, and Elrich, was introduced on June 11, 2013. A Government Operations and Fiscal Policy Committee worksession is tentatively scheduled for July 8 at 2 p.m.

Expedited Bill 14-13 would amend the law related to the percentage of improvement costs on a historic property that is eligible for a property tax credit. Currently, the historic preservation tax credit is the maximum allowed by state law (10%). On July 1, 2013, state law will allow a 25% tax credit. The sponsors of the Bill wish to maximize the tax credit for qualified historic preservation improvements.

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Expedited Bill No. 14-13  
Concerning: Historic Preservation – Tax Credit  
Revised: May 13, 2013 Draft No. 1  
Introduced: June 11, 2013  
Expires: December 11, 2014  
Enacted: \_\_\_\_\_  
Executive: \_\_\_\_\_  
Effective: \_\_\_\_\_  
Sunset Date: None  
Ch. \_\_\_\_\_, Laws of Mont. Co. \_\_\_\_\_

## COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

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By: Councilmembers Rice, Floreen, Elrich, and Riemer

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**AN EXPEDITED ACT to:**

- (1) amend the law related to the percentage of improvement costs on a historic property that are eligible for a property tax credit; and
- (2) generally amend the laws a tax credit for qualified improvement to historic properties.

By amending

Montgomery County Code  
Chapter 52, Taxation  
Section 52-43

<b>Boldface</b>	<i>Heading or defined term.</i>
<u>Underlining</u>	<i>Added to existing law by original bill.</i>
<b>[Single boldface brackets]</b>	<i>Deleted from existing law by original bill.</i>
<u>Double underlining</u>	<i>Added by amendment.</i>
<b>[[Double boldface brackets]]</b>	<i>Deleted from existing law or the bill by amendment.</i>
* * *	<i>Existing law unaffected by bill.</i>

*The County Council for Montgomery County, Maryland approves the following Act:*

1 **Sec. 1. Section 52-43 is amended as follows:**

2 **Sec. 52-43. Use of tax credit.**

3 (a) The tax credit is [10] 25 percent of the taxpayer's qualified expenses under  
4 section 52-42.

5 (b) The tax credit applies to the next tax year after the year in which the work or  
6 any part is completed. Any unused tax credit may be carried forward to as  
7 many as 5 subsequent tax years. However, if the property is removed as an  
8 historic site or excluded from an historic district on the applicable County or  
9 municipal master plan or zoning map, any unused tax credit must lapse.

10 \* \* \*

11 **Sec. 2. Expedited Effective Date.**

12 The Council declares that this legislation is necessary for the immediate protection of  
13 the public interest. This Act takes effect on the date on which it becomes law.

14  
15 *Approved:*

16 \_\_\_\_\_  
Nancy Navarro, President, County Council Date

17 *Approved:*

18 \_\_\_\_\_  
Isiah Leggett, County Executive Date

19 *This is a correct copy of Council action.*

20 \_\_\_\_\_  
Linda M. Lauer, Clerk of the Council Date

## LEGISLATIVE REQUEST REPORT

Expedited Bill 14-13

*Historic Preservation – Tax Credit*

**DESCRIPTION:** The Expedited Bill would amend Charter 42 to allow an increased tax credit for qualified improvements to a historic property. As introduced, the tax credit would be increased from 10 percent to 25 percent.

**PROBLEM:** The designation of a property as historic makes improvements subject to an additional regulatory review. To offset this burden, Maryland law allows a tax credit for a percentage of the improvement. The law governing the allowable tax credit for improvements to historic property was changed in 2013 (Chapter 189 of the 2013 Laws of Maryland). In the absence of amending the Code, the allowable tax credit would be less than the state allows. The state law becomes effective on July 1, 2013.

**GOALS AND OBJECTIVES:** It is the goal of this Bill to allow the maximum allowable tax credit for improvements to historic property.

**COORDINATION:** Historic Preservation Commission and Planning Department

**FISCAL IMPACT:** To be requested.

**ECONOMIC IMPACT:** To be requested.

**EVALUATION:** To be requested.

**EXPERIENCE ELSEWHERE:** To be researched.

**SOURCE OF INFORMATION:** Jeffrey L. Zyontz, 240-777-7896

**APPLICATION WITHIN MUNICIPALITIES:** To be researched.

**PENALTIES:** None.



ROCKVILLE, MARYLAND

MEMORANDUM

June 18, 2013

TO: Nancy Navarro, President, County Council

FROM:  Jennifer A. Hughes, Director, Office of Management and Budget  
 Joseph F. Beach, Director, Department of Finance

SUBJECT: Bill 14-13, Historic Preservation – Tax Credit

Please find attached the fiscal and economic impact statements for the above-referenced legislation.

JAH: jfb:nm

c: Kathleen Boucher, Assistant Chief Administrative Officer  
Lisa Austin, Offices of the County Executive  
Joy Nurmi, Special Assistant to the County Executive  
Patrick Lacefield, Director, Public Information Office  
Joseph F. Beach, Director, Department of Finance  
Michael Coveyou, Department of Finance  
Robert Hagedoorn, Department of Finance  
David Platt, Department of Finance  
Alex Espinosa, Office of Management and Budget  
Erika Lopez-Finn, Office of Management and Budget  
Naeem Mia, Office of Management and Budget  
Henri Apollon, Office of Management and Budget

**Fiscal Impact Statement  
Council Bill 14-13 & Historic Preservation – Tax Credit**

**1. Legislative Summary.**

Bill 14-13 would amend the law related to the percentage of improvement costs on a historic property that is eligible for a property tax credit. Currently, the historic preservation tax credit is the maximum allowed by state law (10%). On July 1, 2013, state law will allow for a 25% tax credit.

Bill 14-13 will modify the percentage of the credit to 25% (up from the current 10%) of the amount expended by the taxpayer for the restoration or preservation of a historic property, up to the amount of County real property taxes due (credit is not refundable).

The credit shall be allowed for the tax year immediately following the work or any portion thereof is completed, and any unused portion of this tax credit may be carried forward for up to 5 tax years after which the credit lapses.

**2. An estimate of changes in County revenues and expenditures regardless of whether the revenues or expenditures are assumed in the recommended or approved budget.**

The Bill does not affect County expenditures.

Based on data from the Department of Finance’s Tax Expenditure report (June 2012), the County has foregone the following amounts due to the historic preservation tax credit over the last five years:

<u>Levy Year</u>	<u>Foregone Revenue at 10% credit level</u>	<u>Number of Recipients</u>	<u>Average Tax Credit Per Recipient</u>
2011	\$234,850	141	\$1,665
2010	\$232,556	115	\$2,022
2009	\$138,447	65	\$2,129
2008	\$221,996	111	\$2,000
2007	\$191,006	96	\$1,989

Based on the last two years’ costs of approximately \$230,000 per annum, Finance estimates an annual fiscal impact of \$345,000 in tax revenue losses under the proposed bill.<sup>1</sup> Based on an average of 128 recipients, the average tax credit per recipient is estimated at approximately \$2,700.<sup>2</sup>

<sup>1</sup> \$345,000 = \$230,000 x 1.5 (2.5 – 1.0) (tax credit increased by 150%)

<sup>2</sup> Since historic preservation activities are limited in scope to specific properties, the vast majority of homeowners are ineligible for the credit; therefore, the number of recipients is unlikely to increase (beyond a 2-year average of 128 recipients as based on 2010-2011 data) and the annual expenditures are unlikely to increase beyond \$345,000.

**3. Revenue and expenditure estimates covering at least the next 6 fiscal years.**

Based on annual expenditures of \$345,000, the total 6-year cost is estimated at \$2,070,000.

**4. An actuarial analysis through the entire amortization period for each bill that would affect retiree pension or group insurance costs.**

Not applicable.

**5. Later actions that may affect future revenue and expenditures if the bill authorizes future spending.**

Not applicable. The bill does not authorize future spending.

**6. An estimate of the staff time needed to implement the bill.**

Implementation costs are minimal – Department of Finance staff currently administers the tax credit program at the 10% scenario and expects no additional staff time to implement the program at 25% level.

M-NCPPC staff estimates an addition of 25 applications per year due to the greater tax credit incentives under this bill. M-NCPPC staff states the total increase in staff time to process these applications is 12 hours.

**7. An explanation of how the addition of new staff responsibilities would affect other duties.**

Department of Finance and M-NCPPC do not expect any impact on other duties under the proposed bill.

Applications for historic preservation status are administered by jurisdiction at the appropriate historic preservation commission in an applicant's district (City of Gaithersburg, City of Rockville, or Maryland-National Capital Park & Planning Commission (for all other properties)).

**8. An estimate of costs when an additional appropriation is needed.**

Not applicable – additional appropriations are not needed.

**9. A description of any variable that could affect revenue and cost estimates.**

The number of tax credit applicants/recipients is a variable that affects tax revenue estimates. Another variable that affects expenditure estimates is the amount of the tax bill that a County taxpayer receives.

**10. Ranges of revenue or expenditures that are uncertain or difficult to project.**

The number of tax credit applicants/recipients is difficult to project – an increase in the tax credit percent amount may increase the number of applicants. However, since historic preservation activities are limited in scope to specific properties, the vast majority of homeowners are likely ineligible for the credit and the total number of tax credit applicants/recipients is not likely to increase beyond the two-year average of 128.

**11. If a bill is likely to have no fiscal impact, why that is the case.**

Not applicable.

**12. Other fiscal impacts or comments.**

Taxpayers are eligible for the credit in the tax year after the work is completed. There may be some taxpayers who will not receive the full amount of their credits. If a tax credit is not fully used in a single year, the remaining amount can be carried forward for an additional five years. For example, if there is \$250,000 in approved preservation costs, that would yield \$62,500 in credits (using 25%). If the annual County tax bill is \$5,000, the taxpayer can apply a total of \$30,000 (current year plus an additional 5 years), leaving \$32,500 in unused tax credits that will lapse.

Funds can also lapse if the property is removed as a historic site or excluded from a historic district.

**13. The following contributed to and concurred with this analysis:**

Robert Hagedoorn, Department of Finance  
Erika Lopez-Finn, Office of Management and Budget  
Amy Wilson, Office of Management and Budget

  
\_\_\_\_\_  
Jennifer A. Hughes, Director  
Office of Management and Budget

6/19/13  
Date

**Economic Impact Statement**  
**Expedited Bill 14-13, Historic Preservation - Tax Credit**

**Background:**

Bill 14-13 would amend the law related to the percentage of improvement costs on a historic property that is eligible for a property tax credit. Currently, the historic preservation tax credit is the maximum allowed by state law (10%). On July 1, 2013, state law will allow a 25% tax credit and this bill would adopt the same 25% tax credit for qualified historic preservation improvements.

This tax credit may be granted against the County real property tax, based upon the amount expended by a taxpayer for restoration or preservation of a historic property. A property must be a historic site designated on the master plan for historic preservation, or within a historic district designated on the master plan for historic preservation. A tax credit will be allowed only for work which is the subject of an approved historic area work permit; or for ordinary maintenance expenses, when the amount expended exceeds \$1,000.00.

A credit will be approved for exterior work only, and no credit shall be granted for new construction. Under the proposed legislation, the amount of the credit would be equal to 25% of the amount expended by the taxpayer for the restoration or preservation of a historic property, up to the amount of County real property taxes. The credit shall be allowed for the tax year immediately following the work or any portion thereof is completed, and any unused portion of this tax credit, may be carried forward for up to 5 tax years, after which the credit lapses.

The impact of the credit based on prior year tax collections is below:

<b>Levy Year</b>	<b>Amount</b>	<b>Recipients</b>
2011	234,850	141
2010	232,556	115
2009	138,447	65
2008	221,996	111
2007	191,006	96
2006	170,407	107
2005	213,712	107
2004	203,335	117
2003	224,513	115
2002	181,268	114
2001	115,669	98
2000	104,993	79
1999	118,954	99
1998	73,821	73

**1. The sources of information, assumptions, and methodologies used.**

**Economic Impact Statement**  
**Expedited Bill 14-13, Historic Preservation - Tax Credit**

This bill has no economic impact as it serves only to increase the rate of the historic preservation tax credit for those who receive the tax credit.

**2. A description of any variable that could affect the economic impact estimates.**

This bill should not have an economic impact as it serves only to increase the rate of the historic preservation tax credit for those who receive the tax credit. It is assumed that the credit will not incentivize increased historic preservation related expenditures because only those that are necessary should be incurred.

Provided the County Council approves real property tax levies at the level permitted under Section 310 of the County Charter, there should not be an impact on property tax collections though it will reduce the applicable real property tax bill for eligible applicants.

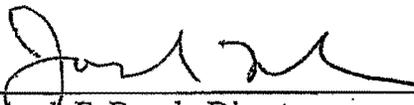
**3. The Bill's positive or negative effect, if any on employment, spending, saving, investment, incomes, and property values in the County.**

The bill has no economic impact as it serves only to increase the rate of the historic preservation tax credit for those who receive the tax credit.

**4. If a Bill is likely to have no economic impact, why is that the case?**

The bill has no economic impact as it serves only to increase the rate of the historic preservation tax credit for those who receive the tax credit.

**5. The following contributed to and concurred with this analysis: David Platt and Mike Coveyou, Finance.**

  
\_\_\_\_\_  
Joseph F. Beach, Director  
Department of Finance

6/19/13  
Date