Maryland
DEPARTMENT OF HOUSING
AND COMMUNITY DEVELOPMENT

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Deputy Secretary

DATE: **March 28, 2024**

BILL NO.: **Senate Bill 394**

TITLE: **Catalytic Revitalization Project Tax Credit - Alterations**

COMMITTEE: **House Ways and Means Committee**

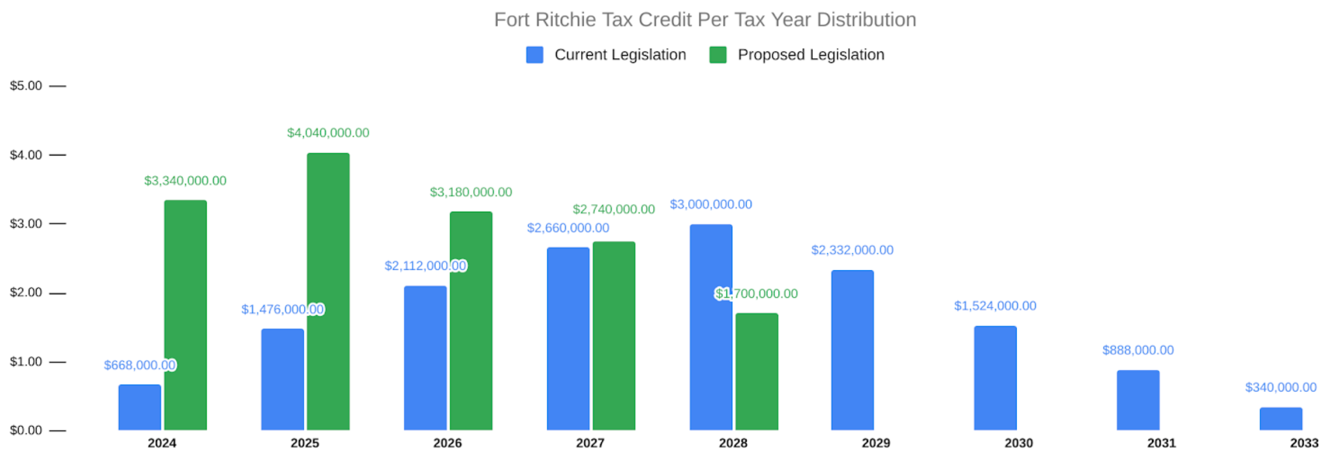
Letter of Support

Description of Bill:
Senate Bill 394 will make several changes to the Catalytic Revitalization Tax Credit Program, including: 1) Allowing phased credits to be claimed all at once; 2) Repealing the limitation on issuing initial tax credit certificates prior to January 1, 2025; 3) Allowing the Secretary to issue more than one initial tax credit certificate in a two-year period; 4) Allowing the Secretary to revoke tax credits when a future project is not proceeding in compliance with conditions in the initial credit certificate; and 5) Requiring the Secretary to adopt regulations and procedures for approving project phases.

Background and Analysis:
The Catalytic Revitalization Tax Credit Program was established in 2021 under Senate Bill 885 for the purpose of incentivizing redevelopment of formerly government-owned complexes for economic and community development purposes. The Department may award a $15 million tax credit project every two years through 2031. The Department has awarded two initial tax credit certificates to date: Warfields in Carroll County and Fort Ritchie in Washington County.

The tax credit supports the rehabilitation and renovation of a campus of properties formerly owned by the State of Maryland or the federal government, including colleges or universities, public schools, hospitals and mental health facilities, and military facilities or installations. These properties are often historic and have significant architectural features that are worthy of preservation, but decades of abandonment and neglect pose serious challenges to their reuse. Due to their age and the materials used during their construction and maintenance, they often require costly mitigation of environmental and health hazards like asbestos and lead. The tax credit is intended to make these projects viable by helping to fill the financing gaps between the cost of rehabilitation and the market-rate value of the redeveloped property. Some of the changes proposed in this bill are technical, while others are critical to ensuring the credit can be optimized to spur development and improve more properties.

Alter the disbursement rate of credits for phased projects
SB 783 - passed in the 2023 Session - amended the original law and created the opportunity for the developers to phase their projects and claim the credit as phases are completed. This is significant because it allows the developer to access the $15 million credit incrementally as phases are completed, rather than having to wait until the entire project is done. Regrettably, SB 783 did not remove the requirement for phased projects to claim the credit for each completed phase over an additional five years. This significantly dilutes the value of phasing the credit. For example, Fort Ritchie was awarded an initial credit certificate of $15 million consisting of five phases over 5 years; under the existing legislation they would have to claim the credit over nine years, with access to only $668,000 the first tax year.



Under this proposed legislation, they would be able to claim $3.24 for the first phase in tax year 1

Repeal the limit on issuing initial credit certificates prior to January 1, 2025
SB 885 delayed implementation of the program until January 1, 2025 unless the Comptroller determines that issuing the tax credit certificate will not result in reduction or repayment of federal funds authorized under the Federal American Rescue Plan Act of 2021. The Comptroller issued this determination to the Department in 2021, but since that time, provisions of the Federal American Rescue Plan Act have been challenged in court. With litigation pending, the Comptroller cannot ascertain if federal funds will require repayment.

Allowing award of multiple initial credit certificates in a 2-year period
SB 885 limits the credit awards to one $15million project every two years. We found that there are several potential projects that would benefit from the credit, but that will use substantially less than the $15 million maximum. The Smart Growth Subcabinet completed a study and identified at least 23 historic complexes that range in size from 3 to 60 buildings. Allowing the $15 million to be divided amongst multiple projects will allow more of these complexes to be preserved and reused.

Allowing revocation of initial credit certificates
SB 885 does not grant authority to the Department to revoke and reissue credits under any circumstances. This change will allow the Department to ensure all credits are utilized and benefit viable projects.

Requiring adoption of regulations and procedures regarding phasing
This change will authorize the Secretary to establish procedures and standards for project phases including establishing a limit to the number of phases and minimum expenditures per phase.

DHCD Position
The Maryland Department of Housing and Community Development strongly supports SB 394 and its efforts to simplify phases, expedite access to capital, and expand utilization without increasing overall program costs. For these reasons, the Maryland Department of Housing and Community Development respectfully requests a **favorable** report.