RULES AND REGULATIONS - PROPERTY TAX CREDITS HISTORIC RESTORATIONS AND REHABILITATIONS

1.0 Background

These rules and regulations are issued pursuant to the authority granted to the Director of Finance by Section 10-8(k) of Article 28 of the City Code.

2.0 Goal

Legislation sets forth the following goal for the program:

> ". . . to help preserve Baltimore's neighborhoods by encouraging home and business owners to make special efforts to restore or rehabilitate historic buildings."

3.0 Definitions

3.1 The terms "construction cost," "total cost," and "development costs", are defined to include expenses for the following: architectural design, engineering, demolition, site preparation, restoration, alteration, interior and exterior work including all electrical, plumbing, mechanical and related work required to be permitted under the Baltimore City Building, Fire and Related codes, and interior and exterior finish work normally associated with historic projects, and all work of the type requiring a "Notice to Proceed" from the Commission for Historical and Architectural Preservation (CHAP), whether or not a particular property is subject to CHAP review for purposes other than application for this tax credit (National District and National Landmark properties). Expenses attributable to additions or enlargements of the building are addressed in subparagraph 5.0.5 of these rules and regulations.

3.2 The term "work beginning" shall mean any work tasks of the type requiring a Notice to Proceed from CHAP before work may commence on a building or in a district subject to the jurisdiction of CHAP. This same definition shall apply to any property or project not subject to the jurisdiction of CHAP and issuance of Notices to Proceed, but eligible to apply for this credit (*i.e.*, properties in National Register Districts or listed individually in the National Register of Historic Places).

3.3 The term "In-Cycle General Reassessment" means that properties are valued once in a three year cycle, based on an external physical inspection. In Maryland, increases in property values are phased-in so that one third of the increase between the current value and the new value is added to the prior year's phased-in value. Reassessment for new construction within any year of a three year cycle is performed only when there is an increase in value greater than or equal to $100,000.

3.4 The term "City Homestead Tax Credit" means a credit calculated on any annual assessment increase exceeding the local government limit.

3.5 The term "Appraisal" means a valuation report prepared by a professional appraiser approved by the City and licensed under the Business Occupations and Professions Article, Title 16, Subtitle 3, of the Maryland Code, and conforming to all requirements included in these rules and regulations and any appendices thereto, with particular attention given to Appendix A and Appendix B specifying the scope of work required for independent appraisals to be accepted for this credit.

3.6 The term "Director of Finance" means the Baltimore City Director of Finance or any employee or agency of the City to which the Baltimore City Director of Finance has delegated administrative responsibilities for this credit.

3.7 The term "Tax Year" is defined as a 12 month period, or any portion thereof, beginning on July 1 of a calendar year.

3.8 The term "Existing Structural Footprint" means the actual locations and dimensions of the above grade boundaries of the enclosed portion of the structure at the time the application for the credit is filed.

4.0 Applications

4.1 For All Applications:

All applications shall be submitted electronically via the Baltimore City Department of Finance's Automated Tax Credit Application System (hereinafter "the System"). The System can be accessed via the internet at the following url:

https://cityservices.baltimorecity.gov/PropertyTaxCredits

All applicants will need to register with the System and create an account that can be used to apply for this credit and any other applicable credits.

No applications or required documents shall be accepted in paper form. The City of Baltimore shall not be responsible for any connectivity issues experienced by the applicant and no extensions shall be granted regarding any of the time requirements outlined below due to issues beyond the control of the City of Baltimore's Department of Finance.

Tax credit applications must be filed, via the System, for preliminary review by CHAP prior to any work beginning on a project in eligible areas or on eligible lists of designated properties, whether in national or local district or list designations. No other review for purposes of establishing compatibility with local historic preservation standards may be substituted for a review approved by CHAP. The qualifying review must be done specifically in conjunction with, and at the time of, a tax credit application in order to receive preliminary approval from CHAP. No work on the property shall be considered for the purposes of this credit if said work was

begun prior to the initial appraisal of the property for credit purposes. Additionally, any work occurring between the time the application is submitted and the issuance of preliminary approval by CHAP, absent the express permission of CHAP for the work being undertaken prior to the issuance of preliminary approval, shall render the property ineligible for the credit. This preliminary certification shall be issued by CHAP, in writing, and shall be submitted, via the System, to the Director of Finance. Projects are reviewed individually to determine whether the proposed work meets the Baltimore City Historic Preservation Design Guidelines.

An additional qualifying review shall be required following the completion of improvements in order to receive final credit approval. Any work done after final approval, or any subsequent appreciation in the appraised value of the property, shall not be considered in the calculation of the credit.

If the applicant appeals the base year assessment to SDAT, the applicant must notify the City that the appeal has been filed. To notify the City of the outstanding appeal, the applicant must check the appropriate box on the application. Failure to check the appropriate box on the application may result in a reduced credit amount being issued. Additionally, it is the applicant's responsibility to inform the City when the appeal process has been completed and a final decision has been issued. The applicant must upload to the system a copy of the final notice from SDAT that reflects the outcome of the appeal.

Applications and supporting documentation must be filed, via the System, for review by CHAP. Furthermore, copies of all required building permits are to be provided by the applicant within 30 days of issuance, via the System, for review by CHAP. Failure to provide copies of all permits will disqualify a project.
No application for this credit shall be reviewed until the City has received the application fee set by the Board of Estimates. This fee should be submitted to the appropriate authority in accordance with the instructions provided on the System at the time of application.

4.2 For projects with construction costs in excess of $3.5 million. Applicants will provide with the application:

4.2.1 All documents requested by the Finance Director; and

4.2.2 Submit documentation reviewed by the developer with the State Department of Assessments and Taxation to support a preliminary estimate of value for tax purposes based on construction costs and projected income; and

One of the following:
4.2.3 The existing building in question must have been at least 75% vacant for at least 3 years;

4.2.4 The project is a high-performance market-rate rental housing project, as these terms are defined in § 10-18 (a)(2) {"Definitions: High-performance"} and (a)(3) {"Definitions: Market-rate rental housing project"} of this subtitle; or

4.2.5 The developer must otherwise demonstrate to the Finance Director that the credit is necessary in order for the project to proceed.

4.3 Special requirement for projects with construction costs in excess of $3.5 million.

4.3.1 The applicant must submit a statement of the projected economic impact and public benefits derived from the project in terms of neighborhood revitalization, job creation, tax generation and minority business development.

4.3.2 Three years from the date the project received final certification from CHAP, the applicant must provide the Finance Department with a statement of the actual economic impact and public benefits derived from the project in terms of neighborhood revitalization, job creation, tax generation and minority business development. The Finance Department will review and compare the statements of estimated and actual economic impact and public benefits. Failure to provide this statement within four years of the application being accepted will result in the credit being permanently removed from the Property.

4.4 Processing applications for projects with construction costs in excess of $3.5 million.

The applicant will provide an application and supporting documentation to CHAP and the Finance Department via the System. The Finance Department will review for verification that the property has been vacant for 3 years prior to the application. Where the property has not been 75% vacant for each of the 3 years, the Finance Department will evaluate the necessity of the credit for the project to proceed based on the information submitted by the applicant as required by paragraph 4.2 (2) of these rules and regulations. Information required to do the analysis will be provided by the applicant in the form required by the Finance Department. In addition, the Finance Department will review the statement of projected economic impact and public benefits to verify that the required components of the statements are included. The Finance Department will not recommend that CHAP issue a preliminary certification until it confirms that these statements are complete and acceptable and, where applicable, the necessity of the credit has been determined.

4.5 Expiration of Application

Any application for this credit which has not received final certification within the required time as specified in this paragraph shall be deemed to have expired and shall be of no further effect. Properties for which applications are due to expire shall be given notice and shall have 30 days from the date of the notice to request an extension of the timeframe for expiration of the application. Such a request, if

granted shall result in the extension by the original application period. Only one such extension shall be granted per application

4.5.1 Application expiration for projects with values less than or equal to $3.5 Million

Any application that has not received final certification within two years of receiving preliminary certification shall be deemed to have expired.

4.5.2 Application expiration for projects valued in excess of $3.5 Million

Any application that has not received final certification within three years of receiving preliminary certification shall be deemed to have expired.

4.6 Application Materials

All materials submitted for the purposes of obtaining this tax credit are the property of the City of Baltimore and may be used for data collection, reporting and publication purposes where appropriate with the exception of information that is considered proprietary or confidential under the Maryland Public Information Act or other applicable law. Requests to review property files not otherwise made publicly available must conform to the requirements of the Maryland Public Information Act.

5.0 Eligibility

5.0.1 Eligible properties

Properties must:
1. meet a historic designation test
2. meet a test for significant improvements
3. be compatible with local historic preservation standards and receive both preliminary and final certifications from CHAP

5.0.2 Historic designation of eligible properties

Properties must be:
1. listed individually on the National Register of Historic Places;
2. located in a National Register Historic or Landmark District;
3. designated on the Baltimore City Landmark List; or,
4. located in a district designated as a Baltimore City Historic and Architectural Preservation District and certified by CHAP as contributing to the historic significance of that district.

5.0.3 Ineligible projects/properties - construction costs more than $3.5 million

Projects not eligible for the credit are those where the construction costs exceed $3.5 million and the property is completely eligible for the Enterprise Zone Real Property Tax Credit program.

5.0.4 Significant Improvements

Only projects where "significant improvements" have been made are eligible to receive the credit. "Significant improvements" means the total cost of the rehabilitation equals or exceeds 25% of the property's current full cash value prior to rehabilitation as reflected in the real property assessment records at the time of application. See definitions, Section 3.1, for "total cost."

5.0.5 Additions and Enlargements

Permitted, secondary, compatible additions that meet the CHAP Design Guidelines may be included in an application if they fall within the following parameters:

1. Within Existing Structural Footprint

   Any permitted, historically compatible addition that meets CHAP Design Guidelines and falls within the existing structural footprint of the building may be included in an application.

2. Outside of Existing Structural Footprint

   No addition that falls outside of the existing structural footprint of the building is eligible for inclusion in the application. Nor may any such addition be undertaken in conjunction with the project applying for the credit.

5.1 <u>Determination of Final Eligibility</u>

5.1.1 CHAP must certify that all completed work conforms to the plans submitted and given preliminary certification.

5.1.2 Before CHAP grants final certification, the applicant must provide to CHAP, via the System, copies of all building and other permits required under City Code for the project.

5.1.3 A project will not be eligible for final certification for a tax credit if the project fails to be completed in accordance with the plans initially approved by CHAP, including any changes required by CHAP to secure a Notice to Proceed. Additionally, any work done in addition to the work required to complete the project in accordance with the plans initially approved by CHAP, with the exception of standard maintenance, will render the property ineligible for the credit. Approval for any work necessary to complete the project that was not

included in the original plans should be requested via a Project Amendment. Project Amendments, including but not limited to, changes in the project scope, project plans, property owner, or credit applicant, should be provided to CHAP in writing and uploaded to the System. Failure to notify CHAP of any such changes shall result in the revocation of the application and/or credit if the credit has already been awarded at the time the change is discovered. If a credit is revoked for failing to notify CHAP of such changes, the property owner shall be liable for any credit amounts awarded between the time the unauthorized changes were made and the time they were discovered.

5.1.4 Applicants must provide to CHAP and the Finance Department, via the System, copies of all receipts or a notarized statement detailing project costs prior to final certification of eligibility.

5.1.5 CHAP shall provide to the Director of Finance, via the System, a copy of the final certification, issued by the appropriate authority.

5.2 Continuing eligibility

To continue to receive the credit the property owner shall:

1. maintain the major historic features of the property, including, but not limited to those identified and required by CHAP and reflected in the historic preservation standards utilized during the tax credit application review process;
2. maintain the property in compliance with the City Building, Fire and Related Codes; and
3. when applicable, submit all economic impact statements required under paragraphs 4.2 and 4.3 of these rules and regulations.

CHAP and the Department of Finance retain the right to revoke any preliminary or final certification where it is determined that the certification was issued in error and on the basis of missing, inaccurate, or fraudulent material or information provided by any party. Further, for the life of the credit, CHAP and the Department of Finance maintain a right to conduct, based on a reasonable belief that ongoing eligibility criteria are not being met, a physical inspection of the exterior of any building receiving the credit. If such an inspection results in a finding that the property is failing to maintain the necessary conditions of continuing eligibility, the credit shall be immediately removed and the property owner shall be provided written notice of the lack of compliance and given 90 days to bring the property into compliance with necessary conditions to maintain continuing eligibility. If the property is brought back into compliance within 90 days, the credit shall be restored. If the property is not brought back into compliance in 90 days, the credit will be permanently revoked.

5.3 Transferability of Credit

The credit is transferable to subsequent owners. Once a credit is granted it will automatically transfer to a subsequent owner for the remaining term of the credit provided that the new owner meets the "continuing eligibility" requirements outlined in Section 5.2. The new owner bears all responsibility for collecting from the prior owner any information regarding the work that was done on the property to qualify for the credit. Lack of knowledge of the improvements completed to qualify for and obtain the credit shall not be a defense to an alteration of said improvements that results in the loss of the credit.

6.0 Term of Credit and Commencement of Credit Term

The credit is for a period of 10 tax years. The 10 tax year period for which the property is eligible to receive the credit shall begin with the first tax bill after the final certification has been granted and shall not be dependent upon the reassessment of the property following the completion of the qualifying improvements. Any initial credit for a partial year shall count as the first full year of the credit and 9 years of eligibility shall remain.

7.0 Calculation of Amount of Credit

7.1 The credit is applied to City real property taxes only.

7.2 The tax credit equals the difference between the City real property tax on the Post improvement full cash value and the City real property tax on the Base year full cash value. These values are determined in accordance with the requirements set forth in Section 7.3 of these rules and regulations and subject to the limitations set forth below and in Section 7.7 of these rules and regulations. If there was no increase in the full cash value of the property after rehabilitation/renovation, no tax credit shall be granted.

For projects with construction cost less than or equal to $5.0 million the percentage of the credit granted each year is:

Years 1 through 10	100%

For projects with construction costs more than $5.0 million, for the portion of the property not eligible for the Enterprise Zone Tax Credit, the percentage of the credit granted each year is:

Years 1 through 5	80%
Year 6	70%
Year 7	60%
Year 8	50%
Year 9	40%
Year 10	30%

7.3 The increase in full cash value to be used in the credit calculation is computed only once and shall be computed in accordance with the following schedule:

7.3.1 For properties that have received preliminary certification from CHAP prior to October 1, 2014 the full cash value of the property before and after the qualifying improvements are made shall be the corresponding full cash values, before phase in, as determined by the State Department of Assessments and Taxation through the assessment procedures established under Tax-Property Article of the Maryland Code.

7.3.2 For properties that have received preliminary certification from CHAP after October 1, 2014, the full cash value of the property before and after the qualifying improvements are made shall be the corresponding full cash values as determined by an appraisal of the property before commencement and after completion of the eligible improvements. Appraisals shall be conducted by a professional appraiser approved by the City and shall conform to the appropriate requirements set forth in APPENDIX A and APPENDIX B of these rules and regulations governing the scope of work required for appraisals of residential and non-residential properties. Any pre-improvement appraisal request shall be accompanied by the appropriate documentation supporting the applicant's legal interest in the property. This supporting documentation shall be any of the following:

- A properly recorded Deed to the subject property, reflecting the applicant's ownership
- An executed HUD1 reflecting the transfer of the property to the applicant
- A current Real Property Tax Bill for the subject property, reflecting the applicant as the property owner; or
- A Contract for the sale of the subject property, reflecting the applicant as the buyer

All post-improvement appraisals must be completed within 90 days of the issuance of the final use and occupancy permit for the subject property. Property owners may request a review of their appraisal in accordance with the terms of appraisal reviews set forth in APPENDIX C of these rules and regulations. Final approvals by CHAP and the Director of Finance shall not be issued until the appraisal following the completion of the eligible improvements has been completed and reviewed if a review has been requested.

All residential applicants may request the appraisal to be conducted by the City Department of Finance's Appraiser. Such appraisals will be scheduled on a first come, first served basis. All non-residential property applicants must provide, at their expense, an appraisal that conforms to the

City specification (Appendices A and B).The City shall not be liable for any losses resulting from the applicant's failure to schedule an appraisal in a timely manner. The Appraiser provided by the City must be met by the Applicant for the appraisal to occur. At no time shall the City's Appraiser enter a property alone. To the extent possible, each applicant requesting an appraisal by the City's appraiser shall be scheduled for an appraisal once, at a time agreeable to both parties. Failure to provide access at an agreeable time, or failure to show up for a scheduled appraisal, will result in the applicant being unable to use the services of the City's appraiser.

An applicant, at any time, and at their expense, may elect to have the pre-improvement appraisal, the post-improvement appraisal, or both, conducted by a private appraiser. In order to be accepted for review, any private appraisal must be conducted by a professional appraiser approved by the City and licensed under Business Occupations and Professions Article, Title 16, Subtitle 3, of the Maryland Code, and shall conform to the appropriate requirements set forth in Appendix A and Appendix B of these rules and regulations governing the scope of work required for appraisals of residential and non-residential properties

7.4 For projects on which the renovation cost is $3.5 million or less, the historic tax credit shall be reduced by the amount of the credit, if any, for which the property is eligible under the Maryland Enterprise Zone Tax Credit Program. For projects on which the renovation cost is over $3.5 million the historic tax credit will be applied to the portion of the property (as established by SDAT) that is not eligible (as established by SDAT) for the Maryland Enterprise Zone Tax Credit Program.

7.5 The credit term always commences after final certification by CHAP and the Director of Finance. The property owner shall, at all times, be responsible for the payment of all taxes billed. For those credits which received preliminary approval prior to October 1, 2014, credit amounts will not be calculated until the property is reassessed following the completion of improvements. Upon the reassessment of the property, credit amounts will be calculated for each eligible year which has elapsed and the proper amounts will be refunded to the current property owner. The property owner will not be reimbursed for any amount of interest or penalties which may accrue based on the failure of the property owner to pay the taxes billed by the provided due date.

7.6 The tax credit does terminate, however, if the property is altered (before the end of the ten years) so that it no longer complies with the rehabilitation standards by which the property obtained eligibility.

7.7 No part of this tax credit may be applied in any tax year:

7.7.1 To reduce the property's tax liability for that tax year, after application of any other applicable tax credit, to less than the tax liability to which the

property was subject, after application of any other applicable tax credit, at the time that the preliminary approval was issued and prior to the commencement of the eligible improvements.

7.7.2 In any case in which the property's tax liability for that tax year, after application of any other applicable tax credit, is less than the tax liability to which the property was subject, after application of any other applicable tax credit, at the time that the preliminary approval was issued and prior to the commencement of the eligible improvements

8.0 Tax Subsidy Duplication

With the exception of the Maryland Enterprise Zone Tax Credit program, this credit does not apply to any property for which a local optional real property tax subsidy is being received or has been applied for. For purposes of this section, a tax subsidy may take the form of a tax credit, payment in lieu of taxes, or otherwise.

The Historic tax credit can be combined with the Homestead and Homeowner's tax credits because the Homestead and Homeowner's tax credits are State mandatory tax limits not City tax credits.

Once a project has been approved for the historic tax credit, no new application for an historic tax credit can be submitted for the property until the 10-year term of the tax credit has expired.

9.0 Program Sunset Provision

Applications for the tax credit will not be accepted after February 29, 2016. These rules and regulations are effective this day of June 23, 2017 and have been filed with the City of Baltimore Department of Legislative Reference.

Issued and Approved:

Henry J. Raymond, Director Department of Finance	6/22/17 Date
Hilary Ruley Law Department	12/19/16 Date
Avery Aisenstark Legislative Reference	6/23/17 Date

Note: These rules and regulations replace the ones made effective July 10, 2015.

APPENDIX A to the HISTORIC TAX CREDIT RULES AND REGULATIONS

SCOPE OF WORK FOR THE VALUATION OF SINGLE FAMILY RESIDENTIAL DWELLINGS

The following Scope of Work (SOW) is for the valuation of single family residential dwellings which submitted for the calculation of the property's CHAP Tax Credit.

1.0 INTRODUCTION

The valuation report must be completed in accordance with the Uniform Standards of Appraisal Practice (USPAP) and comply with Scope of Work as provided herein. The appraiser must be currently licensed or certified by the Maryland Commission of Real Estate Appraisers and Home Inspectors.

2.0 CONTENTS

All appraisal reports for single family residential dwellings must include the items listed in part 2.0

2.1 REQUIRED DEFINITION OF VALUE. The value to be appraised is the Market Value which is defined as:

"The amount of cash, or on terms reasonably equivalent to cash, for which in all probability the property would have sold on the effective date of the appraisal, after a reasonable exposure time on the open competitive market, from a willing and reasonably knowledgeable seller to a willing and reasonably knowledgeable buyer, with neither acting under any compulsion to buy or sell, giving due consideration to all available economic uses of the property at the time of the appraisal."

- *Dictionary of Real Estate Appraisal, 14th ed., 2013.*

The report will contain this definition and **only** this definition of Market Value within the content of the report, or any addenda or glossary attached to the report.

2.2 INTENDED USE AND USERS OF THE APPRAISAL. The intended use of the appraisal is to provide an opinion of the value of the asset for the City of Baltimore to use in calculating the appropriate Historical Tax Credit for the asset. The intended user(s) of the appraisal are the City of Baltimore Department of Finance and the purchasing entity or current owner.

2.3 DATE OF VALUE. The date of value will be the same date as the date of the latest comprehensive inspection of the asset.

2.4 EXHIBITS.

2.4.1 PHOTOGRAPHS. Pictures of the subject shall show at least the front and rear elevations of the major improvements, a street scene, and any salient features (significant deferred maintenance or other value impacting conditions or features). Each subject photograph shall indicate the date the photograph was taken and the camera's direction of view.

At a minimum, each valuation report is to contain interior photographs of all bathrooms, kitchen, and views of living spaces.

Views of the comparable properties are to be included and are not to be taken from the Metropolitan Regional Information System or other similar data sources.

2.4.2 MAPS. Legible location maps of the subject property and the comparable properties must be included.

2.5 APPRAISER'S CERTIFICATION. All appraisers who sign any part of the report will provide a certification as required by the licensing board in the State of Maryland and by USPAP. This shall include a statement that signatories have no undisclosed interest in property, that they have personally inspected the premises, the date of such inspection and the amount of value estimates. Any hypothetical conditions required by these specifications must be included within the certification.

2.6 REGIONAL AND CITY ANALYSIS. In a concise manner, the appraisal report must discuss the pertinent aspects of the asset's city and or region (e.g. geographic, legal, social and economic factors). Include a succinct description of the regional market for the asset's property type. This data should include such information as affects the appraised property together with the appraiser's conclusions as to significant trends.

2.7 NEIGHBORHOOD DATA. The appraisal report must clearly define the asset's neighborhood, including boundaries, land use patterns, transportation issues, vacant land (especially developable land), as well as the lifecycle of the neighborhood (e.g. developing, stable, declining, redeveloping). The appraisal report must include a description of the local market for the asset's property type, and any other characteristics that have an impact on the asset's value, either positive or negative (vacancy rates, market rents, and absorption). The appraisal report must provide a comparative analysis of the subject property within the context of its market.

2.8 PROPERTY DATA -

2.8.1 LEGAL DESCRIPTION - This description shall be sufficient to properly identify the property appraised.

2.8.2 SITE – The site description must be based on information from the appraiser's inspection, and other data as may be gathered from publicly recorded or other reliable sources. It must describe the relevant characteristics of the site (both positive and negative) that impact the site's use and value. This includes the site's location, size, shape, access, ingress/egress, topography, utilities, easements, off-site improvements, any excess land, and any other relevant factors. It must also discuss any issues that impact the functionality of the site, such as drainage and flood plain.

2.8.3 ENVIRONMENTAL ANALYSIS - While appraisers are not normally expected to be environmental experts, the appraiser should make a reasonable attempt to discover if there is contamination on the property. The appraiser shall note in the report any observed, suspected or other knowledge of environmental contamination and its impact on the value of the property.

2.8.4 LEGAL RESTRICTIONS – The report must discuss any other legal restrictions (binding agreements, covenants, easements, transferable development rights), and/or other regulations (historic designations or local comprehensive plans) that would impact the value of the site under private ownership.

2.8.5 IMPROVEMENTS - The report must describe the improvements, by narrative or schedule form, and shall include dimensions and square foot measurements. It must include age, condition, quality, functional utility (or inutility), number of stories, adequacy of parking, and any other relevant characteristics. The appraiser must state and photograph any deferred maintenance observed during the inspection of the building.

2.9 COMPARABLE PROPERTIES - The valuation report must contain a minimum of 3 comparable sales that were settled at the time of valuation. Active listings and pending sales may be used in addition to the 3 settled sales comparables to further add support to the final opinion of value. The comparable sales must be similar to the subject property in:

2.9.1 Location
2.9.2 Quality
2.9.3 Condition
2.9.4 Point in Time

3.0 TECHNICAL DATA

3.1 PROPER FORMAT - The valuation report should be completed on the FNMA Form 1004.

3.2 VERIFICATION OF COMPARABLE PROPERTIES - All comparable sales must be verified by the appraiser and verification information is to be included for each sale in the adjustment grid or addendum of the report.

3.3 SUBMISSION AND REVIEW - The appraisal report is to be submitted to BBMR in PDF format and will be reviewed for compliance to the CHAP program by a staff appraiser before being accepted for use. Contact information must be included should the staff person have a question pertaining to the valuation report.

4.0 EXHIBITS AND ADDENDA

(Items 4.1 – 4.6 should be located within the appropriate sections of the report.)

4.1 PLOT PLAN AND TAX MAP: If available to the appraiser.
4.2 FLOOR PLANS
4.3 COMPARATIVE DATA MAP(s): The appraiser must show the geographic location of the appraised property and the comparative data analyzed.
4.4 FEMA FLOOD HAZARD MAP: The appraiser must provide a FEMA Flood Hazard Map with the subject property location indicated.
4.5 OTHER PERTINENT EXHIBITS. The appraiser must include a copy of the Scope of Work identified in the accepted contract of work.
4.6 QUALIFICATIONS/LICENSE. Include the qualifications of all appraisers and analysts significantly contributing to the value(s) reported.

APPENDIX B to the HISTORIC TAX CREDIT RULES AND REGULATIONS

SCOPE OF WORK FOR THE VALUATION OF NON-RESIDENTIAL PROPERTIES

I. GENERAL REQUIREMENTS

Upon completion of an appraisal by the appraiser, a draft report will be submitted for review to the City of Baltimore Department of Finance to ensure that the data and analysis developed by the appraiser substantiates the estimated valuation and conforms to the Scope of Work provided below.

One copy of the draft report is to be submitted to the Review Appraiser in the Department of Finance within (45) days of the beginning of the assignment for review, or within a time period that is approved by the program manager prior to the commencement of the appraisal. The draft report must be complete and fully assembled, and must be submitted in electronic form (PDF format required). All exhibits must be included in the draft report. Exhibits and addenda must include, but are not limited to, maps, photographs, plats, comparable data summary sheets, cash flow documentation, the City of Baltimore – Narrative Market Value Appraisal Report Summary of Significant Conclusions and Scope of Work Reporting Requirements Checklist, and the qualifications of the appraiser(s). Additional relevant exhibits may also be included.

The Department of Finance's Review Appraiser will review the draft report and send a review document detailing any questions or issues to the appraiser. After the appraiser answers those questions and issues and edits the report accordingly, the report will be deemed final and one paper copy of the final appraisal report is to be submitted to the City of Baltimore Department of Finance. The final report must also be submitted in electronic form (PDF format) to the Review Appraiser. All exhibits must be included in the electronic form of the appraisal report. The City of Baltimore contact for the appraiser will be the Department of Finance's Review Appraiser.

II. FORMAT AND CONTENTS

If a property requires a discounted cash flow (DCF) in the analysis, any software program used to calculate the DCF must have certain capabilities. It must calculate individual tenant cash flows, combine the individual cash flows into a single property cash flow, and calculate the data into present value. The software must handle individual terms and conditions as well as variations in assumptions over time, and display the assumptions used. The Department of Finance's Review Appraiser must be able to follow the assumptions, data, and calculations used in a DCF analysis. Argus is an example of such software. Any discounted cash flow files used in the analysis are to be provided in electronic form and must be compatible with the most current version of that software as

of the date of the report's publication. Other spreadsheet files that are used in the analyses should be Microsoft Excel software or comparable/compatible software, and should also be provided in electronic form.

To provide uniformity for City of Baltimore files, the text of the valuation report shall be divided into four parts as outlined below:

PART I - INTRODUCTION

1.1 TITLE PAGE. This shall include (a) the name of the property owner, (b) the street address of the subject property, (c) the name of the individual(s) signing the report, and (d) the effective date of the appraisal.

1.2 TABLE OF CONTENTS

1.3 LETTER OF TRANSMITTAL.

1.4 SUMMARY OF SALIENT FACTS AND CONCLUSIONS. Summarize the important data and conclusions in a concise manner, including: Property Identification, Purpose of the Appraisal, Scope of the Appraisal, Date of Value, Site Description, Improvement Description, Percentage of Current Occupancy, Zoning, Highest and Best Use, Value Indications (by Cost, Sales Comparison, and Income Capitalization Approaches), discount, capitalization and growth rates used, Final Estimate of Value.

1.5 PROPERTY IDENTIFICATION. Identify the property by name, location, and address.

1.6 SCOPE OF THE APPRAISAL. The asset is to be appraised "as is" as of the effective date of value, or such other date(s) and in such other condition(s) as may be specified by the Department of Finance Staff person in charge of the assignment. However, the hypothetical condition of ownership by a private sector purchaser is to be assumed.

The Fee Simple interest will be appraised, subject to any legally binding agreements, such as leases. The existing tenants may continue to occupy the property regardless of the hypothetical change of ownership. Although the existing tenants may continue to occupy the property under private ownership, assume that a private owner would require that market derived rents and terms would dictate their continuing occupancy. Additionally, for any currently vacant spaces, assume that they would be subject to market derived lease up, rents and terms.

The operating statement developed by the appraiser must reflect typical income and expenses that would be incurred by a private sector owner assuming application of competent property management practices observed in the local market. Although the fee simple interest in the property is to be appraised, an analysis is to be done regarding the anticipated market derived income and expenses compared to any actual income and expenses the property is generating under current ownership.

1.7 PROPERTY RIGHTS APPRAISED. The property rights to be appraised are the Fee Simple Absolute estate, subject to any legally binding agreements, such as leases.

1.8 REQUIRED DEFINITION OF VALUE. The value to be appraised is the Market Value which is defined as:

> ***"The amount of cash, or on terms reasonably equivalent to cash, for which in all probability the property would have sold on the effective date of the appraisal, after a reasonable exposure time on the open competitive market, from a willing and reasonably knowledgeable seller to a willing and reasonably knowledgeable buyer, with neither acting under any compulsion to buy or sell, giving due consideration to all available economic uses of the property at the time of the appraisal."***
>
> - ***Dictionary of Real Estate Appraisal, 14th ed., 2013.***

The report will contain this definition and **only** this definition of Market Value within the content of the report, or any addenda or glossary attached to the report.

1.9 INTENDED USE AND USERS OF THE APPRAISAL. The intended use of the appraisal is to provide an opinion of the value of the asset for the City of Baltimore to use in calculating the appropriate Historic Tax Credit for the asset. The intended user of the appraisal is the City of Baltimore Department of Finance and the purchasing entity.

1.10 DATE OF VALUE. The date of value will be the same date as the date of the latest comprehensive inspection of the asset.

1.11 EXHIBITS.

1.11.1 PHOTOGRAPHS. Pictures of the subject shall show at least the front and rear elevations of the major improvements, a street scene, and any salient features (significant deferred maintenance or other value impacting conditions or features). Each subject photograph shall indicate the date the photograph was taken and the camera's direction of view. When a large number of buildings are involved, including duplicates, one picture may be used for each type of building as long as the photograph is labeled to indicate that it represents a typical building type. Views of the comparables are to be included. All graphic material shall include captions.

1.11.2 MAPS. Legible location maps of the subject property and the comparables must be included.

1.12 STATEMENT OF LIMITING CONDITIONS AND ASSUMPTIONS.

1.13 APPRAISER'S CERTIFICATION. All appraisers who sign any part of the report will provide a certification as required by the licensing board in the State of Maryland and by USPAP. This shall include a statement that signatories have no undisclosed interest in property, that they have personally inspected the premises, the date of said inspection, and the amount of value estimates. Any hypothetical conditions required by these specifications must be included within the certification.

PART II - FACTUAL DATA

2.1 REGIONAL AND CITY ANALYSIS. In a concise manner, the appraisal report must discuss the pertinent aspects of the asset's city and or region (e.g. geographic, legal, social and economic factors). Include a succinct description of the regional market for the asset's property type. This data should include such information as affects the appraised property together with the appraiser's conclusions as to significant trends.

2.2 NEIGHBORHOOD DATA. The appraisal report must clearly define the asset's neighborhood, including boundaries, land use patterns, transportation issues, vacant land (especially developable land), as well as the lifecycle of the neighborhood (e.g. developing, stable, declining, redeveloping). The appraisal report must include a description of the local market for the asset's property type, and any other characteristics that have an impact on the asset's value, either positive or negative (vacancy rates, market rents, absorption, efficiency factors, and R/U ratios). The appraisal report must provide a comparative analysis of the subject property within the context of its market.

2.3 PROPERTY DATA -

2.3.1 LEGAL DESCRIPTION - This description shall be sufficient to properly identify the property appraised. If lengthy, it can be referenced and included in Part IV.

2.3.2 SITE – The site description must be based on information provided by the City of Baltimore Department of Finance, the appraiser's inspection, and other data as may be gathered from publicly recorded or other reliable sources. It must describe the relevant characteristics of the site (both positive and negative) that impact the site's use and value. This includes the site's location, size, shape, access, ingress/egress, soil, topography, utilities, mineral deposits, easements, off-site improvements, any excess land, and any other relevant factors. It must discuss any issues that impact the functionality of the site, such as drainage/flood plain, soil, visibility, potential for development, environmental issues or excess land. If an asset being valued shares an undivided site with a number of other assets that are not part of the asset being appraised, the appraiser shall immediately contact the Department of Finance staff person in charge of the assignment to discuss the method by which a reasonable and adequately supported estimate of the land necessary to support the existing or proposed asset shall be allocated. An appropriate disclosure of the extraordinary assumptions and limiting conditions related to such an allocation of land must be made within the appraisal report.

While appraisers are not normally expected to be environmental experts, the appraiser should make a reasonable attempt to discover if there is contamination on the property. The appraiser shall note in the report any

observed, suspected or other knowledge of environmental contamination and its impact on the value of the property.

2.4 LEGAL RESTRICTIONS. The report must discuss the zoning that regulates the development of the site, or the most likely zoning that would regulate the development of the site under private ownership. The report must include relevant requirements such as permitted land uses, maximum building height, floor area ratio (FAR), and minimum setbacks and parking spaces. The report must discuss if the site and/or existing improvements (including the parking) are in compliance with the zoning regulations that impact the site. The report must discuss any other legal restrictions (binding agreements, covenants, easements, transferable development rights), and/or other regulations (historic designations or local comprehensive plans) that would impact the value of the site under private ownership.

2.5 IMPROVEMENTS - The report must describe the improvements, by narrative or schedule form, and shall include dimensions, square foot measurements, and where appropriate, a statement of the method of measurement used in determining rentable areas such as full floor, multi-tenancy, or otherwise. The report must describe the exteriors and interiors of any existing improvements. It must include age, condition, quality, functional utility (or inutility), gross building area, net rentable area, usable area, joint use spaces, core factors, number of stories, adequacy of parking, and any other relevant characteristics. The report must describe if the asset's leasing quality is considered to be Class A, B, or C (or lower) by market participants. The appraiser must state and photograph any deferred maintenance observed during the inspection of the building. The report must discuss and quantify any immediate capital costs that a private purchaser would incur.

2.6 HISTORY - State briefly when the current owner took possession of the property and, if possible, cite the deed book and page of the transaction. Include a copy of the deed in the report, if possible. State the purpose for which the improvements were designed, dates of original construction and major renovation and/or additions.

2.7 REAL ESTATE TAXES. Estimate the real estate tax assessment under private ownership. State the tax rate and give the dollar amount of the tax estimate. Future trends or prospective changes in the level of taxes should be discussed.

PART III - ANALYSES AND CONCLUSIONS

3.1 ANALYSIS OF HIGHEST AND BEST USE. Describe the highest and best use of the site "as if vacant" and "as improved", using standard appraisal guidelines of physically possible uses, legally permitted uses, financially feasible uses, and maximally productive uses. The analysis should tie the highest and best use to the analyses used in the descriptions of the regional and neighborhood markets, the site, and the existing improvements. In the "as if vacant" analysis, include a discussion of the size as well as the type of any buildings that represent the highest and best use. Determine whether the existing improvements represent the highest and best use of

the site, including if they represent a viable interim use or a special purpose use. Address whether any opportunities to increase income and/or value of the existing improvements are observed.

3.2 LAND VALUE. The appraiser's opinion of the value of the land shall be supported by confirmed sales of comparable lands. Differences shall be weighed and explained to show how the sales indicate the value of the land being appraised. Adjustments should be made from the sales to the subject, either in dollar amounts or percentages for all applicable elements of comparison. The report must provide adequate summary descriptions of comparable land sales, including location maps. Comparable sales used should be confirmed by someone having personal knowledge of the terms and conditions of the sale as well as the motivation of the principals. Reference to public records and revenue stamps does not confirm the terms and conditions of a sale. The report must also tie the land valuation to the highest and best use analysis. **All appraisals must include a section estimating the market value of the asset's underlying land.**

3.3 VALUE ESTIMATED BY COST APPROACH. The Cost Approach may be used to estimate the market value of properties that are not frequently exchanged in the market, such as special use properties. It is particularly important when a lack of market activity limits the usefulness of the Sales Comparison Approach and when properties are not amenable to valuation by the Income Capitalization Approach. This shall be in the form of computational data, arranged in sequence, beginning with reproduction or replacement cost. The dollar amounts of physical deterioration and functional and external obsolescence, or the omission of same, shall be explained in narrative form. The reader should be able to follow the appraiser's logic to his/her conclusion of value.

3.3.1 Identify and describe the source used to estimate the replacement cost (or reproduction cost). The quantity survey or unit-in-place methods of estimating replacement/reproduction cost are preferred for most properties.

3.3.2 Describe and quantify direct and indirect costs.

3.3.3 Describe and estimate entrepreneurial profit.

3.3.4 Explain and quantify all applicable types of accrued depreciation, including physical deterioration and functional and external obsolescence. Include deferred maintenance costs. Discuss whether the accrued depreciation is curable or incurable. If partial or complete demolition is considered a reasonable estimate of cost should be calculated and included.

3.3.5 Discuss the asset's economic life and effective age.

The Cost Approach may not be applicable to the valuation of all properties. **If the City of Baltimore grants omission of the Cost Approach, at a minimum, the market value of the site is to be estimated, the economic life and effective age of the improvements are to be quantified, and any applicable forms of obsolescence and/or depreciation are to be discussed. The elimination of the Cost Approach does not relieve the appraiser of the obligation to provide an estimate of the rent required to justify new construction.**

3.4 VALUE ESTIMATED BY INCOME CAPITALIZATION APPROACH. The report must include adequate factual data (a) estimated gross economic market rent; (b) allowance for vacancy and credit losses; (c) an itemized estimate of total anticipated expenses including reserves for replacement; and (d) net operating income. The report should also include capitalization of net income shall be at the rate prevailing for the subject property's type and location. The capitalization technique, method and rate used shall be explained in narrative form supported by an explanation of sources of rates and factors. The reader should be able to follow the appraiser's logic to his/her conclusion of value.

Although the Fee Simple interest in the property is to be appraised, a comparison analysis is to be done regarding the anticipated market derived income and expenses evaluated against the actual income the property is generating under current ownership based on lease's impacting the property. This commitment will be considered in the analysis of the property's anticipated occupancy.

The report must describe the current and expected occupancy levels, including expirations of leases, if applicable. It must estimate future vacancy and credit loss in relation to the risk reflected in capitalization rates used and the condition of the market in respect to existing vacancy rates for similar properties.

The report must describe current rents, current tenant(s), and current and forecasted income and expenses.

The report must estimate the minimum rent required to justify new construction. (If preferred, this may be discussed in the Highest and Best Use Section.)

The report must discuss supply and demand in the market, including the subject's competitive position. It must explain the key functional and economic issues, both positive and negative, relating to the subject property.

The report must describe and analyze market rents (including escalations, concessions, length of the initial lease and the number and length of any renewal options, lease terms and conditions, tenant improvement allowances, expenses and any expense stops or other criteria that the appraiser believes are relevant).

The report must compare the market rents to the rents generated under current city ownership based on any lease's impacting the property.

The report must describe and analyze expenses in comparable properties, including fixed (ad valorem taxes and insurance), and variable (management, administration, utilities, cleaning, repairs and maintenance).

The report must discuss the projected expense ratio of the subject property as if owned by a private owner, as compared to the expenses generated as currently owned by the city government.

Each rent comparable shall be weighed and explained in the report in relation to the subject, and adjustments are to be made from the comparable to the subject. The rent comparables should be adjusted in relation to the subject for physical attributes such as location, age/condition, parking, quality/aesthetics, access/visibility, core factors, and efficiency ratios. The report must describe the adjustments applied.

The report must discuss and quantify any immediate capital costs that a private purchaser would incur. It must analyze any capital investments that are proposed by purchaser.

The report must develop a stabilized operating statement, addressing stabilized capital reserves. The appraiser's conclusion should be based on comparison with similar rentals.

The report must estimate the value of the property using the Direct Capitalization method. It must explain and support the overall capitalization rate used. Ideally, capitalization rates should be developed from the sale of similar properties, preferably in the market of the subject property. The source data for any mortgage and equity rates used should be included in the report.

If applicable, the report should estimate the value of the property using the discounted cash flow analysis technique. The report must discuss anticipation of change of the subject property and support anticipated changes. It must explain and support the discount and exit capitalization rates used.

3.5 VALUE ESTIMATE BY SALES COMPARISON APPROACH. All sales used as comparables in the report shall be confirmed by the buyer, seller, broker, or other persons having knowledge of the price, terms, and conditions of sale. Each comparable shall be weighed and explained in relation to the subject from this approach. Adjustments should be made from the sale to the subject, either in dollar amounts or percentages for all applicable elements of comparison. The comparable sales should be adjusted in relation to the subject property for market and property conditions, location, core factors, efficiency ratios and other appropriate factors. The reader should be able to follow the appraiser's logic to his/her conclusion of value.

3.6 RECONCILIATION AND FINAL ESTIMATED VALUE. The appraiser shall interpret the foregoing estimates and shall state his/her reason why one or more of the conclusions are indicative of the market value of the property. The report must discuss the appropriateness and reliability of each approach and logically explain the derivation of the final estimated value. ***Pure "averaging" of different values is not acceptable as a final valuation.***

PART IV - EXHIBITS AND ADDENDA

(These items may be located within the appropriate sections of the body of the report.)

4.1 PLOT PLAN AND TAX MAP

4.2 FLOOR PLANS

4.3 COMPARATIVE DATA MAP(s): The appraiser must show the geographic location of the appraised property and the comparative data analyzed.

5.2 OTHER PERTINENT EXHIBITS. The appraiser must include a copy of the Scope of Work identified in the accepted contract of work. The appraiser must also complete and include the City of Baltimore – Narrative Market Value Appraisal Report Summary of Significant Conclusions and Scope of Work Reporting Requirements Checklist with the report indicating that the appropriate information

required in the report has been included, and identifying the pages where such information is located.

5.3 QUALIFICATIONS. Include the qualifications of all appraisers and analysts significantly contributing to the value(s) reported.

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APPENDIX C to the HISTORIC TAX CREDIT RULES AND REGULATIONS

APPRAISAL REVIEW PROCESS

Once the Department of Finance has completed an objective and independent valuation of real property and established a value using the published Scope of Work (SOW) and in compliance with the Uniform Standards of Appraisal Practice (USPAP), this value will be used in the determination of your CHAP Tax Credit.

Should you disagree with the opinion of value indicated in these valuation reports, you must do the following to have the value opinions reconsidered by BBMR;

1. Submit an appraisal to the Department of Finance that was completed using the same SOW as the Department of Finance appraisal. The SOW can be found in the addendum to the Rules and Regulations for single family dwellings, apartment buildings, and commercial properties.

   The appraisal submitted **must** include:
   - 3 settled sales that are similar to the property in
     - Size
     - Condition
     - Location
     - Quality
     - Terms
     - Point in Time

2. Schedule a time to discuss the differences between the appraisals with the Department of Finance Appraiser, either in person or telephone.

   The decisions of the Department of Finance Appraiser are final.