Testimony of Steven D. McCleaf
February 18, 2020

State of Maryland
Senate Budget and Tax Committee
SB0978:
"Historic Revitalization Tax Credit – Transferability, Funding, and Extension (Historic Revitalization Tax Credit Improvement Act of 2020)"

Members of the Committee:

Good morning. My name is Steven McCleaf of Langley Realty Partners, LLC and I am here representing Warfield Companies, the owner and developer of "Warfield at Historic Sykesville" in Sykesville. You may know the property by its old name: "The Warfield Complex".

Warfield was part of Springfield Hospital Center, which opened as a state mental health facility in 1896. Although Springfield Hospital Center remains in operation today, much of the hospital's real property was offered as surplus in the mid-1990's. Ultimately, a large part of the hospital's surplus property was transferred to the Maryland Department of Public Safety and Correctional Services for a training center and a smaller portion— known as the Warfield Complex— was sold to the Town of Sykesville in 2001. The property became subject to a Maryland Historical Trust (MHT) preservation easement at the time of transfer. In June 2018, Warfield Companies purchased the Warfield Complex, including 14 historic structures with a total gross building area of about 183,000 square feet and situated on approximately 18 acres, plus approximately 31 acres of additional developable land.

Warfield is one of many larger scale properties either currently or formerly owned by the State of Maryland (which state law mandates must be preserved) that are not economically viable for rehabilitation and adaptive reuse in the current environment-- **even assuming full eligibility and funding of state and federal historic tax credits**. Examples of properties still standing but rapidly deteriorating are Glenn Dale Hospital in Prince Georges County and Crownsville Hospital Center, a few miles north of here in Anne Arundel County. Both of these properties remain standing but out of service and cost the state millions of dollars per year to carry. Two other examples, Henryton State Hospital in Marriottsville and Rosewood Hospital Center in Owings Mills, were both demolished in recent years with state funds in excess of $20 million rather than being rehabilitated and returned to service and returned to the tax rolls.

As a private developer, Warfield Companies needs to access state and federal historic tax credit programs to the fullest extent possible to help finance the rehabilitation of the buildings. Rehabilitation of the buildings is a non-starter without being able to fully access both tax credit programs. The cost to rehabilitate the buildings is projected to be more than double the value of the buildings at completion. Although historic tax credits alone are not expected to close the gap, they would go a long way towards doing so. Tax credits are the single most important part of the solution.

The current program is ineffective in giving developers an incentive to undertake rehabilitation projects. In general, developers will only pursue a project if it will work without the state credit because of the uncertainty surrounding the availability of the credit which is due to the low annual cap and highly competitive nature. In effect, the state historic tax credit can only be viewed as "icing on the cake" which is insufficient for making the program a true catalyst for rehabilitation, community revitalization, and economic development. Yes, there are some developers who will take a risk but most will simply pass on a project if the success hinges on receipt of the state credit.

By way of example, I estimate that a rehabilitation project of the Warfield buildings all at once would be eligible for a state tax credit between $8-10 million using simple arithmetic. However, we will be unable to secure this amount because the current annual state cap is $9 million and the per project cap is $3 million. Therefore, we would not proceed with such a project at this time. Further, we have to consider letting the remaining vacant buildings go at some point, because the cost to carry them is becoming untenable.

In our view, the caps either need to be eliminated or set high enough that most projects will get funded. The argument I hear most often against lifting the caps is that the state cannot afford to do so. We simply do not believe that this is the case. Investment by states in historic preservation tax credit programs result not only in preservation of historic resources, but also in community revitalization and economic development that pays the tax credits many times over. Over and over again—study after study—has proven that investment in historic preservation is a good investment for states that has the potential for broad-based positive economic development across a state and not just in one community.

It is also our view that tax credits should be transferrable. In other words, the tax credit should be able to be sold to investors, much like the Federal low-income housing tax credits. Tax credits should also be refundable. Developers need options to tailor tax credits to be tax-efficient for their particular situation and based on the capital structure and other characteristics of a particular projects.

In conclusion, we are in favor of the expansion of Maryland's historic tax credit program and making it more flexible. The program is good for preservation, community revitalization, and economic development and pays for itself many times over.