National Trust *for* Historic Preservation®
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February 14, 2020

The Honorable Guy J. Guzzone
Senate Budget and Tax Committee
Miller Senate Office Building
11 Bladen Street
Annapolis, Maryland 21401

RE: Support Letter for Senate Bill 978

Dear Chairman Guzzone and members of the Committee,

On behalf of the 3,324 Maryland members of the National Trust for Historic Preservation, thank you for the opportunity to testify about the many benefits a strong state historic tax credit delivers to the state. Over the past 20 years, the National Trust has tracked the enactment of 37 state historic tax credit programs, including the Maryland Heritage Structure Rehabilitation Tax Credit Program.

Historic tax credits leverage significant private investment to rehabilitate historic properties that would otherwise be demolished or remain underutilized. In 2003, Governor Ehrlich created a task force to examine the effectiveness of the Maryland Heritage Structure Rehabilitation Tax Credit. The task force found that the tax credit program was successfully revitalizing deteriorating downtowns, combating blight, stimulating local economies, and preserving historic resources.[1] The task force also found that for every dollar the state invested through the tax credit program, it received approximately $3.31 in tax revenues within five years of completion of a project.[2] Time and again these rehabilitated properties demonstrate their ability to revitalize Main Streets, downtown areas, and our older communities.

Historic Tax Credits are a Strategic Public-Private Investment and Job Creation Strategy
A study of Ohio's historic tax credit program found that every $1 million invested by the state resulted in $8 million in construction spending (83 construction jobs) and $32 million in total operating impact (298 jobs) for a total of $40 million in economic activity and 381 jobs.[3]

Historic Tax Credits Fill a Critical Financing Gap
Banks lend fewer dollars for historic rehabilitation projects than for new construction. As a result, incentives are needed to fill the financing gap that makes these historic tax credit projects possible. Recognizing the need to drive private investment into our older communities, the federal government and 36 other states also offer tax credits for the rehabilitation of historic properties. Over the last year, the State of California and the State of Hawaii both enacted legislation establishing historic tax credit programs.

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[1] Final Report of the Governor's Taskforce on Maryland's Heritage Structures Rehabilitation Tax Credit, 2004
[2] Id.
[3] Ohio Historic Preservation Tax Credit, 2015 Comprehensive Report, Ohio Department Serves Agency, 2015

Historic Tax Credits Spur Rehabilitation and Leverage Additional Investment
Research shows that high-performing state historic tax credit programs bring significantly more federal investment to those states. A study of the Kansas historic tax credit by Rutgers University, for example, found that in the 21-year period before the state credit was in place, there was an average of 2.4 federal historic tax credit projects per year with an aggregate amount of $114 million in total private investment. In the eight years following enactment, Kansas saw a total of 542 projects completed, an average of 68 per year, with total private investment totaling $271 million.[4] And according to the Texas Historic Commission (THC), its state historic tax credit has dramatically increased the number of projects seeking federal historic tax credits. Between 1987 and 2007, for example, there were 40 historic tax credit projects certified in Houston with qualified rehabilitation expenditures totaling $217 million. Since the Texas historic tax credit went into effect in 2015, the THC approved 213 projects totaling $1.492 billion in certified rehabilitation expenditures.[5]

Rehabilitation and revitalization projects create thousands of construction jobs annually, and historic preservation creates more jobs than new construction. On average, $1 million invested in rehabilitation instead of new construction produces:

- 20 percent more jobs;
- $120,000 more in the local economy;
- $107,000 more in household income; and
- $34,000 more in retail sales.

Historic preservation creates more jobs largely because rehabilitation projects are more labor intensive than new construction. With new construction, about half of all expenditures are for labor and half are for materials. In a typical historic rehabilitation project, between 60 and 70 percent of the total cost goes toward labor, which has a beneficial ripple effect throughout the local economy. Labor for preservation projects — carpenters, electricians, plumbers, sheet metal workers, painters — is nearly always hired locally. And local wages are spent locally.
In addition to construction, historic preservation also generates jobs for architects, accountants, attorneys, engineers, preservationists, real estate brokers, and others. The materials used in preservation projects are much more likely to be purchased locally, whereas materials for new construction are often purchased elsewhere. Across the nation, building rehabilitation outperforms new construction in the number of jobs created, the increase in local household incomes, and the impact on other industries.[6]

Historic Rehabilitation is good for the economy
In the last fifteen years, dozens of studies have been conducted throughout the United States, by different analysts using different methodologies. But the results of those studies are remarkably consistent — historic preservation is good for the local economy. From this large and growing body of research, the positive impact of historic preservation on the economy has been documented in six

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[4] Economic Impact of Historic Rehabilitation Tax Credits in Kansas, Center for Urban Policy Research, Edward J. Bloustein School of Planning and Public Policy Rutgers, The State University of New Jersey
[5] Texas Historical Commission website: https://www.thc.texas.gov/preserve/projects-and-programs/preservation-tax-incentives/tax-credit-program-highlights
[6] "The Economics of Historic Preservation: A Community Leader's Guide" Rypkema, Donovan D., Washington, D.C.: National Trust for Historic Preservation, 1994, p.14.

broad areas: 1) jobs, 2) property values, 3) heritage tourism, 4) environmental impact, 5) social impact, and 6) downtown revitalization.[7]

According to the National Park Service, "the benefits of investment in HTC-related historic rehabilitation projects are extensive, increasing payrolls and production in nearly all sectors of the nation's economy. The cumulative effects for the period of FY 1978 through FY 2018 are illustrative. During that period, $162.0 billion in HTC-related rehabilitation investment created 2,677,000 jobs and $176.2 billion in GDP, about 30 percent of which (811,000 jobs and $51.9 billion in GDP) was in the construction sector. This is as one would expect, given the share of such projects that require the employment of building contractors and trades. Other major beneficiaries were the service sector (486,000 jobs, $23.4 billion in GDP), the manufacturing sector (561,000 jobs, $46.4 billion in GDP), and the retail trade sector (384,000 jobs, $12.6 billion in GDP). As a result of both direct and multiplier effects, and due to the interconnectedness of the national economy, sectors not immediately associated with historic rehabilitation, such as agriculture, mining, transportation, and public utilities, benefit as well. The most recent economic benefits of the federal HTC are also most impressive. In FY 2018, HTC-related investments generated approximately 129,000 jobs, including 47,000 in construction and 29,000 in manufacturing, and were responsible for $7.4 billion in GDP, including $2.4 billion in construction and $2.1 billion in manufacturing. HTC-related activity in FY 2018 generated $5.4 billion in income, with construction ($2.0 billion) and manufacturing ($1.3 billion) reaping major shares."[8]

Historic Tax Credit Projects Begin to Pay Back Immediately

Independent studies conclude that one-third of a state's investment is recouped by the state before historic tax credits are issued. Cleveland State University, for example, found that for every $1 invested by the State of Ohio, $.33 was returned during the construction phase of the project resulting from state taxation of labor and materials.[9] And in Maryland, Governor Ehrlich's Rehabilitation Tax Credit Task Force also reported that an average of $1.02 was returned in the first year and an average of $3.31 was paid back to the state the fifth year after a project's completion.[10] Given that historic tax credits are not awarded until a project is complete, the state gains revenue from taxes paid on materials and labor before a rehabilitated building is occupied.

Historic Tax Credits are a Critical Reinvestment Tool that Revitalizes Local Communities

Historic tax credits put vacant and underperforming buildings back on property tax rolls. According to the Wisconsin Historical Society, 60% of that state's historic tax credit projects in 2014 were used by owners whose buildings were vacant prior to rehabilitation[11]. The renovation of a former Pabst brewery building in Milwaukee into the Brewhouse Inn and Suites led to an increased tax assessment of 907%. The building's assessed value rose from $1,419,700 to more than $14,300,000.[12]

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[7] "Measuring the Economics of Preservation, Recent Findings," Prepared for the Advisory Council on Historic Preservation by PlaceEconomics, http://www.landmarks.org/wp-content/uploads/2016/08/Measuring-the-Economics-of-Preservation.pdf. 2011.

[8] "Annual Report on the Economic Impact of the Federal Historic Tax Credit for FY 2018," National Park Service https://www.nps.gov/tps/tax-incentives/taxdocs/economic-impact-2018.pdf. 2019.

[9] "Estimates of the Economic Impact of the Ohio Historic Preservation Tax Credit Program on the State of Ohio" Cleveland State University, Maxine Goodman Levin College of Urban Affairs, 2011. http://www.development.ohio.gov/files/redev/OHPTC%20Economic%20Impact%20Study%20-%20May%202011.pdf

[10] Final Report of the Governor's Taskforce on Maryland's Heritage Structures Rehabilitation Tax Credit, 2004

[11] Wisconsin Historic Tax Credit Impact Analysis, Baker Tilly, 2015

[12] Id.

Historic tax credit projects also increase neighborhood property values according to a National Trust for Historic Preservation report. Since the completion of two key rehabilitation projects in Salt Lake City's Depot District, the market value of properties in the area has increased 22.5% at a time when citywide property values declined more than 17 percent.[13]

Historic tax credit projects act as a catalyst for redevelopment in a community. In Evansville, Wisconsin, for example, Mayor Sandy Decker cites the rehabilitation of the 1907 Eager Economy Building as having a catalytic effect in their community. Mayor Decker noted the rehabilitation of the Eager Economy Building became the economic "the tipping point downtown," which helped spur three additional historic improvement projects on the same block.[14]

Legislative Efforts to Establish or Expand Historic Tax Credit Incentives are Increasing
State historic tax credit programs are growing in popularity because they are a proven approach to economic revitalization. In the past five years, nine states have created historic tax credit incentives, while several other states, including Maryland, New York, and Illinois, have recently strengthened their incentives. In 2020 alone, there are six states that have active legislation to establish or improve state historic tax credit incentives.

States find these credits appealing because they encourage investment in areas that need it most. They create jobs and provide an immediate return on investment. Many developers look at state historic tax credit programs when deciding where to invest. Maryland could stand to lose valuable development dollars to states like Virginia with strong state tax credit programs or other neighboring states that are seeding to improve and establish their historic tax credit incentives

On behalf of the National Trust for Historic Preservation and as a resident of Maryland, I urge you to support Senate Bill 978, the Historic Revitalization Tax Credit Improvement Act. Making it easier to transfer the credits to taxpayers that have tax liability will generate greater interest among investors. A stronger historic tax credit program for Maryland will attract more private investment to the state and ensure its rich architectural heritage will be preserved for future generations.

Thank you for the opportunity to provide testimony.

Sincerely,

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[13] "Catalyst for Change, The Federal Historic Tax Credit: Transforming Communities" Prepared for the National Trust for Historic Preservation by PlaceEconomics. 2014.
[14] Wisconsin Historic Tax Credit Impact Analysis, Baker Tilly, May 2015