




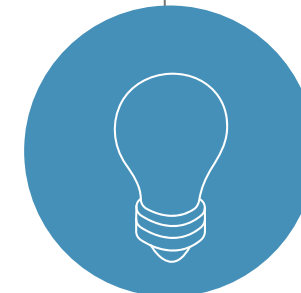
Mayor's Tax Credit Workgroup

CHAP Tax Credit

September 26, 2024



Today's Agenda

-  **Recap of Last Meeting** *(10 mins)*
-  **Development Tax Credit Policy Options** *(30 mins)*
-  **Historic (CHAP) Tax Credit** *(60 mins)*
-  **Stakeholder Perspective** *(40 mins)*

Workgroup
Schedule

Homeowner Protection Tax Credits

- March 26 1 ✓ Homestead Tax Credit
- April 30 2 ✓ Targeted Homeowners Tax Credit
- June 11 3 ✓ State Homeowners Tax Credit / City Supplemental

Development Tax Credits

- July 30 1 ✓ Intro to Development Tax Credits
- Aug 27 2 ✓ Newly Constructed Tax Credit
- Sept 26 3 Historic (CHAP) Tax Credit
- Oct 22 4 High-Performance Market-Rate Rental Housing Tax Credit
- Nov 26 5 Brownfields Tax Credit
- Dec TBD 6 Enterprise Zone (EZ) Tax Credit

Newly Constructed Tax Credit *Recap*



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Newly Constructed Tax Credit

Key Takeaways

1

The volume of Newly Constructed Tax Credits declined dramatically in FY 2020. Possible factors include higher interest rates, tighter 90-day post-settlement application window, and the limited availability of new land for construction.

2

Other hidden factors such as City urban design requirements on roofing and siding may play a role in hindering new construction.

3

The Newly Constructed Tax Credit is unlikely to play a role in influencing the decisions of the builder, buyer, or the lender.

4

Other creative solutions - such as closing cost assistance, buying the rate down, or more rapid demolition at surplus school sites - might be more impactful than the tax credit itself.



HCD's Homebuyer Incentive Programs

	<u>Incentive</u>	<u>Eligibility</u>	<u>Grants Available</u>	<u>Budget</u>
1 First Time Homebuyer	\$10,000	<ul style="list-style-type: none"> Applicants' household income must be below 80% of Area Median Income. 	100	\$1,000,000
2 City Employee Homeownership	\$5,000	<ul style="list-style-type: none"> Must be a City or quasi-City employee for at least six months. 	60	\$300,000
3 Buying Into Baltimore	\$5,000	<ul style="list-style-type: none"> Must have attended a Live Baltimore Trolley Tour. Awarded by lottery. 	60	\$300,000
4 Live Near Your Work	\$1,000 to \$2,500	<ul style="list-style-type: none"> Applicants' employer must be a participating employer. 	120	\$300,000
5 Vacants to Value Booster	\$10,000	<ul style="list-style-type: none"> For properties that were previously subject to a Vacant Building Notice. 	60	\$600,000
Total			400	\$2.5 million



Development Tax Credits

Policy Options



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Development Tax Credits: Policy Options

Tax Credit Economics

- 1 Tax Credit Terms
- 2 Tax Credit Calculation
- 3 Location / Geography
- 4 Program Management

Barriers to Development

- 1 Land Availability
- 2 City Requirements
- 3 Rules and Regulations
- 4 Application Process



Tax Credit Economics #1: Terms

Key Questions:

- **Overall:** Do we need different tax credits for each sub-market, or would we better served with just one or two tax credits for consistency?
- **Length and Amount:** Should we have a consistent length and amount across all tax credits, or should there be different terms based on the differing needs of each sub-market?
- **Fixed vs. Declining:** Should tax credits have a fixed percentage for all years or a declining amount each year?

[illegible]

Tax Credit Economics #1: Terms (cont.)

Key Question:

- Should we allow the stacking of multiple tax credits to amplify the benefit?

Newly Constructed + Brownfield

<u>Tax Credit</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>
Newly Constructed (primary)	50%	40%	30%	20%	10%	0%	0%	0%	0%	0%
Brownfield (secondary)	<u>35%</u>	<u>42%</u>	<u>49%</u>	<u>56%</u>	<u>63%</u>	<u>70%</u>	<u>70%</u>	<u>70%</u>	<u>70%</u>	<u>70%</u>
Total	85%	82%	79%	76%	73%	70%	70%	70%	70%	70%

Enterprise Zone + Brownfield

<u>Tax Credit</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>
Enterprise Zone (primary)	80%	80%	80%	80%	80%	70%	60%	50%	40%	30%
Brownfield (secondary)	<u>14%</u>	<u>14%</u>	<u>14%</u>	<u>14%</u>	<u>14%</u>	<u>21%</u>	<u>28%</u>	<u>35%</u>	<u>42%</u>	<u>49%</u>
Total	94%	94%	94%	94%	94%	91%	88%	85%	82%	79%

Tax Credit Economics #2: Tax Credit Calculation

Key Questions:

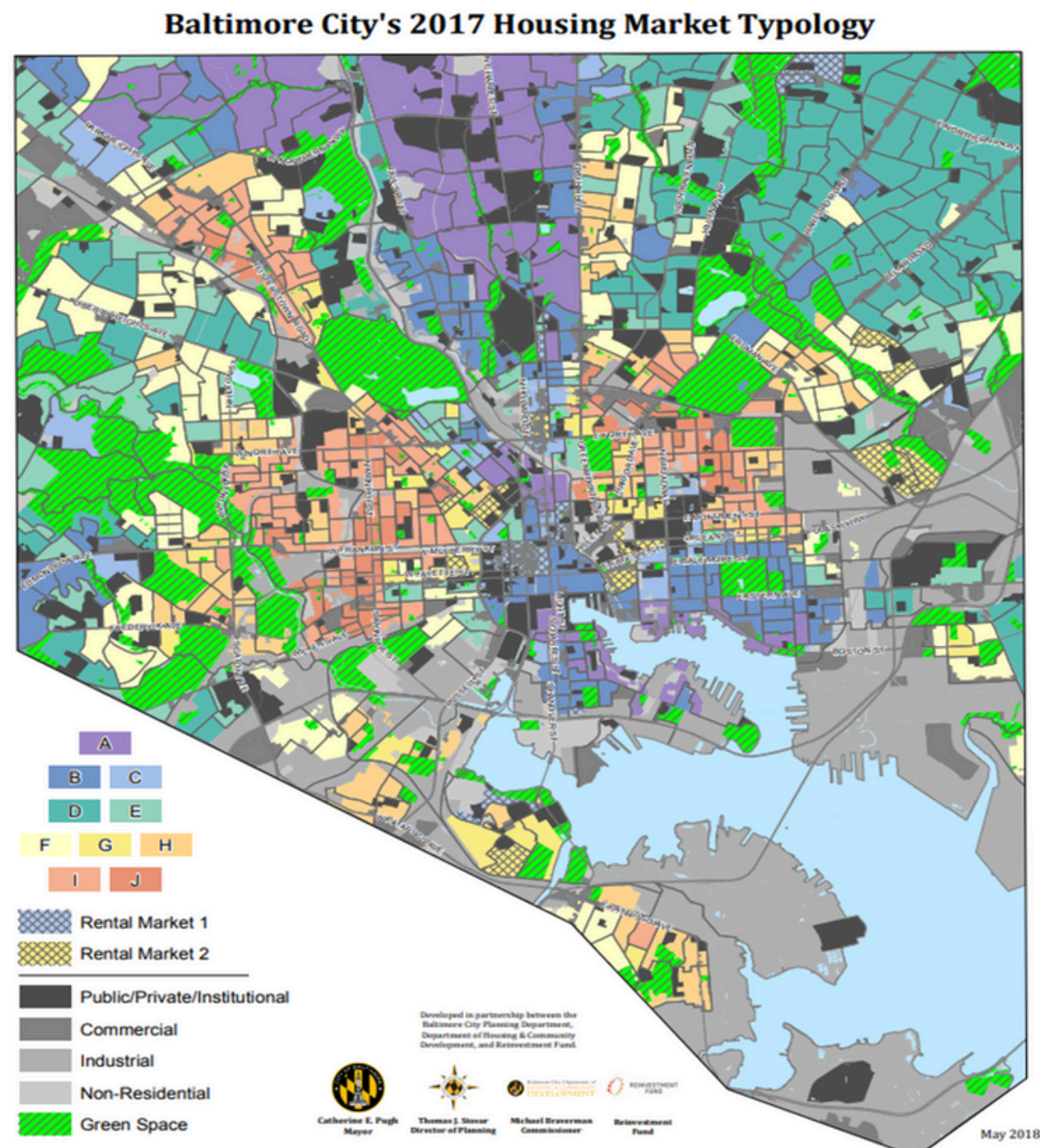
- Should the tax credit be based on the “improved” value of the property post-development or some other methodology?
- Should we use the SDAT assessment or a 3rd party appraisal for purposes of calculation the tax credit?



Tax Credit Economics #3: Location / Geography

Key Question:

- Should we draw boundaries to distinguish between neighborhoods with different needs?



The City has a Housing Market Typology that is used to measure the strength of the City's housing market on a block-by-block basis.

This tool could be used to draw boundaries for proposed tax credits or to create "tiers" for tax credits (i.e. lower subsidy in area A & B, higher subsidy in C & D, etc...)

Currently, the Enterprise Zone (EZ) Tax Credit and Historic (CHAP) Tax Credit have eligibility boundaries; all other City credits are City-wide.

Tax Credit Economics #4: Program Management

Key Questions:

- **Caps:** Should the City set caps on the number of applications it will accept each year?
- **Sunset:** Should there be a sunset provision for tax credits, and if so, how long should the program last?
- **pilot (little p):** Should the City pilot or test tax credits to see if they create the desired result before expanding more broadly.
- **PILOT (big P):** Should the City utilize Payments-in-Lieu-of-Taxes agreements for projects above a certain threshold, to allow the City to negotiate the best possible deal up to the “but for” test?



Barriers to Development #1: Land Availability

Key Questions:

- **Surplus Schools:** Are there any remaining or future sites that could be attractive to developers?
- **City Buildings:** Is the City occupying buildings or sites that could be attractive to developers?
 - Fire storage (Key Highway)
 - BPD Admin (29th Street)
- **Other Sites:** Are there other large sites that could proceed with City demolition assistance?
 - State Center, City Golf courses
- **Demolition:** Are we using demolition effectively to make sites available for development?



Barriers to Development #2: City Requirements

Key Questions:

- **Design Review:** Are there any requirements that add unnecessary cost to projects and make them less feasible?
 - Siding and Roof material requirements
- **Permitting:** Are there improvements that could speed up the process?
- **Zoning:** Are there any zoning requirements that are currently restricting development?
 - Accessory Dwelling Units
 - Restrictions on Multi-Family



Barriers to Development #3: Rules and Regs

Key Questions:

- Do our rules and regulations come from a legitimate policy goal, or do they just create unnecessary barriers?
 - **NCTC:** Application must be filed within 90 days of settlement.
 - **NCTC:** Owner must file a State income tax return each year
 - **NCTC:** Property owner must occupy the dwelling as principal residence.
 - **CHAP:** Projects must be reviewed and meet City historic building design standards for both exterior and interior details.
 - **HPMRRTC:** Construction costs must exceed \$60,000 per unit.
 - **HPMRRTC:** Project must contain no units subject to governmental restrictions on rent charged or the tenant's income level.
 - **Various:** Building must meet "high-performance" green building standards.



Barriers to Development #4: Application Process

Key Questions:

- Are there ways to improve the application process?
- Should we add a “pre-authorization” step to provide more certainty to builders before construction begins?



CHAP (Historic) Tax Credit

Background



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CHAP Tax Credit

Recent Development Examples

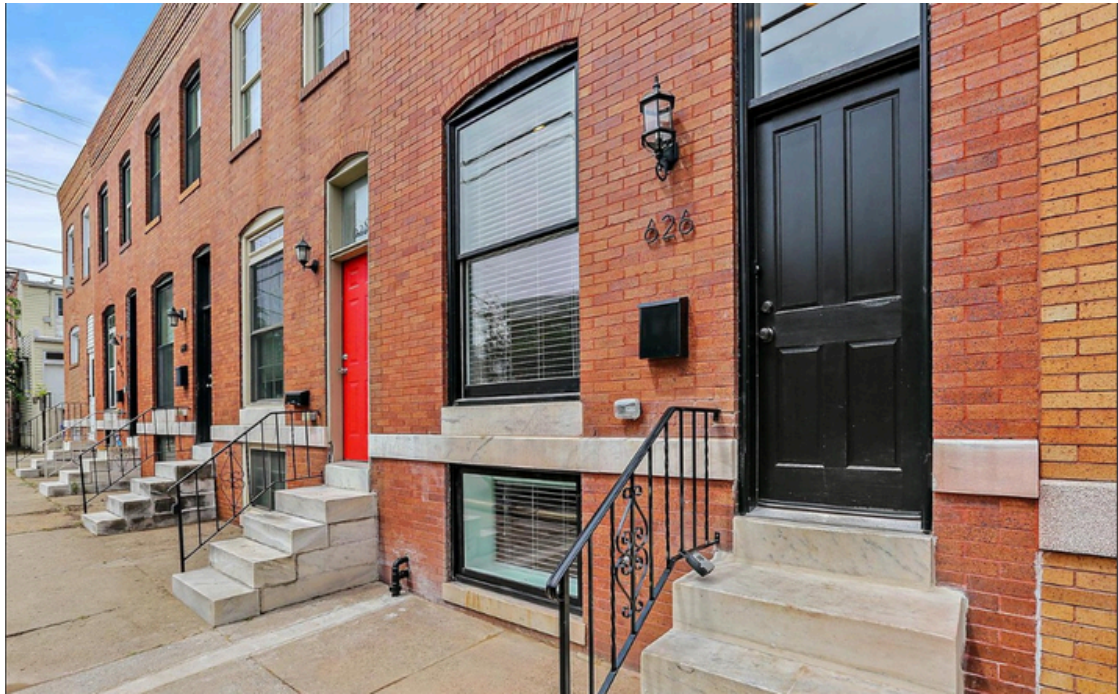
Canton
621 Port Street



Locust Point
1117 Haubert Street



Brewer's Hill
626 South Eaton Street



Riverside
1719 Covington Street



CHAP Tax Credit

Recent Development Examples

Union Square
114 South Calhoun Street



Middle East
2117-2119 East Chase Street



Greenmount West
438-440 East Federal Street

CHAP Tax Credit

Recent Development Examples > \$5 million

Ministry of Brewing
1900 East Lombard Street



Union Bros Building
37 West Cross Street



The Fox Building
3100 Falls Cliff Road



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Legislative and Administrative History

1996 - ORIGINATING LEGISLATION

Original legislation authorizing the CHAP Tax Credit.

2014 - CALCULATION METHOD

Calculation method for the credit was modified from assessment to appraisal, due to some SDAT calculation issues.

2021, 2022, 2023, 2024 - EXTENSIONS

The CHAP Tax Credit was given three short-term extensions and then a longer-term extension to December 31, 2027.

2023 - HERITAGE AREAS

The boundary of the credit was expanded to include certified Heritage Areas.

2024 - CONSERVATION DISTRICTS

CHAP has proposed the creation of Conservation Districts, which would provide some historic protection with a less restrictive design review process.

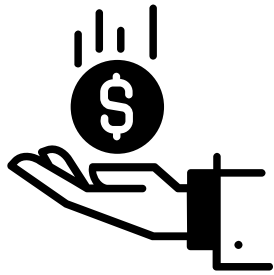


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Place Economics Analysis (2020)



More than 3,500 properties had been renovated using the CHAP Tax Credit between 1996 and 2020.



From 2015 to 2020 an estimated 600 direct and indirect jobs and \$36 million in labor income were generated by projects utilizing the CHAP Tax Credit.



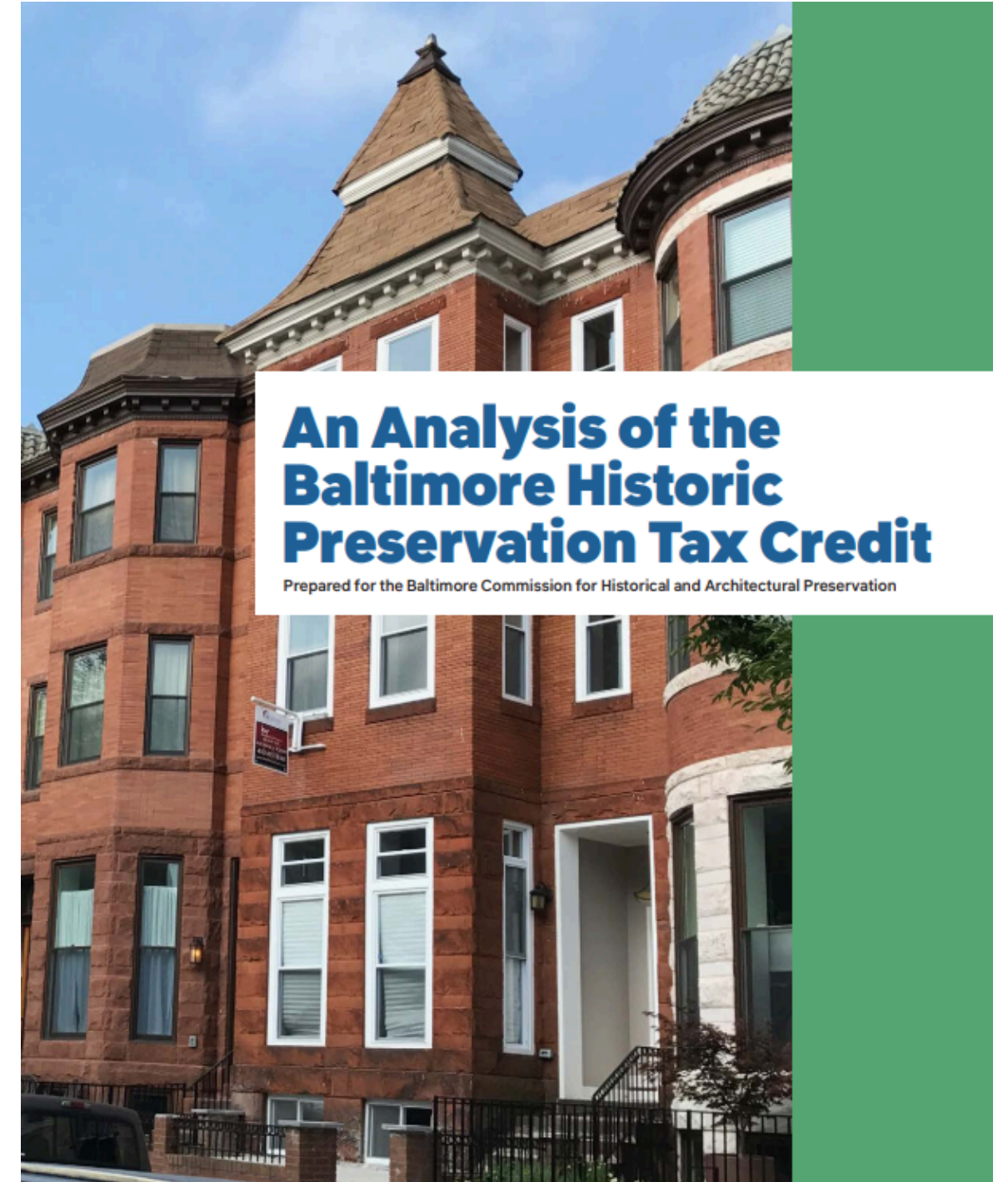
During the Great Recession, investments in CHAP Tax Credit projects was counter-cyclical, increasing in activity while other construction activity in Baltimore declined.



As of 2019, City property taxes generated by completed CHAP projects had grown from \$1.1 million to \$5.3 million.



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CHAP Tax Credit - Basics

1 Purpose

- To “help preserve and revitalize Baltimore’s neighborhoods by encouraging home and business owners to make special efforts to restore or rehabilitate historic buildings.”

2 Class of Property

- Projects are only eligible if “significant improvements” are made which equal or exceed 25% of the property’s full cash value.
- Property must be classified as historic by at least one of the following means:
 - Listed on National Register of Historic Places.
 - Listed on the City Landmark List.
 - Located within a National Register Historic or Landmark District.
 - Located within a City CHAP District.
 - Located within a certified Heritage Area.

3 Application / Eligibility

- Applicant must be granted preliminary certification by CHAP before any work begins.
- Once approved, the applicant has two years to complete the work and receive final certification.



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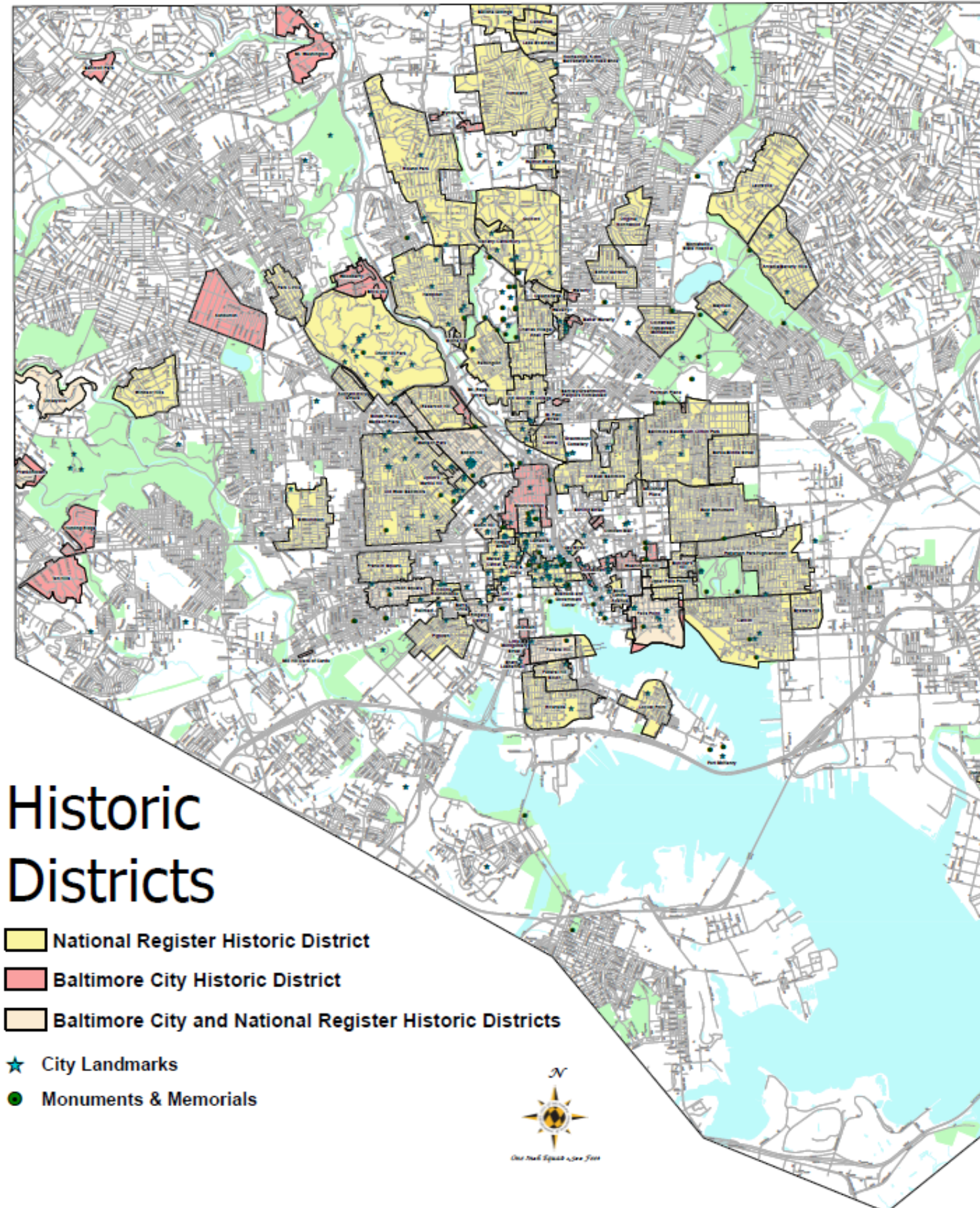
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Historic Districts in Baltimore City



What is a Historic District? (per National Register)
"A historic district is a geographically definable area - urban or rural, large or small - possessing a significant concentration, linkage, or continuity of sites, buildings, structures, and/or objects united by past events or aesthetically by plan or physical development."

National Register Historic District

- Conveyed by the Federal government and created through a process administered by the National Park Service.

Baltimore City Historic District

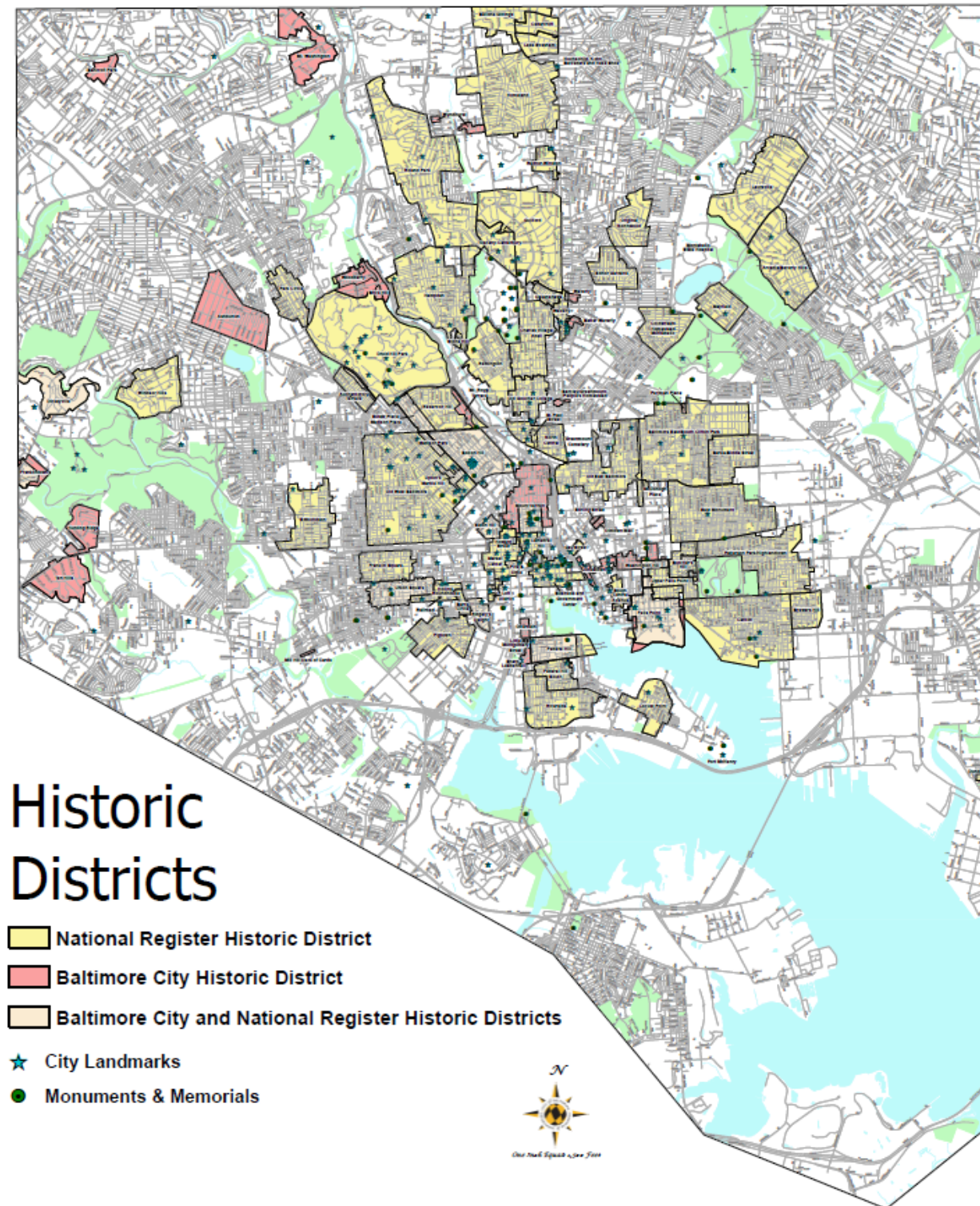
- Created by the Mayor and City Council and is generally initiated by community residents.



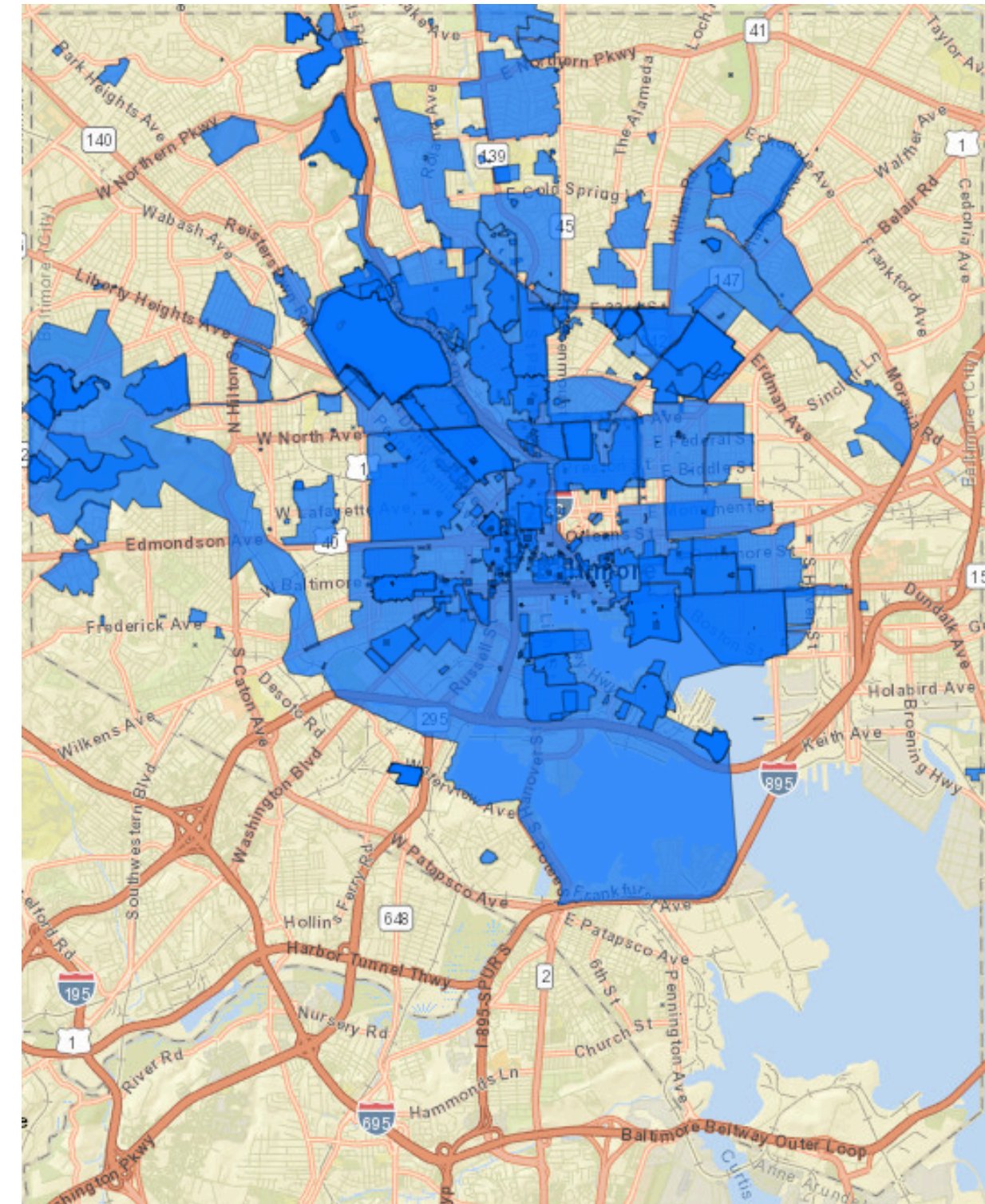
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Historic Districts in Baltimore City (cont.)

2023 and Prior
No Heritage Areas



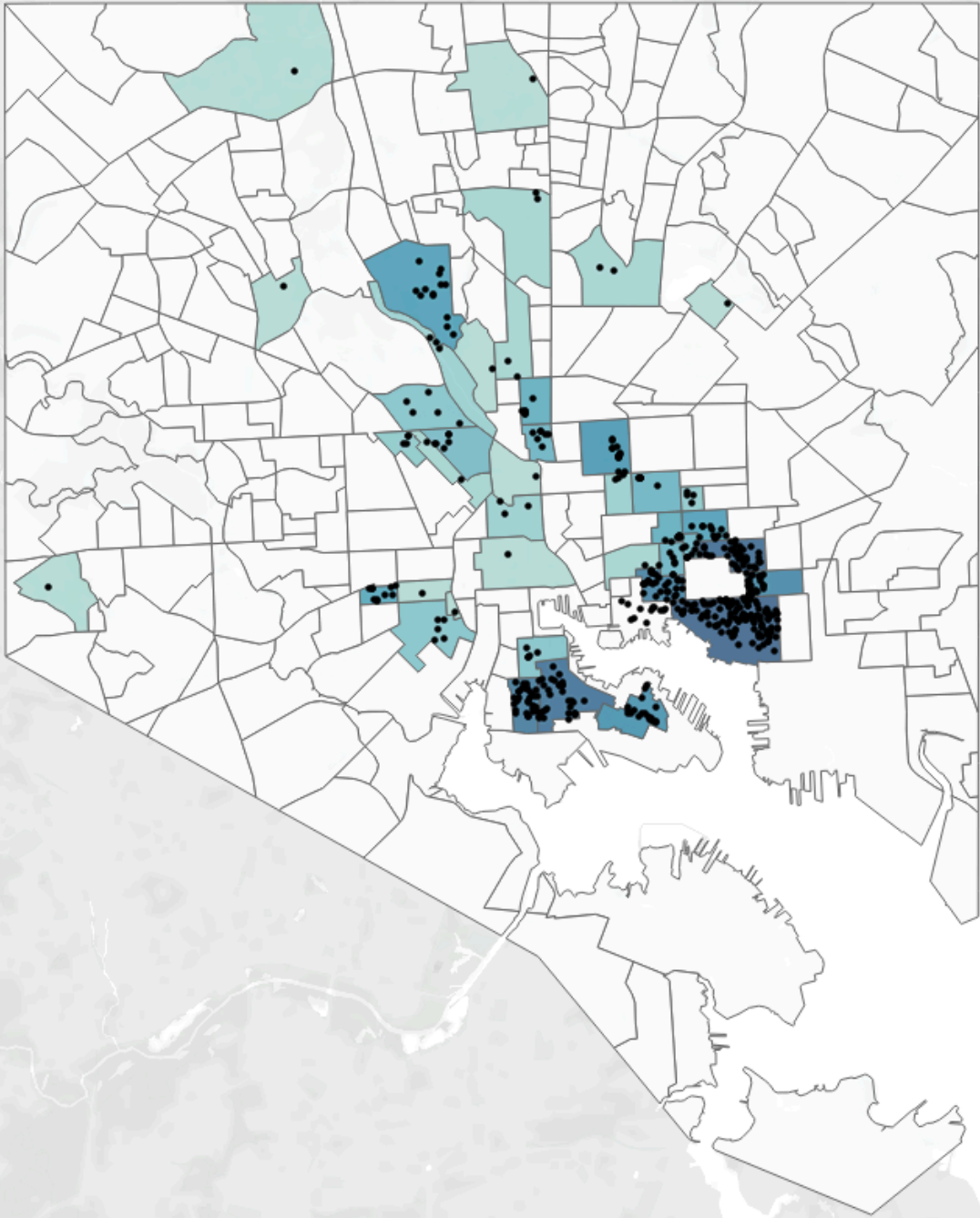
Current
With Heritage Areas



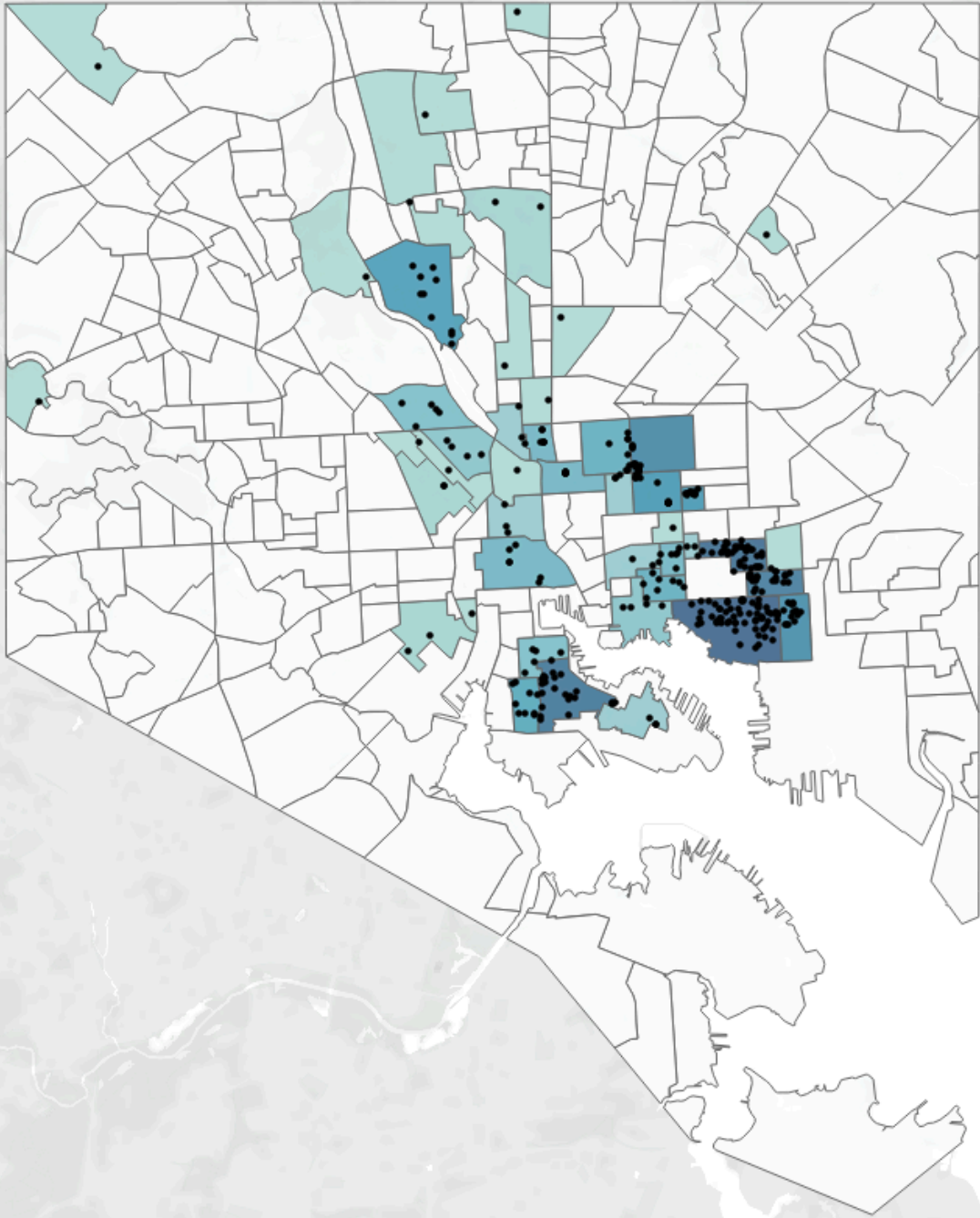
Distribution of Historic Rehabilitation Credit

New Credits Granted - Change Over Time

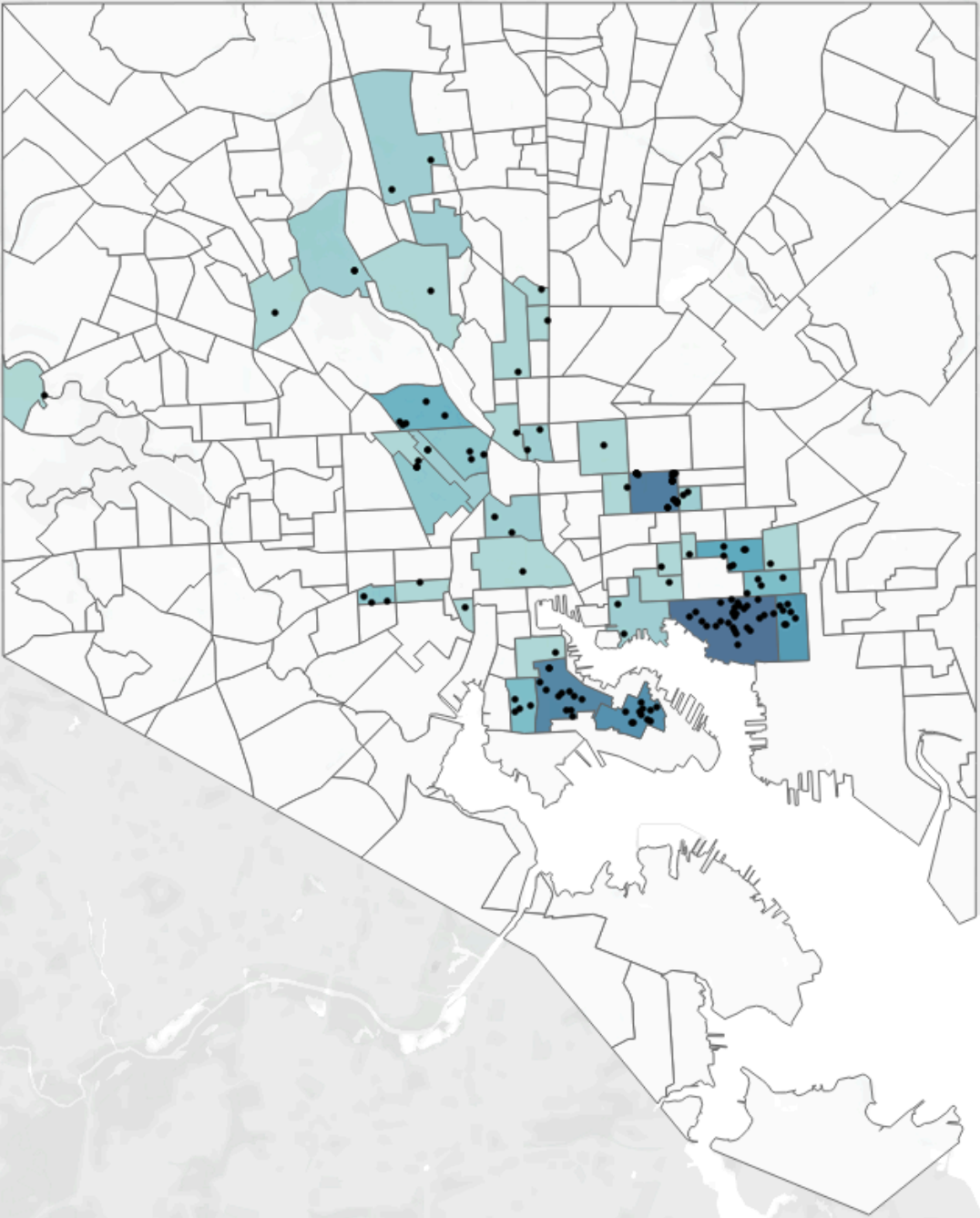
Distribution of the Historic Rehabilitation (CHAP) Tax Credit in Baltimore City
New CHAP Tax Credits Granted by Parcel in 2015



Distribution of the Historic Rehabilitation (CHAP) Tax Credit in Baltimore City
New CHAP Tax Credits Granted by Parcel in 2019



Distribution of the Historic Rehabilitation (CHAP) Tax Credit in Baltimore City
New CHAP Tax Credits Granted by Parcel in 2024



Distribution of Credit & Housing Typology

CHAP Tax Credits by Typology			
Fiscal 2023			
Typology	# of Projects	% of Projects	Cost
A	238	8.7%	\$1,229,494
B	1,828	66.7%	\$8,470,668
C	46	1.7%	\$192,818
D	8	0.3%	\$10,441
E	143	5.2%	\$474,654
F	87	3.2%	\$231,610
G	113	4.1%	\$339,844
H	119	4.3%	\$378,337
I	155	5.7%	\$553,692
J	2	0.1%	\$540
Total	2,739	100.0%	\$11,882,097



75.4% of the CHAP Tax Credits granted were in Type A or B neighborhoods per the City's Housing Typology.

81.6% of the dollar value of CHAP Tax Credits granted were in Type A or B neighborhoods.

CHAP Tax Credit - Basics

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CHAP Approval Process

Rehabs Must Follow CHAP's Design Guidelines



Figure 4: NOT RECOMMENDED - Inappropriate repointing following the removal of historic door surround.



Figure 5: RECOMMENDED - Repointed brick that replicates the color, texture, composition, and tooling of the historic mortar.

- CHAP Design Guidelines cover the following features:
 - Building Exteriors
 - Additions and New Construction
 - Historic Interiors
 - Historic Landscapes
 - Archeological Features
 - Artistic Expression (i.e. murals, signs, etc...)



Figure 6: NOT RECOMMENDED - Inappropriate use of stucco on an historic masonry building.



Figure 11: RECOMMENDED - Stucco finish in good condition in Cedarcroft National Register Historic District



CHAP Tax Credit - Calculation

1 Term and Amount

- For Projects < \$5 million
 - 10-year tax credit, 100% for all 10 years
- For Projects > \$5 million
 - 80% (Yr 1-5), 70% (Yr 6), 60% (Yr 7), 50% (Yr 8), 40% (Yr 9), 30% (Yr 10)

2 Calculation

- Difference between pre-improvement and post-improvement appraisal.

3 Effect on Other Credits

- Calculation of CHAP must occur after Enterprise Zone Tax Credit

4 Transferability

- The CHAP Tax Credit is transferable to subsequent owners for the remaining term of the credit.



CHAP Tax Credit - Requirements for Projects > \$3.5 million

1 Eligibility

- The property must meet one of the following two criteria:
 - Must have been at least 75% vacant for at least three years
 - Must demonstrate to the Department of Finance that the credit is necessary in order for the project to proceed (“but for” test).

2 Economic Impact

- Developer must submit:
 - A projected statement of economic impact and public benefits for the project.
 - After 3 years, an actual economic impact statement and public benefits.
 - Public benefit measures include neighborhood revitalization impact, job creation, tax generation, and minority business development.



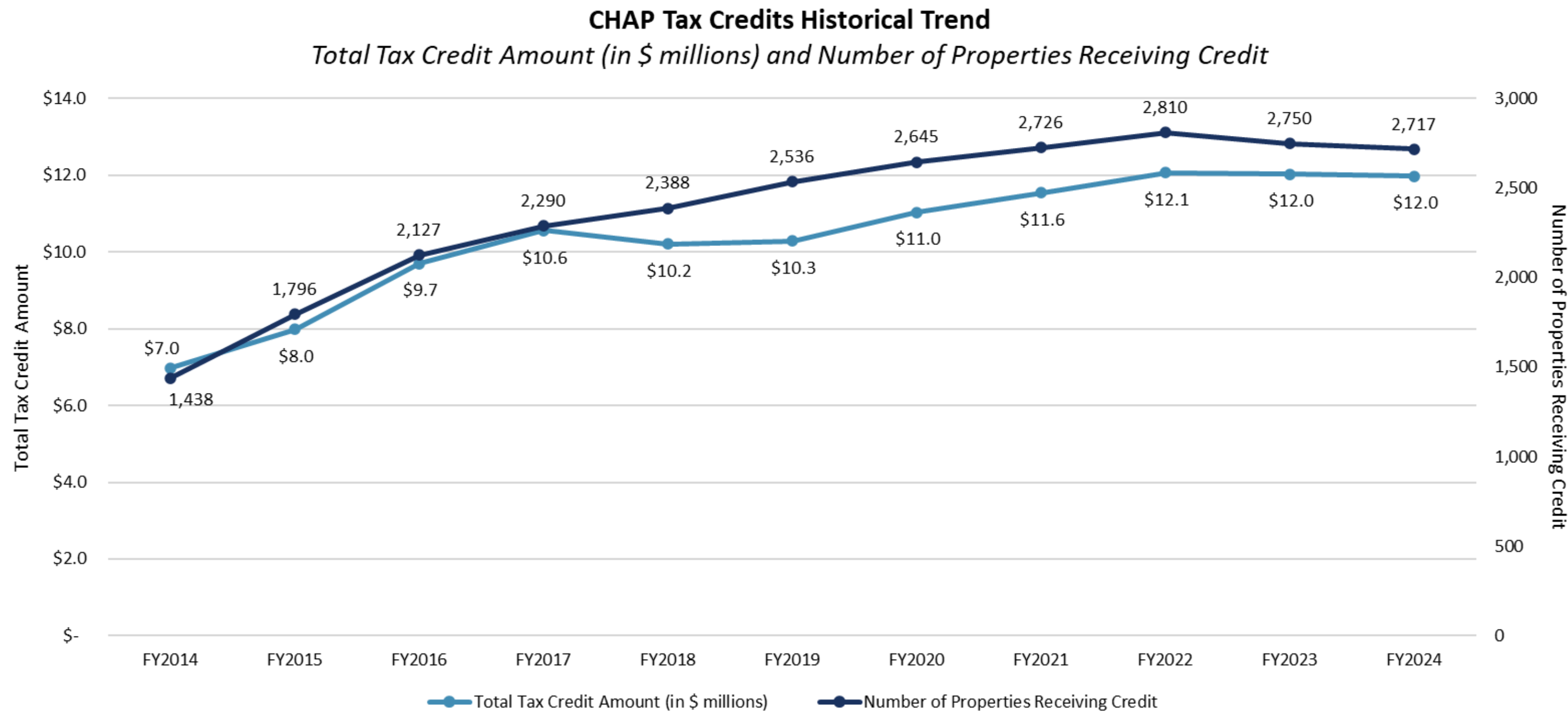
CHAP (Historic) Tax Credit

History

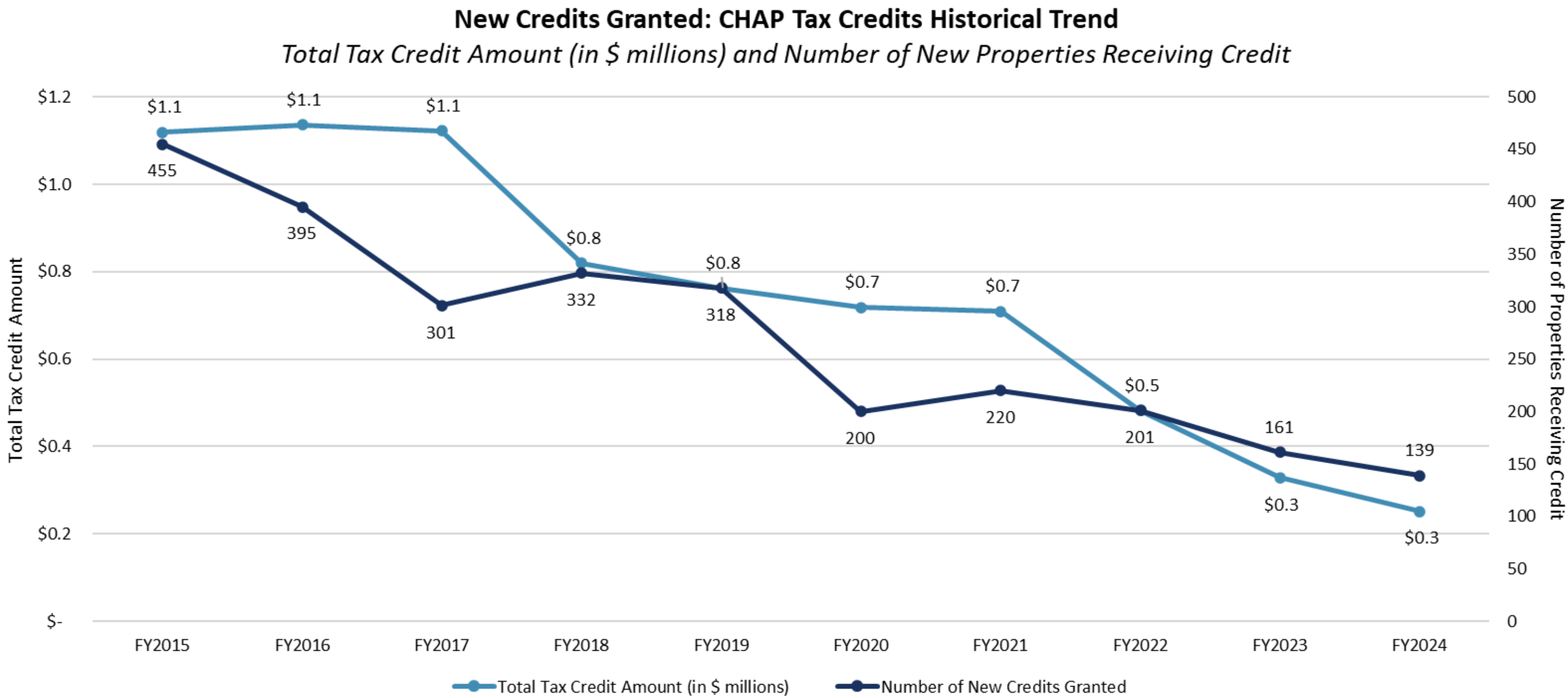


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Historical Trend: CHAP Tax Credit



Historical Trend: CHAP Tax Credit



CHAP (Historic) Tax Credit

Impact on Homeowner

CHAP (Historic) Tax Credit: Example

Median Property
Canton Historic District
513 South Glover Street



	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Assessed Value	158,333	159,300	377,100	377,100	377,100	390,733	404,367	418,000	431,933	445,866	445,866
Full Tax Rate	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%
Gross Property Taxes	3,559	3,581	8,477	8,477	8,477	8,784	9,090	9,397	9,710	10,023	10,023
Credit Percentage	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	0%
Pre-Appraisal	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	N/A
Post-Appraisal	430,000	430,000	430,000	430,000	430,000	430,000	430,000	430,000	430,000	430,000	N/A
Maximum amount of credit	6,294	6,294	6,294	6,294	6,294	6,294	6,294	6,294	6,294	6,294	N/A
Pre-Improvement Taxes	3,538	3,538	3,538	3,538	3,538	3,538	3,538	3,538	3,538	3,538	N/A
Credit Amount	(22)	(43)	(4,940)	(4,940)	(4,940)	(5,246)	(5,553)	(5,859)	(6,172)	(6,294)	0
Net Taxes Owed	3,538	3,538	3,538	3,538	3,538	3,538	3,538	3,538	3,538	3,729	10,023



CHAP (Historic) Tax Credit

Comparing a Sale Both With and Without the Tax Credit



	No Tax Credit	With Tax Credit
Purchase Price	400,000	525,000
Down Payment	80,000	80,000
Loan Amount	320,000	445,000
Mortgage Payment	1,919	2,668
City Tax	749	984
Tax Credit	0	(984)
Net Tax Liability	749	0
Monthly Payment	2,668	2,668



From the buyer’s perspective:

- Buyers are often focused on what size monthly payment they can afford.
- Tax credits reduce the tax portion of the monthly payment, making it more likely that a buyer will take on more mortgage costs (and thus a higher sales price).

From the developer’s perspective:

- Developers are often focused on the final sale price.
- Tax credits boost sales prices, making it less risky for the developer and more likely that they can turn a profit on a project.

CHAP (Historic) Tax Credit

Stakeholder Perspective



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