

SUPPORT SB 258/HB 309

Maryland Heritage Structure Rehabilitation Tax Credit Program

SB 258 and HB 309 will reauthorize and enhance the existing Maryland Heritage Structure Rehabilitation Tax Credit Program which is due to expire in July 2010. Enhancements include returning the program to a true tax credit while providing predictability for lawmakers and developers and making it the first program of its kind in the nation to provide a bonus for Green Building projects.

The tax credit program was established in 1996 to encourage the redevelopment of historic buildings and revitalization of our older communities by offering project sponsors tax credits equal to 20% of eligible rehabilitation costs. The Program was instantly successful and has been hailed as Maryland's most powerful and effective Smart Growth, economic development, historic preservation and community revitalization tool.

Since the program's inception, it has **facilitated 589 historic commercial building and 3,033 owner-occupied residence rehabilitations.**¹ Projects have taken place in every county and Baltimore City. Those projects have produced over **\$1.5 billion in total direct rehabilitation expenditures** by owners and developers, assisted by approximately \$342 million in State tax credits—a threefold return on Maryland's investment. The credits have transformed older neighborhoods into vital places to live, work and play, while creating jobs, investment and tax revenue for Maryland.

The undisputed success of the program, however, led to legitimate concerns about the unpredictability of annual tax credit outlays. Beginning in 2002, the commercial component was progressively cut back, reducing the program's revitalization impact. The reauthorization bill will recapture some of the program's earlier vitality, while still retaining predictability for state revenue outlays.

Without action by the Maryland General Assembly, this valuable historic preservation, community revitalization and Smart Growth tool will be lost! Contact your representatives today!

Impact of 20% Commercial Credit	
	Per \$1.00 of Credit
Total Economic Output	\$8.53
	Per \$1.0 Million in Credits
Total Employment (Jobs)	72.5
Construction Jobs (On-Site)	45.5
Source: Lipman Frizzell & Mitchell LLC and the Northeast-Midwest Institute. "Heritage Tax Credits: Maryland's Own Stimulus to Renovate Buildings for Productive Use and Create Jobs." The Abell Report 22.1 (March 2009): 3.	

¹ These figures represent the number of projects approved – some of which are still under construction.



Economic, Environmental and Social Impacts of Rehabilitation

- Rehabilitation of historic buildings stimulates job creation and economic activity faster than new construction. Rehabilitation projects create more construction-related jobs than new construction. Most new construction costs are divided 50/50 between labor and materials. Rehabilitation projects generally are 70% labor – almost always acquired locally
- Rehabilitation projects generate significant short and long term returns on investment for both State and local governments.
- The majority of rehabilitation projects are undertaken in communities where needed infrastructure already exists, eliminating or significantly reducing public costs frequently associated with new construction.
- Rehabilitation projects significantly impact local governments' tax base by returning vacant or underutilized properties to the tax rolls and catalyzing construction activity in adjacent areas.
- Rehabilitation projects contribute to creating environments and communities that are attractive to tourists. A survey in 2008 found that 69% of visitors preferred to visit historic districts on their trips. Those "heritage tourists" spent more than \$2.3 billion dollars in the state in 2001.
- Rehabilitation of existing buildings utilizes less energy than new construction by utilizing embodied energy in existing materials and
- Commercial buildings built before 1920 are more energy efficient than commercial buildings built between 1921 and 2000. On average, buildings constructed after 2000 are only more efficient than historic buildings if they are built to LEED standards.
- Rehabilitation projects generate less landfill waste than new construction.
- Rehabilitation projects, particularly those in distressed communities, serve as catalysts for further investment, helping to revitalize neighborhoods and stimulate new social and economic activity.
- Tax Credits create opportunities for public-private partnerships, further leveraging public investment from all levels of government. Approximately \$172.2 million in Federal Historic Preservation Tax Credits have been leveraged by the Maryland tax credits – close to a one-to-one match.

Description of Proposed Changes to the Maryland Heritage Structure Rehabilitation Tax Credit Program under SB 258/HB 309

Program Component	Existing Commercial	Proposed Commercial	Existing Residential	Proposed Residential	Impact of Change
Cap on Annual Expenditures	<p>The program has a maximum annual cap. Applications are collected and rated and ranked once each fiscal year to determine the “winning” applications.</p> <p>Many applicants must hold their plans in abeyance, keep their financing in place, and wait up to 12 or more months to learn if their project will receive tax credits.</p>	<p>SB 258/HB 309 will authorize tax credit funding for a multi-year period (i.e., \$100 million for 5 years) and award tax credits on a rolling (first-come-first-served) basis.</p> <p>State revenue outlays remain capped (as well as existing per-project caps and other legislative restrictions).</p> <p>Project sponsors receive approval/denial of tax credits within 30 days of application</p>	No cap on residential credits.	No change.	Ensures predictability for state revenue outlays and a quick turnaround time on tax credit application review for project sponsors.
Funding Authorization	Tax credit funding is authorized by an annual budget appropriation. Because project sponsors cannot draw down their credit until their project is completed (on average, 2 years after award), state tax credit dollars are sequestered for two years before they are needed.	Returns the program to a “conventional tax credit” that is not subject to appropriation, but serves to reduce tax revenues in future years when they actually are claimed and drawn down.	Program is a conventional tax credit.	No change.	State funds are not drawn down until they are actually needed. Competition with immediate budget priorities is eliminated or significantly reduced.
Geographic Limitations	No more than 75% of the annual cap may be spent in any one jurisdiction.	At least 25% of the authorized tax credits will be held back for historically under-represented jurisdictions until the 4 th year of the 5-year period, ensuring that project sponsors from all jurisdictions will have the ability to apply for the credit.	No limitations.	No change.	Project sponsors will be able to apply for the tax credits as their projects are “shovel-ready” regardless of jurisdiction.
5% Green Building Bonus	No incentive for historic rehabilitation projects to employ state of the art green building technologies.	Additional 5% credit for projects that meet the U.S. Green Building Council’s LEED certification of “Gold” or higher.	No bonus credits available.	No change.	The rehabilitation of historic structures is inherently “Green.” A bonus credit for LEED “Gold” certification, will encourage project sponsors to incorporate the most advanced sustainable building techniques.