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# Howard County

## *Internal Memorandum*

**Subject:** Testimony on Council Bill No. \_\_\_\_-2017; amending the tax credit for restoration and rehabilitation of historic or heritage properties

**To:** Lonnie R. Robbins  
Chief Administrative Officer

**From:** Stanley Milesky,  
Director of the Department of Finance

**Date:** December 22, 2016

### **History of Tax Credit under 20.113**

The tax credit under HCC §20.113, the historic assessment credit, was originally drafted as a complement to the historic tax credit in §20.112, the historic renovations credit. While the historic renovations credit allowed for reimbursement for a portion of the costs of certain limited improvements (“eligible work”), the historic assessment credit was granted to protect property owners from increased assessments they might trigger as a result of the historic renovations. These credits were linked in that both required the pre-approval of the Historic Preservation Commission and were limited to exterior and structural improvements.

In the past, the use of these credits in the County for exterior refurbishing, including siding and roofs and were not in conjunction with interior repairs.

### **Ellicott City Flooding and its impact on the credit**

Recent flood damage in Ellicott City brought forth major questions regarding how these credits would be administered on those properties whose improvement assessment was reduced to zero and the increase resulting from repair and renovations would be considerable when the properties were reassessed. In addition, the pre-approval process for the credit hampered the ability of merchants to get back into business quickly.

The current code requires that the State Department of Assessments and Taxation (SDAT) determine what portion, if any, of the increase in assessment is due to eligible work. In early September, after inquiries from some businesses regarding how this determination was going to

be made, the Department of Finance contacted SDAT to ascertain what methodology SDAT was going to use to make the determination of increase in assessment because most businesses had a combination of eligible work and interior work which both affect assessment.

On December 1, 2016 we received a letter from SDAT informing the County that they would not be able to make the determination of increase in assessment because the County Code extends SDAT's responsibility beyond the governing State statute. SDAT will provide us only with the assessment before the increase, in the Ellicott City Flood case \$1000 and the assessment with the improvement. It would be up to the County to determine the portion of the increase attributable to eligible work.

### **Remedy**

The Department of Finance does not have the expertise to make the determination of increase in assessment and attempts to devise a methodology resulted in inconsistent results. The Department of Finance contacted other jurisdictions who utilize the historic assessment credit and those jurisdictions did not have such limited definition of eligible work and allowed the assessment credit for any renovation that added value to the property in order to encourage such improvements and prevent blight.

This legislation delinks the historic assessment credit from the historic renovations credit, removes the need for pre-approval of renovations that are not covered under the historic renovations credit and provides for an expansion of the definition of work that contributes to the increased assessment eligible for the historic renovations credit. All exterior work on the property must still meet the requirements of the Historic Preservation Commission and the Commission will still be involved in providing a Certificate of Eligibility. This bill also provides that the amount of the credit be capped at the amount of qualified expenses.

### **Fiscal Impact**

Property owners in Historic Ellicott City are already eligible for this credit under current code. The argument could have been made by SDAT, if they had chosen to do so, that on many of the properties, the exterior work resulting from flood needed to be done in order for the improvement to be habitable and that the interior work while it has value would not have raised the assessment had the exterior work not been completed. This would have resulted in the same level of increased assessment covered by this credit as would be incurred under this legislation. However, under current code, there was no cap which limited the credit to the amount spent thus an expenditure of \$10,000 could have resulted in a credit in excess of that amount.

This legislation broadens the definition of work which would qualify for the credit and places a cap on the total amount of the credit. For Ellicott City property owners, the most significant

change may be the absence of the need for pre-approval before they can begin working on restoration of their property. Because they did not fully understand this credit and they were primarily focused on getting their business up and running, many of them moved forward in their repair efforts without seeking pre-approval and lost the ability to utilize the credit under the current code. This legislation gives them a new opportunity for assistance. As such, the number of businesses who apply should increase.

The Department of Finance has access to some important information regarding these properties. There are 87 properties whose improvement assessment was reduced as a result of the flood from their original value to \$1000. The amount of that reduction on a full annual basis is \$206,124. The fiscal impact to the County of this credit is dependent on several other variables:

- Number of property owners who apply for the credit.
- The assessed value assigned to the improvement by SDAT following repair and restoration.
- The amount of qualified expenses for repairs and restoration.

The following table represents Maximum Potential Liability under the assumption that all eligible owners apply for the credit and the qualified expenses were large enough for the owners to receive the credit for the full ten years:

	Amount that new Assessment Exceeds Prior Assessment			
	0%	10%	20%	30%
One year value of credit	206,124	227,610	248,301	268,993
Ten year value of credit	2,061,240	2,276,100	2,483,010	2,689,930