

Testimony of Katie Parks
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Before the
Budget & Taxation Committee
March 15, 2023

Pertaining To: SB952, Historic Revitalization Tax Credit – Credit Amounts and Funding
– Alterations
Support

On behalf of the staff and Board of Directors of Preservation Maryland and our thousands of statewide supporters, I thank you for the opportunity to provide testimony on the value of history and preservation in Maryland.

Preservation Maryland is the statewide voice for historic preservation that works to protect the best of Maryland. Since 1931, we have worked tirelessly to protect the places, stories and communities in Maryland that matter.

Why this Bill Matters

Maryland's Historic Revitalization Tax Credit is one of the most effective community revitalizations tools available. It is a catalyst of economic growth and a key tool for neighborhood revitalization. Unfortunately, Maryland has fallen behind regionally in our investment of this program. Neighboring Virginia invests nearly \$100M annually in their state Historic Tax Credit program. Massachusetts and Wisconsin, each with similar state budget and population size to Maryland, both invest \$50M annually in their state HTC, and West Virginia is now funding their HTC at \$30M. Today, I am proud to offer our support of SB952 which will address this funding variance and close the gap on our regional competitiveness.

The Competitive Commercial program of the Historic Revitalization Tax Credit encourages the rehabilitation of large keystone projects across the state, but its potential impact is unrealized due to restricted funding. The Small Commercial program, which encourages private investment in the rehabilitation of more modest, Main Street-scale historic structures, is currently oversubscribed for the existing funding. The need is there, but unfortunately the funding is not. This legislation increases annual funding for the program that is poised to be an effective aid for ongoing economic recovery.

What this Bill Does

SB952 proposes to:

- Increase funding for the Competitive Commercial program from \$20M to at least \$50M and the per-project cap from \$5M to \$10M
- Increase bonus credit percentage for 1) high performance buildings 2) affordable housing 3) Level 1 & Level 2 opportunity zone projects; and
- Increase funding for the Small Commercial program from \$2M to at least \$20M and per-project cap from \$50,000 to \$100,000.

Why You Should Vote for This Bill

Maryland's Historic Revitalization Tax Credit (HTC) is a widely embraced and successful solution to many of the economic and neighborhood revitalization challenges facing Maryland's communities today. The economic revival of our small towns and urban downtowns requires incentives like the HTC to focus investment where it is needed most. As it considers where and how to spend the current surplus, Maryland must prioritize its programs that encourage job growth and stimulate investment and revitalization.

Unlike many tax credit programs, the state HTC generates positive revenue for the state. According to a recent Abell Foundation report, the HTC has a demonstrated 8:1 return, creates permanent jobs, and increases local property tax revenues. When buildings are rehabilitated, they pay more in local taxes which support better schools, roads, and healthcare without the need for more state dollars. Additionally, as an economic activity, historic rehabilitation greatly outperforms new construction in job creation. Rehabilitation project costs are on average 60 percent labor and 40 percent materials compared to new construction, which is about 40 percent labor and 60 percent materials. In addition to hiring local labor, historic rehabilitation materials are more likely to be purchased locally. As a result, approximately 75 percent of the economic benefits of these projects *remain in the communities* where these buildings are located.

Over the last few years, this esteemed committee has passed common sense policy changes to the Competitive Commercial HTC, which focuses on large scale rehabilitation projects. This year, we urge an increase of the per-project cap from the current \$5 million to \$10 million to allow even more impact. The other proposed changes, including additional credits for affordable housing projects and projects within Opportunity Zones, will make the program a stronger tool for community revitalization. The proposed

funding increase to this HTC program would ensure more money goes to catalytic redevelopment projects in communities where investment is needed the most, from Western Maryland to the Eastern Shore and everywhere in between.

Since the Small Commercial HTC program's inception in 2015, it has leveraged millions in private investment into communities while helping more than 100 historic properties. This program encourages the redevelopment of modest scale, Main Street type rehabs taken on by individuals or small developers. Projects range from those with \$5,000 to \$500,000 in Qualified Rehabilitation Expenditures - with a proposed per-project cap of \$100,000 in credits in a 24-month period. Recent policy changes, such as no longer requiring a commercial component, have made it popular as a key neighborhood revitalization tool across the state.

Because of its success in encouraging private investment in the reinvigoration of historic communities, the Small Commercial program's authorized funding is continuously oversubscribed. Increasing funding for these small-scale redevelopment projects provides a powerful return-on-investment inherent in our Historic Tax Credit program. SB952 establishes annual funding of \$20M to this vital program. With a proposed increase in the per-project cap to \$100,000, this annual funding would result in at least 200 new projects moving forward. While every community may not necessarily have a large-scale project that could be helped by the Competitive Commercial project, communities in every corner of Maryland will be able to directly benefit from the additional funding for the Small Commercial program.

Projects in affluent communities that have strong economic fundamentals are still likely to get done, particularly if they can attract patient capital investors who don't require immediate tax benefits. Unfortunately, projects offering investors marginal returns in historically and systemically disinvested communities – *which ultimately require these incentives and projects the most* – may no longer move forward without incentives like the Historic Revitalization Tax Credit.

In conclusion, this tax credit is not a handout - it is an investment in Maryland's communities and economy. SB952 would exponentially increase the program's positive impact across the state. That is why I respectfully urge a favorable report of SB952.

Support