CITY OF BALTIMORE
MAYOR BRANDON M. SCOTT

TO	The Honorable President and Members of the Baltimore City Council
FROM	Laura Larsen, Budget Director
DATE	March 7th, 2025
SUBJECT	25-0003 Historic Preservation – Conservation Districts – Establishment

T The Honorable President and
Members of the City Council
City Hall, Room 400

Position: Opposes

The Department of Finance is herein reporting on City Council Bill 25-003 Historic Preservation – Conservation Districts – Establishment, the purpose of establishing Conservation Districts; providing a study, proposal, and review process; defining certain terms; and providing for a special effective date.

Background

The Department of Finance opposes 25-0003 Historic Preservation – Conservation Districts – Establishment currently due to the provision expanding eligibility for the Historic Restoration and Rehabilitation Tax Credit (CHAP). Mayor Scott created the Tax Credit Workgroup to review all tax credit programs in the city, aiming to identify efficiencies and incentivize investment. This group, which has been meeting monthly, is due to deliver its report to the Mayor in the coming months. These recommendations will include an analysis of the current structure of CHAP. The Department of Finance believes it would be more appropriate to address changes to CHAP eligibility as part of a broader discussion on reforming Baltimore City's tax credit system.

Recommendations from the Tax Credit Workgroup will focus on reforms and modifications to the City's tax credits. Based on our analysis, even modest reforms to the city's tax credits could generate significant savings over time, which could be redirected to provide general property tax relief for residential homeowners. The Department asserts that the city should prioritize general property tax relief for residential homeowners over the creation and expansion of tax credits.

CHAP is a statewide optional credit first established in Baltimore City in 1996 to incentivize the restoration of historic properties. For properties with construction costs of $5 million or less, it provides a 10-year tax credit on 100% of the assessed improved value. For properties with construction costs exceeding $5 million, the credit lasts for 10 years, starting at 80% in Years One through Five and gradually decreasing to 30% in Year Ten.

Currently, a property must be located within either a City Historic District or a National Register Historic District (see Map 1) to be eligible for the credit. All projects must be pre-approved by the Commission for

Historical and Architectural Preservation and meet specific design specifications. Additionally, the project cost must equal or exceed at least 25% of the property's full cash value before the commencement of improvements. As part of the review process, the property undergoes both a pre-rehabilitation and post-rehabilitation appraisal to determine its full value. The difference between the pre-rehab and post-rehab appraisal is the "improved value," which is used to calculate the tax credit.

Over the past 10 fiscal years, CHAP has exhibited three key trends:

1. A steady increase in the overall cost of the tax credit.
2. A steady increase in the number of properties receiving the credit.
3. A steady decline in the number of new properties receiving the credit (see Maps 2, 3 & 4).

Table 1			
CHAP FY15-FY25			
Fiscal Year	**Fiscal Year Total Cost**	**Properties receiving CHAP**	**New Properties**
2015	-$6,763,489	1802	459
2016	-$7,774,025	2128	391
2017	-$9,420,624	2293	301
2018	-$9,543,409	2398	336
2019	-$10,551,624	2545	317
2020	-$10,489,014	2655	200
2021	-$11,097,608	2736	222
2022	-$12,062,565	2821	203
2023	-$12,013,012	2761	161
2024*	-$12,268,267*	2747*	157*
2025**	-$11,568,000**	2376**	88**

* Yearend Estimate
** Q2 Projection

Over the next ten years, CHAP's total cost is expected to decrease. The trend of fewer properties receiving the CHAP credit over the past decade is projected to continue. The decline in new properties receiving the credit will result in a gradual reduction in the overall number of properties benefiting from the program, leading to a decrease in total costs each fiscal year. If no new applications are approved, there will be no properties receiving the credit by 2035.

Table 2	
CHAP Baseline Calculation	
Fiscal Year	**Fiscal Year Total Cost**
2025	-$11,308,210
2026	-$9,421,734
2027	-$7,875,300
2028	-$6,372,072
2029	-$4,963,304
2030	-$3,710,179

2031	-$2,587,242
2032	-$1,651,137
2033	-$807,476
2034	-$64,109
2035	$0

Effectiveness

The CHAP Tax Credit has been effective in encouraging smaller-scale residential renovations. We believe the intent of the proposed legislation is to expand eligibility for this tax credit to increase its use in areas outside of currently designated historic districts as a means of promoting equity; however, this expansion may not necessarily benefit low-income property owners.

First, there is a common misconception that the CHAP tax credit provides upfront funding or directly offsets renovation costs, which is not the case. Second, not all renovations lead to an increase in a property's assessed value. For example, renovations considered routine maintenance, or replacements often do not result in a measurable increase in property value. Additionally, the cost of renovations does not necessarily correspond to an equivalent increase in a property's assessment. Finally, according to Maryland Property Tax Code § 8-104(c)(1)(iii), the State may not reassess a property out of cycle due to renovations unless the aggregated cost of permits is at least $100,000.

There are two significant flaws in the program's design that have greatly reduced its cost-effectiveness. First, the eligibility criteria for the CHAP Tax Credit are not aligned with the City's community development strategy. The City's development strategy, as outlined in the Department of Housing and Community Development's (DHCD) Framework for Community Development, focuses on four targeted Impact Investment Areas: East, West, Southwest, and Park Heights. These areas share common characteristics—they are lower- to middle-income communities, have a base of stable residents or other community resources, and are adjacent to strong market areas and/or anchor institutions. These factors increase the likelihood that public investments will help stabilize neighborhoods, encourage additional private investment, and lead to sustainable economic growth.

In contrast, the CHAP Tax Credit, by relying on local and federal historic designations, directs resources toward many neighborhoods that already exhibit strong market indicators and are less in need of a subsidy. These historic designations primarily follow a north-south corridor through the center of the city and extend to Harbor-adjacent areas—what Dr. Lawrence Brown refers to as the "White L." Neighborhoods currently designated as historic and thus eligible for the CHAP Tax Credit include Homeland, Roland Park, Guilford, Tuscany-Canterbury, Charles Village, Bolton Hill, Mount Vernon, Otterbein, Federal Hill, Riverside, Locust Point, Fells Point, Canton, and Brewers Hill. Even outside the central corridor, many historic-designated neighborhoods tend to be middle- to high-income areas, such as Mount Washington, Arcadia, Dickeyville, Ashburton, Hunting Ridge, and Ten Hills.

The second major flaw with the CHAP Tax Credit is that it provides a full 100% subsidy on the improved value of the property for any project with construction costs of $5 million or less for the full duration of the credit. As a result, the City receives no new tax revenue from CHAP projects for ten years. It is unclear why such a substantial subsidy is necessary for small-scale residential improvements. By comparison, other tax credit programs for more complex commercial and residential projects—such as the Enterprise Zone Tax Credit and the High-Performance Market Rate Tax Credit—offer significantly less generous subsidies while still generating net tax revenue for the City.

Fiscal Impact

This legislation has the potential to significantly impact Baltimore City's finances. As written, any area of the City would be eligible to become a Conservation District, meaning that every building in the City could potentially qualify for the CHAP Tax Credit.

To estimate the fiscal cost over ten years, this analysis uses an annual property tax assessment growth rate ranging from 1.7% to 6.5%, based on the assumptions in the most recent 10-year financial projection, which is updated annually. The model assumes that the tax rate remains flat at 2.248% and the initial pre-improvement assessment value is $150,834—the average home value in the City—and the post-improvement assessment value of $439,525.

We developed three scenarios to forecast the fiscal impact of this legislation. Each scenario assumes that the entire City would be designated as a Conservation District shortly after the legislation is enacted:

- **Low Utilization Scenario:** Assumes new CHAP tax credits are granted at a rate similar to recent years.
- **Moderate Utilization Scenario**: Assumes steady growth in the number of properties receiving the credit, reversing the recent decline in new approvals.
- **High Utilization Scenario**: Assumes rapid adoption of the credit, with the private market quickly initiating projects in newly created Conservation Districts.

Fiscal Impact Forecasts

Table 3: Low Utilization Scenario

- The number of new projects receiving CHAP tax credits is projected to remain consistent with recent years.
- CHAP tax credit costs begin at $1.04 million in FY26 and grow significantly, reaching $14.6 million by FY36 due to the cumulative effect of multi-year tax credit commitments.
- The total cost of the tax credit expansion over the next 10 years would be $85.8 million.

Table 4: Moderate Utilization Scenario

- The number of new projects receiving CHAP tax credits is projected to increase steadily, reversing the recent downward trend and peaking in FY36.
- CHAP tax credit costs begin at $1.04 million in FY26 and grow significantly, reaching $25.7 million by FY36.
- The total cost of the tax credit expansion over the next 10 years would be $136.5 million.

Table 5: High Utilization Scenario

- Assumes the private market quickly initiates projects within the newly created Conservation Districts.
- The number of new projects receiving CHAP tax credits is projected to increase sharply, peaking in FY35.
- CHAP tax credit costs begin at $1.02 million in FY26 and grow significantly, reaching $31.7 million by FY36.
- The total cost of the tax credit expansion over the next 10 years would be $184.3 million.

These projections highlight the long-term financial commitment associated with the CHAP program. Because tax credits from previous years continue to impact future budgets, any expansion of the program could lead to substantial fiscal obligations for the City.

Other Considerations

The goals and intentions of all tax credit programs should be regularly evaluated to ensure these credits are achieving the desired results. Recommendations from the Tax Credit Workgroup will focus on the reforms necessary this outcome. This work is grounded in the goal to provide broad base property tax relief for residents. In Fiscal 2025 property tax credits will cost $100.9 million (not including the Homestead credit; this represents 8% of total property tax revenues. Targeting investments in these areas is more likely to result in sustainable growth of the City's tax base.

If this legislation moves forward, we recommend setting the sunset date at the end of the calendar year (December 31) rather than the fiscal year (June 30). This timing would prevent conflicts with the City's budget passage and year-end closing schedules while also allowing any modifications to tax credit programs to be incorporated into the City's next fiscal year budget.

Conclusion

The Department of Finance strongly recommends postponing any expansion of the CHAP Tax Credit until the City's Tax Credit Workgroup completes its comprehensive review of all tax incentives. While historic preservation remains an important policy goal, the current structure of CHAP is misaligned with Baltimore's broader community development strategy and places an undue financial burden on the City's budget. Expanding eligibility for this tax credit will limit the City's ability to provide general property tax relief and direct resources where they are most needed. As the CHAP program continues to decline in cost over the next decade, a more strategic approach to tax credit allocation—focused on targeted investment areas and sustainable economic growth—will ensure that Baltimore maximizes the return on its public investments. The Department of Finance urges policymakers to prioritize comprehensive tax credit reform and broader fiscal sustainability over incremental policy changes that could result in significant financial obligations for the City.

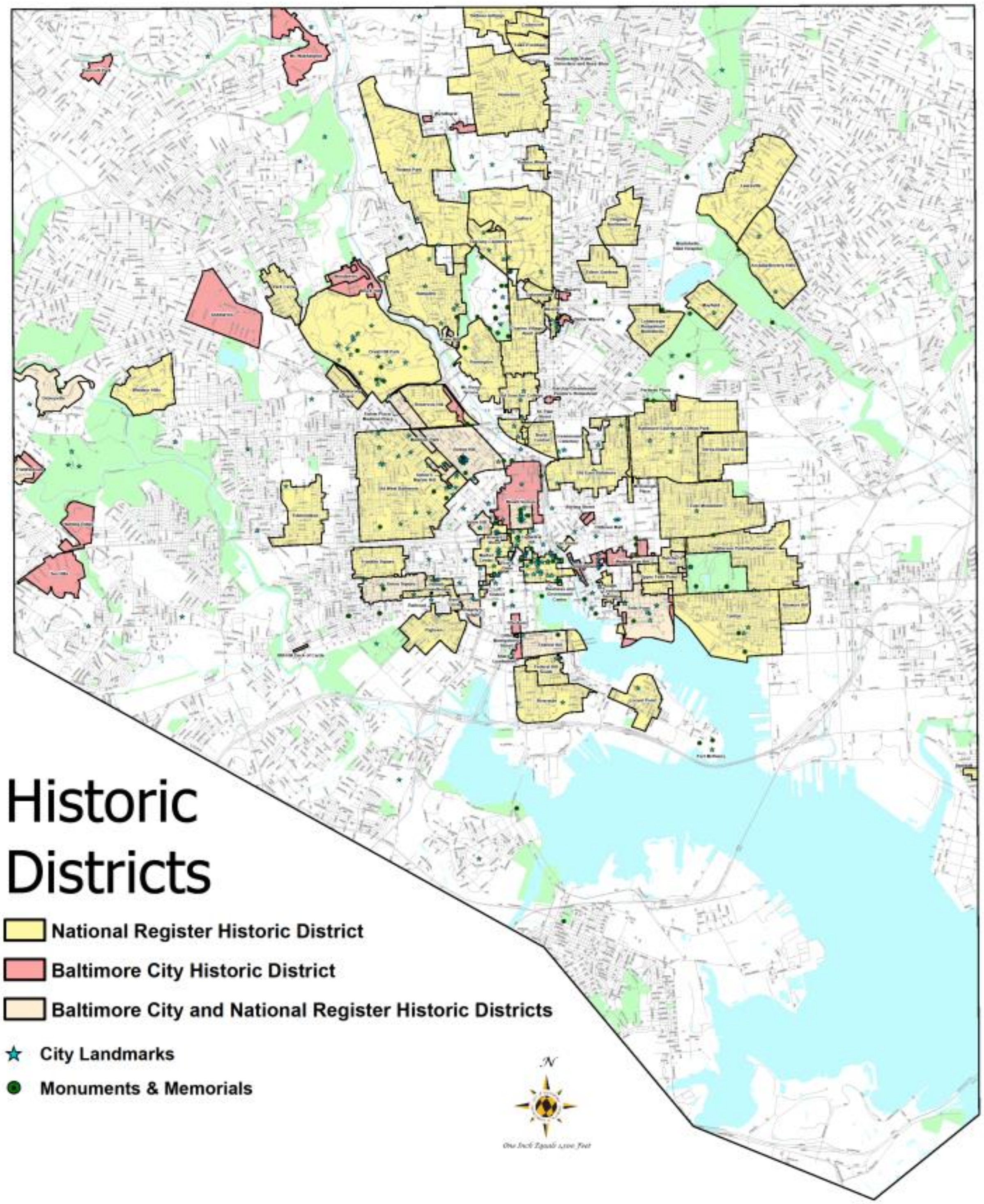
For the reasons stated above, the Department of Finance opposes City Council Bill 25-0003.

cc: Michael Mocksten
Nina Themelis

Table 3											
Estimated Cost of Future Projects Receiving The CHAP Tax Credit (Low Utilization)											
Starting Year	**FY26**	**FY27**	**FY28**	**FY29**	**FY30**	**FY31**	**FY32**	**FY33**	**FY34**	**FY35**	**FY36**
Est'd # of New Projects	160	170	180	190	180	190	160	170	180	190	190
Assessment Growth Rate	0%	2.3%	6.3%	6.5%	4.8%	1.7%	2.4%	2.9%	3.1%	3.3%	3.5%
Est'd Pre-Improvement Assessment	$150,834	$154,303	$164,024	$174,741	$183,070	$186,182	$190,713	$196,307	$202,392	$209,139	$216,528
Est'd Post-Improvement Assessment	$439,525	$449,634	$477,961	$509,188	$533,460	$542,528	$555,730	$572,031	$589,764	$609,423	$630,956
% Historic	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Tax Rate	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%
FY26	$1,038,365	$1,038,365	$1,038,365	$1,038,365	$1,038,365	$1,038,365	$1,038,365	$1,038,365	$1,038,365	$1,038,365	$0
FY27		$1,128,638	$1,128,638	$1,128,638	$1,128,638	$1,128,638	$1,128,638	$1,128,638	$1,128,638	$1,128,638	$1,128,638
FY28			$1,270,315	$1,270,315	$1,270,315	$1,270,315	$1,270,315	$1,270,315	$1,270,315	$1,270,315	$1,270,315
FY29				$1,428,493	$1,428,493	$1,428,493	$1,428,493	$1,428,493	$1,428,493	$1,428,493	$1,428,493
FY30					$1,417,817	$1,417,817	$1,417,817	$1,417,817	$1,417,817	$1,417,817	$1,417,817
FY31						$1,522,026	$1,522,026	$1,522,026	$1,522,026	$1,522,026	$1,522,026
FY32							$1,312,894	$1,312,894	$1,312,894	$1,312,894	$1,312,894
FY33								$1,435,869	$1,435,869	$1,435,869	$1,435,869
FY34									$1,567,462	$1,567,462	$1,567,462
FY35										$1,709,695	$1,709,695
FY36											$1,770,104
FY 2025 - FY 2035 CHAP Tax Credit Cost											
Fiscal Year	**Fiscal 2026**	**Fiscal 2027**	**Fiscal 2028**	**Fiscal 2029**	**Fiscal 2030**	**Fiscal 2031**	**Fiscal 2032**	**Fiscal 2033**	**Fiscal 2034**	**Fiscal 2035**	**Fiscal 2036**
Est'd Full Cost	$1,038,365	$2,167,003	$3,437,317	$4,865,810	$6,283,627	$7,805,653	$9,118,547	$10,554,416	$12,121,878	$13,831,572	$14,563,311
Cumulative		$3,205,367	$6,642,685	$11,508,495	$17,792,121	$25,597,774	$34,716,321	$45,270,737	$57,392,614	$71,224,186	$85,787,497

Table 4											
Estimated Cost of Future Projects Receiving The CHAP Tax Credit (Moderate Utilization)											
Starting Year	**FY26**	**FY27**	**FY28**	**FY29**	**FY30**	**FY31**	**FY32**	**FY33**	**FY34**	**FY35**	**FY36**
Est'd # of New Projects	161	200	222	280	301	317	330	391	420	450	445
Assessment Growth Rate	0%	2.3%	6.3%	6.5%	4.8%	1.7%	2.4%	2.9%	3.1%	3.3%	3.5%
Est'd Pre-Improvement Assessment	$150,834	$154,303	$164,024	$174,741	$183,070	$186,182	$190,713	$196,307	$202,392	$209,139	$216,528
Est'd Post-Improvement Assessment	$439,525	$449,634	$477,961	$509,188	$533,460	$542,528	$555,730	$572,031	$589,764	$609,423	$630,956
% Historic	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Tax Rate	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%
FY26	$1,044,855	$1,044,855	$1,044,855	$1,044,855	$1,044,855	$1,044,855	$1,044,855	$1,044,855	$1,044,855	$1,044,855	$0
FY27		$1,327,809	$1,327,809	$1,327,809	$1,327,809	$1,327,809	$1,327,809	$1,327,809	$1,327,809	$1,327,809	$1,327,809
FY28			$1,566,722	$1,566,722	$1,566,722	$1,566,722	$1,566,722	$1,566,722	$1,566,722	$1,566,722	$1,566,722
FY29				$2,105,147	$2,105,147	$2,105,147	$2,105,147	$2,105,147	$2,105,147	$2,105,147	$2,105,147
FY30					$2,370,904	$2,370,904	$2,370,904	$2,370,904	$2,370,904	$2,370,904	$2,370,904
FY31						$2,539,380	$2,539,380	$2,539,380	$2,539,380	$2,539,380	$2,539,380
FY32							$2,707,845	$2,707,845	$2,707,845	$2,707,845	$2,707,845
FY33								$3,302,498	$3,302,498	$3,302,498	$3,302,498
FY34									$3,657,411	$3,657,411	$3,657,411
FY35										$4,049,277	$4,049,277
FY36											$4,145,769
FY 2025 - FY 2035 CHAP Tax Credit Cost											
Fiscal Year	**Fiscal 2026**	**Fiscal 2027**	**Fiscal 2028**	**Fiscal 2029**	**Fiscal 2030**	**Fiscal 2031**	**Fiscal 2032**	**Fiscal 2033**	**Fiscal 2034**	**Fiscal 2035**	**Fiscal 2036**
Est'd Full Cost	$1,044,855	$2,372,664	$3,939,385	$6,044,532	$8,415,437	$10,954,817	$13,662,661	$16,965,160	$20,622,571	$24,671,847	$27,772,762
Cumulative		$3,417,518	$7,356,904	$13,401,436	$21,816,873	$32,771,690	$46,434,351	$63,399,511	$84,022,081	$108,693,929	$136,466,691

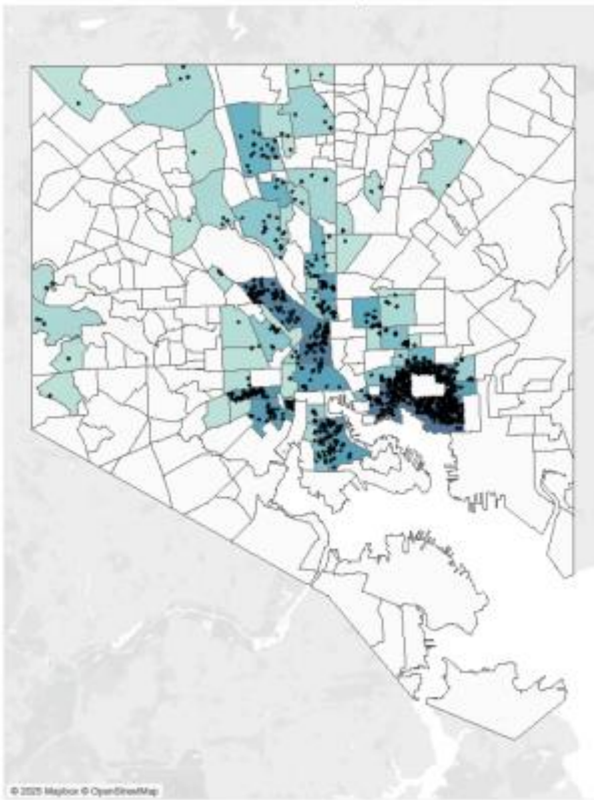
Table 5											
Estimated Cost of Future Projects Receiving The CHAP Tax Credit (High Utilization)											
Starting Year	**FY26**	**FY27**	**FY28**	**FY29**	**FY30**	**FY31**	**FY32**	**FY33**	**FY34**	**FY35**	**FY36**
Est'd # of New Projects	200	459	420	430	410	390	380	375	360	345	330
Assessment Growth Rate	0%	2.3%	6.3%	6.5%	4.8%	1.7%	2.4%	2.9%	3.1%	3.3%	3.5%
Est'd Pre-Improvement Assessment	$150,834	$154,303	$164,024	$174,741	$183,070	$186,182	$190,713	$196,307	$202,392	$209,139	$216,528
Est'd Post-Improvement Assessment	$439,525	$449,634	$477,961	$509,188	$533,460	$542,528	$555,730	$572,031	$589,764	$609,423	$630,956
% Historic	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Tax Rate	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%	2.248%
FY26	$1,297,956	$1,297,956	$1,297,956	$1,297,956	$1,297,956	$1,297,956	$1,297,956	$1,297,956	$1,297,956	$1,297,956	$0
FY27		$3,047,322	$3,047,322	$3,047,322	$3,047,322	$3,047,322	$3,047,322	$3,047,322	$3,047,322	$3,047,322	$3,047,322
FY28			$2,964,068	$2,964,068	$2,964,068	$2,964,068	$2,964,068	$2,964,068	$2,964,068	$2,964,068	$2,964,068
FY29				$3,232,904	$3,232,904	$3,232,904	$3,232,904	$3,232,904	$3,232,904	$3,232,904	$3,232,904
FY30					$3,229,471	$3,229,471	$3,229,471	$3,229,471	$3,229,471	$3,229,471	$3,229,471
FY31						$3,124,159	$3,124,159	$3,124,159	$3,124,159	$3,124,159	$3,124,159
FY32							$3,118,124	$3,118,124	$3,118,124	$3,118,124	$3,118,124
FY33								$3,167,358	$3,167,358	$3,167,358	$3,167,358
FY34									$3,134,924	$3,134,924	$3,134,924
FY35										$3,104,445	$3,104,445
FY36											$3,074,391
FY 2025 - FY 2035 CHAP Tax Credit Cost											
Fiscal Year	**Fiscal 2026**	**Fiscal 2027**	**Fiscal 2028**	**Fiscal 2029**	**Fiscal 2030**	**Fiscal 2031**	**Fiscal 2032**	**Fiscal 2033**	**Fiscal 2034**	**Fiscal 2035**	**Fiscal 2036**
Est'd Full Cost	$1,297,956	$4,345,278	$7,309,346	$10,542,250	$13,771,721	$16,895,880	$20,014,004	$23,181,361	$26,316,285	$29,420,731	$31,197,165
Cumulative Cost		$5,643,234	$12,952,580	$23,494,830	$37,266,551	$54,162,431	$74,176,435	$97,357,796	$123,674,082	$153,094,812	$184,291,978



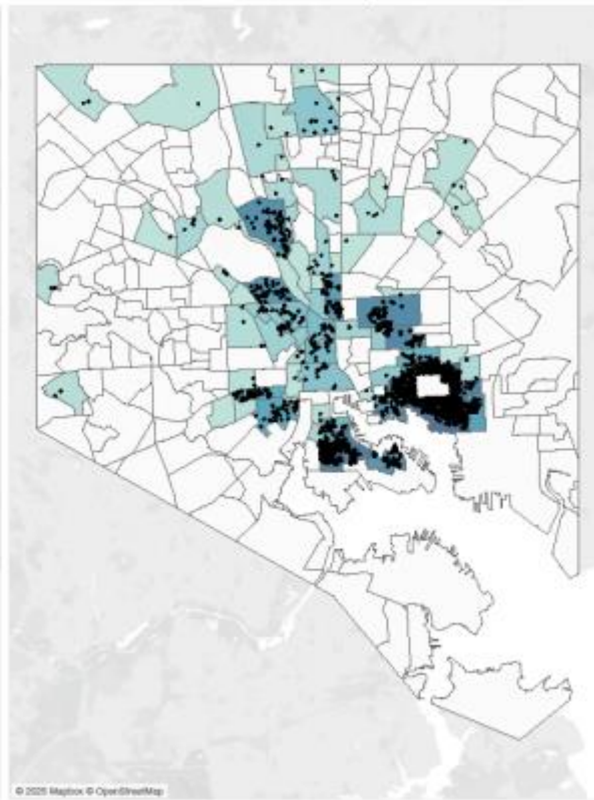
Brandon M. Scott
Mayor
Chris Ryer
Director of Planning

2021

Distribution of the Historic Rehabilitation (CHAP) Tax Credit in Baltimore City
Active CHAP Tax Credits Granted by Parcel in 2014



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



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