

KATIE FRY HESTER
Legislative District 9
Howard and Montgomery Counties

Education, Energy, and
Environment Committee

Chair, Joint Committee on
Cybersecurity, Information Technology
and Biotechnology



Annapolis Office
James Senate Office Building
11 Bladen Street, Room 304
Annapolis, Maryland 21401
410-841-3671 · 301-858-3671
800-492-7122 Ext. 3671
KatieFry.Hester@senate.state.md.us

THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

Testimony in Support of SB394 - Catalytic Revitalization Project Tax Credit – Alterations

March 26, 2024

Chair Atterbeary, Vice-Chair Wilkins, and members of the Ways and Means Committee:

Thank you for your consideration of Senate Bill 394, which will provide Alterations to the Catalytic Revitalization Project Tax Credit. I am pleased to sponsor this piece of legislation at the request of the Department of Housing and Community Development.

For context, with this committee’s help, The Catalytic Revitalization Tax Credit was created via SB 885 in 2021, as a critical tool to promote the adaptive reuse of former state and federal historic properties in Maryland. It was one of the primary recommendations of the [Advancing the Preservation and Reuse of Maryland Historic Complexes Report](#). The credit was designed to help offset the prohibitively high rehabilitation costs that have thwarted redevelopment of these sites for years. Without this credit, dozens of historic complexes in Maryland may be lost due to demolition by neglect.

During its use, we learned that the flexibility of phasing will reduce financial risk and provide much needed cash flow to support these complicated redevelopments. Therefore in 2023, the credit was altered by SB 783 to allow for these large redevelopment projects to be completed in phases and for the credit to be claimed as phases are completed. Since then, some additional technical amendments have been identified to further optimize the utility of this credit and to make it available to more projects.

These technical amendments are presented in SB 394, which will do 5 things:

1. Alter the amount of a certain credit against the State income tax that certain persons may claim for certain construction and rehabilitation costs for certain catalytic revitalization projects. The original legislation, SB 885 requires the recipient of a tax credit to claim the credit in 20% increments over a 5-year period. This bill will allow a project that is completed in phases to claim 100% of the value of each phase in the taxable year the final certificate for the phase was issued. (See Figure 1 below.)
2. Repeal a limitation on the authority of the Secretary of Housing and Community Development to award initial and final tax credit certificates for 5 catalytic revitalization projects before a certain date. SB 885 limits the authority of the Secretary to issue an initial or final tax credit certificate before January 1, 2025, with an exception if 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. Since provisions of the Federal American Rescue Plan Act are being litigated in court, the Comptroller cannot maintain that determination.

3. Repeal a certain limitation on the number of initial tax credit certificates the Secretary may award within a certain period of time. SB 885 limits the Secretary to awarding one catalytic revitalization project within a 2-year period, which competitively disadvantages smaller projects that won't utilize the full credit available. The Smart Growth Subcabinet identified 23 historic complexes that would benefit from the credit, many of which are smaller projects in the \$10-\$20 million range. Repealing this limitation will allow more of these complexes to participate in the program and be preserved without exceeding the aggregated credit limit of \$15 million.
4. Authorize the Secretary to revoke an initial credit certificate for a catalytic revitalization project and award the certificate to another applicant under certain circumstances. This change will allow the Department to revoke an initial credit certificate if a project does not proceed or does not meet the requirements of the Program, and to competitively award those credits to an alternative project.
5. Require the Secretary to adopt certain regulations concerning procedures for the approval of project phases for certain tax credit certificates. SB 783 allows the Secretary to issue multiple final tax credit certificates for a project if the project is determined by the Secretary to be in Phases. This change will authorize the Secretary to establish procedures and standards for project phases.

The bill has three amendments from the Budget and Taxation Committee, two of which are technical. The other amendment prohibits the Secretary of Housing and Community Development from revoking a tax credit certificate issued previously unless the entity stops the project.

Since the passage of the original Catalytic Tax Credit in 2021, two former state complexes have been awarded a total of \$30 million in Catalytic Tax Credits. Warfield in Sykesville and Fort Ritchie in Cascade will both be transformed into mixed-use communities that will create jobs, increase the local tax base, expand housing opportunities and preserve significant cultural resources. The alterations proposed in this bill will ensure that these and future catalytic projects are successful by removing unnecessary barriers to tax credits and allowing more communities to benefit from this program. **For these reasons, I respectfully request a favorable report on SB394.**

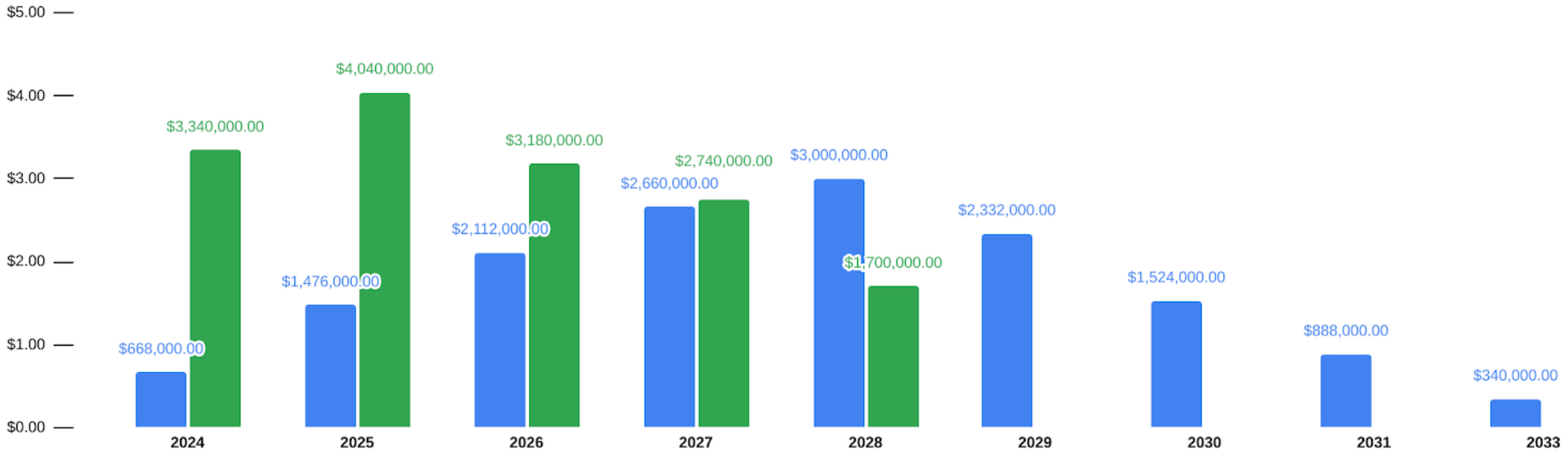
Sincerely,



Senator Katie Fry Hester
Howard and Montgomery Counties

Fort Ritchie Tax Credit Per Tax Year Distribution

■ Current Legislation ■ Proposed Legislation



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.