



Maryland
DEPARTMENT OF PLANNING
MARYLAND HISTORICAL TRUST

July 6, 2020

The Honorable Lawrence J. Hogan, Jr.
Governor of Maryland
100 State Circle
Annapolis, MD 21401

The Honorable William C. Ferguson, IV
President of the Senate
State House H-107
100 State Circle
Annapolis, MD 21401

The Honorable Adrienne A. Jones
Speaker of the House
State House H-101
100 State Circle
Annapolis, MD 21401

RE: SB581, p. 67, Submittal of Report on Integration of Online Application for Historic Revitalization Tax Credit with DHCD Grant Program Applications

Dear Governor Hogan, President Ferguson, and Speaker Jones:

In 2019, Governor Hogan signed SB581 (Chapter 211) into law, which directed the Department of Planning to undertake a feasibility study on the development of an online application for the historic revitalization tax credit that integrates with applications administered by the Department of Housing and Community Development for the Community Legacy Program and the Baltimore Regional Neighborhood Initiative Program. The findings of that study are attached.

Should you have any questions or require additional information about the report, please feel free to contact Elizabeth Hughes, Director of the Maryland Historical Trust, at 410-697-9556, or Elizabeth.Hughes@maryland.gov. You may also contact me directly at 410-767-4510, or Robert.McCord@maryland.gov.

Sincerely,

Robert S. McCord
Secretary

Report on Integration of Online Application for Historic Revitalization Tax Credit with Department of Housing and Community Development Grant Program Applications

In 2019, Governor Hogan signed SB581 (Chapter 211) into law, directing the Department of Planning (page 67) to undertake a feasibility study on the development of an online application for the Historic Revitalization Tax Credit (RTC) that integrates with applications administered by the Department of Housing and Community Development (DHCD) for the Community Legacy (CL) Program and the Baltimore Regional Neighborhood Initiative (BRNI) Program. The following report describes these programs' current application processes and addresses technology and policy developments since the passage of SB581. The report concludes that due to the rapidly evolving technological and policy environment at both the state and federal level, it would be premature to invest resources into the development of an electronic application for the state Historic RTC Program in the short term. In the long term, it is expected that creation of an online state tax credit application will be possible and will necessarily follow the lead of the National Park Service (NPS) Historic Tax Credit Program on which the state program is modeled.

I. Maryland Historic Revitalization Tax Credit Program

Background and Overview

The purpose of state and federal preservation tax incentives is to encourage private sector investment in the rehabilitation and re-use of historic buildings and to promote investment in local economies.

The Maryland RTC Program is accessible in three separate pathways that focus on different types and sizes of projects – competitive commercial, small commercial, and owner-occupied residential - each with its own application requirements consistent with the statutory and regulatory requirements that govern the program. All qualifying properties must have one of the following designations:

1. Contributing property within a National Register Historic District
2. Individually designated property within the National Register of Historic Places
3. Contributing property within a local historic district¹
4. Local individually designated property

In addition, all rehabilitation work must comply with the U.S. Department of the Interior Secretary's *Standards for Rehabilitation*.

Owners in the competitive commercial category have the opportunity to earn a state income tax credit that is equal to 20% of eligible rehabilitation expenses for substantial rehabilitation projects.² Substantial rehabilitation projects are defined as projects with eligible expenses that exceed the greater of the adjusted basis value of the structure or \$25,000. Credit amounts are

¹ Local designations must also meet National Register criteria for eligibility, a determination made by the Maryland Historical Trust.

² Credit enhancements exist for properties that meet LEED Gold or equivalent, create low income housing, and that are located in qualified Opportunity Zones.

capped at \$3 million per project. The competitive commercial component of the program is subject to an annual appropriated cap, which has averaged \$9 million in recent years. As a result, the rating and ranking of competitive commercial applications is conducted once per year. Competitive commercial RTCs may be used with federal and local historic tax credits. Federal applications are reviewed by the Maryland Historical Trust (MHT) in coordination with the National Park Service and are generally submitted simultaneously for a streamlined review.

Owners in the small commercial category may submit applications on a first-come, first-served rolling basis. Small commercial rehabilitations are defined as projects that do not exceed \$500,000 in total qualified rehabilitation expenses. The credit is capped at \$50,000 in a 24-month period and must have a minimum of \$5,000 of eligible expenses to qualify. Eligible projects may earn a state income tax credit equal to 20% of qualified rehabilitation expenditures while projects in a qualified Opportunity Zone may be eligible for additional tax credits. This component of the RTC has an authorized cap of \$4 million, which is expected to be depleted by the summer of 2020. Like the competitive commercial component of the program, small commercial projects may simultaneously seek federal and local historic tax credits.

Homeowners have the opportunity to earn a state income tax credit equal to 20% of qualified rehabilitation expenditures. The credit is capped at \$50,000 in a 24-month period and must have a minimum of \$5,000 of eligible expenses to qualify. The state homeowner tax credit may be used with local historic tax credits, but there is no equivalent federal program for homeowners.

Application Process

The Maryland RTC application process, based on the federal Historic Tax Credit model, involves a three-part application process. Approval of the Part 1 application by the Director of MHT establishes that a property meets the eligibility threshold (e.g., the subject property is listed on the National Register of Historic Places) required to participate in the program. The Part 1 application is made available to applicants on the MHT website as a fillable PDF form that may be downloaded, printed and sent in. Interior and exterior photographs of the entire property that are labeled and keyed to the existing floor plans or site plans must be submitted in hard copy with the Part 1 form.

Approval of the Part 2 application establishes that the work a property owner intends to undertake is consistent with Interior's *Standards for Rehabilitation* and is eligible for the tax credit. The Part 2 application is made available to applicants on the MHT website as a fillable PDF form that may be downloaded, printed and sent in. Supplementary material that must be submitted to hard copy to MHT with the Part 2 application form often includes site plans, demolition plans, architectural plans, HVAC plans, replacement window and door drawings, and product specifications in addition to photos of the interior and exterior of the property. Generally the Part 1 and Part 2 applications are submitted together, with one set of photographs and supplementary materials.

When seeking approval of the Part 3 application, MHT establishes that the property owner completed the work approved in the Part 2 application in a manner consistent with Interior's *Standards*. The Part 3 application is made available to applicants on the MHT website as a fillable PDF form that may be downloaded, printed and sent in. Interior and exterior photographs

of the entire property that are labeled and keyed to the existing floor plans or site plans must be submitted in hard copy with the Part 3 form.

All phases of the Maryland RTC applications are reviewed by MHT and require the approval and signature of MHT's Director or Deputy Director. As an approved Part 3 application is a tax document, it requires original signatures of both the applicant and MHT's Director or Deputy Director.

II. Community Legacy and Baltimore Regional Neighborhood Initiative Programs

Background and Overview

Maryland's Community Legacy and Baltimore Regional Neighborhood Initiative programs are administered by DHCD. Both of these state-funded programs are limited to projects located within Sustainable Communities, which are geographic areas located inside of Priority Funding Areas targeted for revitalization by local governments.

The purpose of the CL Program is to strengthen communities through activities such as business retention and attraction, encouraging homeownership and commercial revitalization. Local governments and community development organizations are eligible to apply for grants to support activities such as:

- Mixed-use development consisting of residential, commercial and/or open space
- Business retention, expansion and attraction initiatives
- Streetscape improvements
- Increasing homeownership and home rehabilitation among residents
- Residential and commercial façade improvement programs
- Real estate acquisition, including land banking, and strategic demolition

The purpose of BRNI program is to support strategic investment in local housing and businesses that will lead to healthy, sustainable communities with a growing tax base and enhanced quality of life. Community development organizations with an approved strategic neighborhood revitalization plan may apply for BRNI funding for projects located in Sustainable Community Areas in Baltimore City and the inner beltway of Baltimore and Anne Arundel counties.

Activities supported by this program typically include:

- Down payment assistance to attract home buyers to purchase and rehabilitate homes
- Programs to acquire or rehabilitate vacant or blighted properties
- Programs to improve existing residential and business properties
- Programs to achieve energy efficiency through weatherization and energy retrofits
- Development of mixed-use projects that combine housing, retail and office space
- Development or enhancement of community open space or public infrastructure
- Workforce and employment development programs
- Strategic demolition
- Operating costs necessary to implement a community enhancement project

Application Process

Applications to these programs are accepted during an annual grant round and are submitted through the DHCD online application system. The system used by DHCD, known as IntelliGrants, is a commercial off-the-shelf grants management system created by AGATE Software Inc., a Michigan-based firm. Applicants complete an online application and upload attachments as JPEGs or PDFs. Applications are reviewed by a team of reviewers who can access the online grants management system remotely.

III. Challenges of Application Integration

Development of an online application for the historic RTC that integrates with applications administered by DHCD for the CL Program and BRNI Program is not advisable at this time due to the multiple challenges outlined below.

- MHT and DHCD program users and activities are not aligned

Both MHT’s RTC program and DHCD’s CL and BRNI grant programs are state-funded initiatives designed to encourage and support community revitalization. This, however, is where the similarities between the programs end. An examination of the types of program users served by these programs and the types of activities supported with these funds demonstrates that there is little crossover between the programs. The lack of alignment between users and the entirely different data sets required for these programs suggests that integrating these programs by means of a single online application would not benefit program users or the administering agencies.

	DHCD CL and BRNI	MHT Historic Tax Credit
Applicant Type	Local governments, community development organizations	For-profit businesses, nonprofit entities, private individuals
Support Sought	Operating, programmatic and capital support	Capital costs
Scope of work	Specific projects with specific budgets	Very detailed and specific
Geographic limitations	Designated Sustainable Community which often overlap with historic districts	Certified Historic Structure
Application material	Applicants upload JPEGs and PDFs of plans. System does not accept zip files. The maximum size per upload is 25 MB. Plans and high-resolution imagery is a problem when uploading – these must be compressed.	In addition to project narrative, multiple sets of detailed building plans and photographs. Detailed and high resolution images necessary in order to conduct design review.
Timing	June application deadline; late summer awards	Competitive Commercial – August deadline; Small Commercial and Owner Occupied – rolling deadline

- Statewide grants management initiatives will render existing systems obsolete

Both DHCD and MHT utilize grants management software systems that permit online application and management of grants. DHCD uses IntelliGrants to support its CL and BRNI grant programs. IntelliGrants does not offer a universal application module. In FY20 DHCD implemented an application system called Community Development and Services System (CDS) which has a “universal” front end system and allows different programs to upload different attachments as required. The core product used by DHCD is fixed. While some customization is possible, it is costly to do so.

MHT’s grant programs are served by Blackbaud, a cloud-based grants management system. MHT uses Blackbaud to support its Maryland Heritage Areas, African American Heritage Preservation, Capital and Non-Capital Historic Preservation grants.

Both the IntelliGrants and Blackbaud grants management systems may be rendered obsolete depending upon the outcome of the efforts of the Governor’s Grants Office to acquire a statewide enterprise grants management system. As currently envisioned, the system under development will be designed to support both federal and state grants awarded *to state agencies* (where the agency is the grantee) and grants that are awarded *by state agencies* (either federal or state monies) where the agency is the grantor.

Notably, the Governor’s Grants Office initiative will be impacted by legislation (HB1539) passed during the 2020 session of the General Assembly, which calls for the creation of a “Maryland Efficient Grant Application Council.” Following consultation with stakeholders, this council is to make recommendations to the Governor’s Grants Office and the Department of Budget and Management on the creation of the following materials to be used by all state grant making agencies: 1.) a uniform grant application; 2.) uniform financial controls and reporting requirements; and 3.) uniform progress reporting requirements. The council is to complete its work by July 1, 2024.

Due to the fluid and evolving nature of efforts to adopt a uniform statewide grants management system, it is not advisable to expend limited funds and staff time amending either of these products to accommodate an online tax credit application.

- Consistency between state and federal rehabilitation tax credit application requirements benefits program users

NPS administers the federal Historic Tax Credit Program in partnership with State Historic Preservation Offices (SHPOs).³ For that reason, federal and state historic tax credit program application formats, requirements, and review processes are seamlessly integrated to ensure efficiency and consistency of review for commercial tax credit applicants.

The state’s three-part tax credit application process mirrors the federal program on which it is based. NPS requires that all parts of the application are submitted to SHPO, where it reviews the application for completeness and accuracy. SHPO spends considerable time advising applicants to ensure that a project meets the Secretary of the Interior’s *Standards for Rehabilitation* and will

³ MHT is the Maryland SHPO.

receive favorable consideration by NPS. SHPO frequently conducts site visits and participates in multiple meetings and phone calls with property owners and developers. When SHPO finishes their review, the application is sent to NPS with a recommendation as to whether the project meets the *Standards*. Once NPS receives the application from SHPO, it reviews the application and sends the final decision to the owner.

Currently, NPS tax credit application forms are provided online as fillable PDFs. These forms as well as all supporting documentation, including maps, plans, architectural drawings and photographs, must be provided in hard copy to NPS for review. Even if MHT provided an online application for state tax credits, applicants seeking both state and federal tax credits would be required to prepare and submit hard copy applications to NPS. In this way, the online application would double rather than streamline the workload for applicants.

Notably, NPS announced this spring that creation of an e-application for the federal Historic Tax Credit program will soon be underway. MHT has been invited to participate in the federal-state working group that will develop the online historic tax credit application. Development of the electronic tax credit application is expected to take two years and will be designed to support the needs of state historic tax credit programs. By allowing NPS to lead development of an electronic historic tax credit application, MHT will ensure that there is consistency between the state and federal application formats and processes. This consistency will benefit program users.

IV. Conclusion

The Maryland Historic RTC Program, CL Program and the BRNI Program are complementary programs that provide critical support for the stabilization and redevelopment of existing communities. While the goals of these programs are similar, there are significant differences between program applicants, activities, and review processes. These differences do not support development of a universal electronic grant application, particularly at a time when the state as a whole is seeking to craft a uniform approach to grant making following the passage of HB1539.

MHT anticipates the development of an electronic application for the Maryland Historic RTC Program following creation of an electronic federal Historic Tax Credit application by NPS. Compatibility with the federal tax credit application, on which the state tax credit program is modeled, will streamline the application process for program users.