**Testimony of Steven D. McCleaf**
**February 21, 2020**

**State of Maryland**
**House Ways and Means Committee**
**HB0862:**
**"Historic Revitalization Tax Credit – Transferability, Funding, and Extension (Historic Revitalization Tax Credit Improvement Act of 2020)"**

Good afternoon, Madam Chairman and members of the committee. 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, formerly known as 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—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 without a robust historic revitalization tax credit program.[1] Examples of properties still standing but rapidly deteriorating are Glenn Dale Hospital in Prince Georges County and Crownsville Hospital Center in Anne Arundel County. Both of these properties have been out of service for years 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 using state funds in excess of $20 million rather than directing these funds into rehabilitation of these properties, which would have allowed them to be returned to service and put on the tax rolls.

As a private developer trying to rehabilitate one of these large campuses, 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 at Warfield. Rehabilitation of the buildings is a

[1] For an in-depth study of these state-owned campuses, see Advancing the Preservation and Reuse of Maryland's Historic Complexes: Challenges and Opportunities (January 28, 2020), a study completed for the Maryland Department of Planning. This study was mandated by the General Assembly in 2019.

non-starter without being able to fully access both tax credit programs, as the cost to rehabilitate the buildings is projected to be more than double the value of the buildings at completion.

The current program is ineffective in providing developers an incentive to undertake rehabilitation projects. As the program stands today, developers will only pursue a project if it will work without the state credit because the availability of the credit is uncertain due to the low annual cap and highly competitive nature of the award process. In effect, the state historic tax credit can only be viewed as "icing on the cake" which, from a public policy standpoint, is insufficient for making the program a true catalyst for rehabilitation, community revitalization, and economic development.

By way of example, I estimate that Warfield would be eligible for a tax credit of $8 - $10 million if the remaining buildings were rehabilitated all at once as a single project (which would be ideal) if not constrained by current funding caps. However, we would be unable to access this amount of tax credits 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, unless something changes, we will have to consider letting the remaining vacant buildings go at some point, because the cost to carry them is becoming untenable. By letting the buildings go, I mean letting them go to tax sale.

In our view, the program caps either need to be eliminated or set high enough that all projects with merit get funded. The argument I hear most often against lifting or eliminating the caps is that the state cannot afford to do so. We simply do not believe that this is the case. Study after study has concluded that investment by states in historic tax credit programs result not only in preservation of historic resources, but also in community revitalization and economic development that pays for the tax credits many times over. It is important to note that these outcomes hold true not just in cities, but also in the suburbs and rural areas.

It is also our view that 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 project. Tax credits should both be refundable and they should be transferrable. By transferrable, I mean that a developer should be able to sell tax credits generated by a project to investors, much like they are able to do under the Federal low-income housing tax credit program. The transfer of future tax credits to investors for cash equity up-front is critical to financing large preservation projects with sizeable funding gaps and equity requirements. [2]

[2] A state tax credit has value only to the extent that the credit holder has sufficient liability for state taxes that the credit can be used to offset. Although state tax rates vary, they are far lower than federal income tax rates. As a consequence, an apparently valuable state tax credit may wind up in the hands of a party unable to use it. There are several remedies to solve this problem, but many state statutes do not provide for them: (1) The tax code may permit the party that earns the credit to sell it outright to a third party with adequate tax liability to use it. (2) The code may permit a partnership that owns the property to make a disproportionate distribution of the credit, so that a local taxpayer can acquire the state tax credit while a national corporation not doing business in the state acquires the federal tax credit. (3) The code may allow a tax credit not fully usable in the current year to be carried back to offset taxes previously paid for prior tax years. (4) The tax credit may be refundable, so that any amount not used to offset current-year taxes is paid in cash to the holder of the credit. [Adapted from State Tax Credits for Historic Preservation, a public policy report produced by the National Trust for Historic Preservation's Center for State and Local Policy and written by Harry K. Schwartz.]

In conclusion, we are in favor of the expansion of Maryland's historic tax credit program and also making it more flexible to attract more investment from a wider range of investors. The program is good for preservation, community revitalization, and economic development and it pays for itself many times over. Therefore, we ask for a favorable report on the bill.