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THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

HB 862: Historic Revitalization Tax Credit- Transferability, Funding, and Extension (Historic Revitalization Tax Credit Improvement Act of 2020)

Hearing: February 21, 2020

Chairwoman Kaiser, Vice Chair Washington, and Members of the Ways and Means Committee,

Maryland's Historic Revitalization Tax Credit, our state's historic tax credit, is a catalyst of economic growth and a key tool for neighborhood revitalization. Today, I am pleased to be the sponsor of legislation before this committee that will help make the Historic Revitalization Tax Credit more a more effective program. HB862 will help safeguard our state's past and invest in our communities' futures. This legislation addresses the funding famine and closes the gap on our regional competitiveness.

The proposed legislation makes changes to strengthen the effectiveness of the state's historic tax credit (HTC) program. In addition to making changes to the specific credits, the legislation would provide increased funding and extend the authorization of the program as a whole through Fiscal Year 2028.

HB862 makes key changes to the existing historic tax credit program. It allows the state HTC to be transferred and has a stepped increase in the level of funding for the large commercial historic tax credit program that will support saving some of our state's most significant and historic resources.

Funding projects in every county, Maryland's Historic Revitalization Tax Credit has a proven track record of catalyzing neighborhood revitalization projects. At the height of the historic tax credit program, Maryland invested nearly \$80 million annually. Unfortunately, in 2002, Maryland capped the historic tax credit program, requiring an annual appropriation in the state's PAYGO capital budget. Since then, this program has lost nearly 90% of its funding. As of the proposed FY21 budget, although authorized to \$30 million, the state historic tax credit program has received only a \$9 million appropriation. With each project capped at \$3 million, the total available is embarrassingly low.

Around the nation, the value of state historic tax credit programs has been widely accepted. Unfortunately, at \$9 million for the entire state, Maryland's program is falling behind. Neighboring Virginia invests nearly \$100 million annually in their historic tax credit, and West Virginia funds their historic tax credit programs at \$30 million.

The economic benefits associated with the use of the historic tax credit in Maryland have been well documented. According to a report by the Abell Foundation, for every \$1 of tax credits issued through the Heritage Structure Rehab Tax Credit, \$8.53 of economic activity is generated. Additionally, an historic tax credit program funded at \$15 million is anticipated to result in the creation of over 1,000 jobs.

Over the past 20 years, these preservation tax credits have helped renew nearly 700 commercial structures, funding projects in every county. From Footer Dye Works in Cumberland and Philips Packing Plant in Cambridge, to National Park Seminary in Silver Spring and CASA de Maryland in Langley Park, the state historic tax credit has been a revitalization tool across the state.

The recent overhaul of the federal tax code has significantly increased the cost of completing rehabilitation project primarily due to a new longer vesting period for the federal historic tax credit. Previously, the HTC was distributed in its entirety at the end of the project. Under the new law, the credit is distributed over a much longer 5 year period, increasing the lending costs associated with large-scale redevelopment projects. Since the passage of the new tax reform legislation, the value of the HTC has dropped almost 20%.

Maryland can offset the damaging changes at the federal level by strengthening state-run tax credit programs that work, such as the Historic Rehabilitation Tax Credit. HB862 seeks to do just that by offsetting those increased costs on the federal level by allowing the state credit to be transferred outside of the development partnership. In order to make most historic rehabilitation projects viable, they often require both state and federal HTCs. By allowing for the transfer of the credits outside of the partnership, developers will be able to close financing gaps that often prevent important projects from being undertaken.

To address Maryland's shortage of affordable housing, legislation was passed in 2018 to provide an additional 5% tax credit to large commercial historic tax credit projects that result in affordable housing. That same legislation removed a barrier that has prevented the redevelopment of large scale and campus-wide projects, such as Glenn Dale Hospital in Prince George's County and Warfields in Carroll County. Unfortunately, without more funding, neither of these important changes can have much impact.

The funding and changes that make up HB862 will go far to make the Historic Revitalization Tax Credit a more effective and powerful community revitalization tool in every district across Maryland. Thank you for your consideration of HB862, and I urge the committee to move the bill with a favorable report.

Sincerely,

Delegate Stephanie Smith