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The Economic Benefits of Maryland's Historic Revitalization Tax Credit Program

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Executive Summary

Maryland has a treasure trove of historically significant buildings that connect us to the past and reflect the unique heritage of the state. Historic buildings are often built with higher-quality materials and construction representing a diversity of architectural styles. These are the places that add to the cultural fabric and charm of neighborhoods and business districts and give communities a distinct character. The creation of Maryland's Historic Tax Credit (HTC) program in 1996 provided an inventive financing mechanism to encourage the reuse and renovation of these older buildings. Originally authorized as an unlimited investment tax credit, the program reached its peak use in 2001 when developers began 77 new projects using Maryland historic tax credits to spur $329 million in new investment in historic structures, a significant driver of economic development in the state.

Since that time, the program has undergone a series of program changes and budget cuts that have weakened its effectiveness. The program was amended to set a limit on the amount of tax credits that could be authorized and created a competitive application process for limited dollars. As of the close of the Maryland General Assembly in April 2019, the program's competitive commercial credit appropriation was only $9 million per year, among the lowest in the program's history despite numerous studies that have proven the tax credit generates more economic value and tax revenue than it costs. As a result, Maryland continues to lag many other states that invest significantly larger sums into similar programs. Delaware invests $8.27 per person in its historic tax credit program; West Virginia allocates $16.61 per person; and Virginia has no limit, but averages $9.86 per person in annual investments, while Maryland only invests $1.49 per person each year.

This report serves as an update to a previous 2009 study conducted by the Abell Foundation of the net economic benefits and community impacts of Maryland's HTC program, including the competitive commercial, small commercial, and homeowner components of the program. Real Property Research Group's (RPRG) research confirms historic preservation is both cultural stewardship and economic development. The economic impact analysis for the Maryland Historic Revitalization Program demonstrates that each $1 of tax credits invested yields the state

$8.13 in total economic output. Job creation is also significant, with 49.2 jobs (29.2 on-site) being created during the construction period throughout Maryland for each $1 million investment by the state.

While the return on investment among recent projects is significant, the report adds that the economic and fiscal impacts as well as community revitalization would be multiplied if the program addressed program challenges and were expanded. In a survey conducted by RPRG of a sample of recent HTC applicants, over three-fifths (60.7%) of homeowner and commercial applicants have stated that they would not have attempted rehabilitation of their historic properties unless the Maryland historic tax credits were available. In evaluating Maryland's HTC program as it has evolved over the past 20 years, RPRG's recommendations address several challenges to the Maryland HTC program:

- Maryland 's current annual credit limit of $9 million in aggregate historic tax credits able to be awarded each year translates to just $1.49 per Maryland resident. Of the 35 states that offer historic tax credits, only 19 have annual allocation caps, and almost all exceed Maryland on a total cap basis and per capita basis. Additional restrictions include a $3 million tax credit cap on any commercial project and a $50,000 cap on any homeowner/ small commercial project. A policy report produced by the National Trust for Historic Preservation concluded that low aggregate caps and project restrictions are among the factors most limiting the effectiveness of a state's historic tax credit program.
- Any unused Maryland tax credits are refundable but have no carry-forward provision, while 24 states allow their credits to be carried forward between five and 10 years; federal credits can be carried forward up to 20 years.
- Maryland HTCs are currently not freely transferable. Credit transferability is referenced by the National Trust for Historic Preservation as a key factor in the success of a state's HTC program. Neighboring states including Pennsylvania, Delaware, Virginia, and West Virginia all offer credit transferability.
- Maryland's application, certification, and award process are more complex and less predictable than some other states; several states have recently implemented reforms to their application process to enhance accessibility and ease of use. Pennsylvania has an online application system, and Oklahoma tied its program directly to the federal program to create efficiencies. Virginia revised its regulations in 2016 for clarity and transparency.
- Maryland limits awards by geography; of neighboring states, only Pennsylvania has a competitive system with geographic criteria similar to Maryland. In its 2016 Evaluation of the Sustainable Communities Tax Credit program (the predecessor to the existing program), the Department of Legislative Services Office of Policy Analysis concluded that the geographic restrictions had limited impacts in promoting geographic diversity and recommended reducing or eliminating these criteria.
- Small commercial tax credit projects have high transactional costs; reduced transactional costs and barriers to small commercial tax credits (referenced previously) would enhance important and often neglected commercial centers of rural areas throughout the state. Additional subsidized programs, a tiered program, and third-party nonprofit assistance could result in more effective utilization of the program.

- Maryland's program relies on an offset to one tax, the income tax; allowing state historic tax credits to offset multiple types of taxes —such as income, business franchise, and insurance premium—similar to Pennsylvania's program, would ensure program stability and that the credit will be an attractive investment for a wide variety of corporate and individual investors.

Historic rehabilitation projects significantly contribute to the economic revitalization of a community, supplementing local tax revenues, and supporting growth and sustainability. Historic rehabilitation projects can be powerful catalysts in economic development and community revitalization, while providing additional social benefits. The full report details key findings and a comparison of Maryland's HTC with tax credit programs in other states. It suggests modifications and enhancements to the program to strengthen the program relative to neighboring state programs and to realize the full economic development potential for Maryland.

I. INTRODUCTION

Introduction

Since the creation of Maryland's HTC program in 1996, the program has undergone a series of program changes and budget cuts. Originally authorized as an unlimited investment tax credit, the program reached its peak use in 2001 when developers began 77 new projects using Maryland historic tax credits to spur $329 million in new investment in historic structures. The program was later amended to set a limit on the amount of tax credits that could be authorized and created a competitive application process for limited dollars. As of the close of the Maryland General Assembly in April 2019, the program's competitive commercial credit appropriation was only $9 million per year, among the lowest in the program's history despite numerous studies that have proven the tax credit generates far more economic value and tax revenue than it costs. As a result, Maryland continues to lag many other states that invest significantly larger sums into similar programs. The last cost-benefit study of the HTC program was conducted by the Abell Foundation in 2009.

This report serves as an update to the previous 2009 study of the net economic benefits and community impacts of Maryland's HTC program, including the competitive commercial, small commercial, and homeowner components of the program. For consistency purposes, this updated economic benefit study tracks closely with the same format and basic research data points as the 2009 study, with updates based on the most recent data.

Report Limitations

The conclusions reached in a community impact analysis are inherently subjective, and there can be no assurance that the estimates made or assumptions employed in preparing this report will in fact be realized or that other methods or assumptions might not be appropriate. The analyst relied on previous research conducted in the 2009 study, as well as statements and data provided by various stakeholders and other third parties with respect to the subject program and comparable programs. Real Property Research Group (RPRG) attempted to verify the

truthfulness or accuracy of such statements to the extent possible. The conclusions expressed in this report are as of the date of this report, and an analysis conducted as of another date may require different conclusions. The actual results achieved will depend on a variety of factors including the performance of program management, the impact of changes in general and local economic conditions, and the absence of material changes in the regulatory or competitive environment. Reference is made to the statement of underlying assumptions and limiting conditions attached as Appendix 1 and incorporated in this report.

II. PROGRAM SUMMARY

A. Maryland Historic Revitalization Tax Credit Program

Overview

For over 20 years, historic preservation and rehabilitation projects throughout the state of Maryland have preserved heritage and culture, revitalized neighborhoods, spurred economic development, provided much-needed affordable housing, and helped set Maryland on a sustainable path for future growth. These projects would not be possible without one of the more successful economic development programs designed by Maryland state government, the Maryland Historic Revitalization Tax Credit Program (aka Historic Tax Credit Program, or HTC program). Maryland, like the majority of other states across the country, has experienced the extraordinary benefits of a statewide historic tax credit program over the past several decades. Unfortunately, as Maryland's HTC program has been reduced and limited, Maryland is increasingly lagging other states in the investment made to this valuable program, and is losing out on the resulting benefits. This is especially concerning as Maryland's competitiveness in relation to other states is vital to attracting much-needed private investment to the state.

The Maryland Historic Revitalization Tax Credit Program is intended to encourage the redevelopment of historic properties in the state by offering developers tax incentives of up to 20% of eligible rehabilitation costs. Additional credits are available for LEED Gold projects, Low-Income Housing Tax Credit (LIHTC) projects, and those in Maryland Opportunity Zones. In each of these instances, an additional 5% credit is available, and an additional 7.5% credit is available for some Opportunity Zone projects (projects are not eligible for multiple supplemental credits).

History

The Maryland Historic Revitalization Tax Credit Program is well established as a community revitalization engine, a key element in the renewal of downtowns as well as older established communities across the state, such as Cambridge, Cumberland, Easton, Frederick, Hagerstown, and more. Between 1997 and 2002, the Maryland program was a national leader in the number and scale of commercial projects that it enabled. Originally authorized as an unlimited investment tax credit, the program reached its peak use in 2001 when developers began 77 new projects to spur $329 million in new investment in historic structures. Progressive cuts and restrictions to the commercial program have occurred since 2001, including a reduction in the credit value from 25% to 20%, limiting total program appropriations as well as credits per project, apportioning awards geographically, and instituting a competitive application and ranking process for limited dollars—all of which limited its desirability and feasibility for developers.

As of 2009, annual appropriations for the competitive commercial program had decreased to $14.7 million, down from $30 million in 2007. Annual appropriations have

The HTC program reached its peak use in 2001 when developers began 77 new projects to spur $329 million in new investment in historic structures. Progressive cuts and restrictions to the commercial program have occurred since 2001.

been further reduced since 2009, resulting in the current annual competitive commercial appropriation of $9 million. As annual program credit appropriations decreased, completed project volume decreased as well. In 2009, total completed historic preservation projects fell to $172 million from the 2001 level of $329 million. With annual competitive commercial credit appropriations at $9 million in 2018, total HTC projects completed in 2018 fell to $39.4 million in the state of Maryland—almost one-tenth of the investment made in 2001. The decreased investment is not only a fraction of the investment made in previous decades, but it is also drastically lagging the efforts and progress made in other states. With fewer state credits available, more property owners have been forced to rely on federal historic tax credits; 29 projects that did not receive Maryland tax credits went on to receive federal historic tax credits in 2018, demonstrating strong demand in the face of decreased state credits. Unfortunately, many historic preservation projects need both state and federal historic tax credits to be financially viable and are unable to move forward with only the federal credits.

Credits for homeowner projects and small commercial projects are now capped at $50,000 in a 24-month period, and credits for large commercial projects are capped at $3 million. As a result, Maryland continues to trail many other states (including those in the Mid-Atlantic region) that invest significantly larger sums into similar HTC programs, supported by higher caps and limits (or the removal of caps and limits in some cases), as well as features that make the program more accessible and effective such as full credit transferability, which is restricted in Maryland.

Program Details

As of September 2019, the Maryland HTC program has an annual statewide competitive commercial credit appropriation of $9 million. For competitive commercial projects, the developer must undertake substantial rehabilitation of income-producing buildings—the greater of the adjusted basis of the structure or $25,000. Owners of these larger income-producing properties are eligible for a state income tax credit up to a total of $3 million per project.

As mentioned previously, homeowner and small commercial projects are capped at credit allocations of $50,000 in a 24-month period, and the rehabilitation expenses must exceed $5,000. Small commercial rehabilitations cannot exceed $500,000 in qualified rehabilitation expenses; if they do, they may qualify for the competitive commercial program described above. Although homeowner projects are not subject to an annual or aggregate appropriated cap, the small commercial component of the program is subject to an overall cap in appropriations totaling $4 million over the life of the program. Any increase in the small commercial cap will require legislative action. Details of Maryland's current HTC program—including commercial, small commercial, and homeowner components—are outlined in Table 1 on the following page.

Table 1: Maryland HTC Program Details

Annual State Credit Appropriation & Caps	$9 million commercial program appropriation; $50,000 per homeowner/small commercial project; $3 million per commercial project
Requirements	This building must be a certified historic structure. All aspects of the project and application must be reviewed and approved by MHT prior to commencing work, and must meet the U.S. secretary of the interior's standard for rehabilitation. The three-stage application process must be completed
Credit Description	Revitalization: 20% Credit LEED Gold: 5% Credit LIHTC: 5% Credit Opportunity Zone: 5% or 7.5% Credit
Project Expenditure Min./Max.	Residential: $5,000+ Small Commercial: $5,000 - $500,000* Commercial: $25,000+**
Application Process	Part 1: Historic designation certification Part 2: Rehabilitation of project eligibility review Part 3: Certification of completed rehabilitation
Fees	There is an initial review fee of $250, with an additional fee of 3% of the anticipated credit amount (less than $250 review fee). Homeowner and small commercial part 2 applications pay a $10 review fee, with a part 3 review of 3% of the tax credit amount (20% of the greater of the estimated or final qualified expenditures) for the rehabilitation project (less $10 review fee).

*Commercial projects exceeding $500,000 may qualify for the competitive commercial program.
** Or adjusted basis of the certified historic structure.

As project applications exceed the available tax credits each year, limited competitive commercial credits are awarded based on a scoring system. Geographic limitations are in place to ensure that no more than 60% of credits in a fiscal year go to projects in a single county or Baltimore City.

Projects seeking the competitive commercial historic tax credits must complete a three-stage application and certification process that includes photographs, sketches, maps, and project specifications. Part 2 applications must include a nonrefundable initial review fee of $250, and once awarded a credit, an additional fee equal to 3% of the anticipated credit amount (minus the initial $250 fee) must be paid. Homeowner and small commercial applicants follow a similar three-stage application fee with a slightly different fee structure.

B. Why Historic Preservation

Historic preservation of properties offers both cultural and practical value for their respective communities. Preserving them is beneficial not only for a community's culture, but also for its local economy. For decades, awareness of the value of historic preservation and regulations promoting it has increasingly become a powerful force across the country affecting urban planning, real estate development, and community revitalization.

From a practical perspective, historic buildings often are built with higher-quality materials and construction, as well as architectural significance. Although a subjective feature, historic buildings are largely considered to possess unique aesthetic beauty and architectural character. Historic residential

and commercial areas are often found near one another in the heart of towns and cities and benefit from this proximity. Preserved structures retain important components of a community's heritage, add character and charm, enhance neighborhood pride, and foster a strong cultural identity among generational residents. Noted urban activist Jane Jacobs argued that historic preservation minimizes the risks that new development will undermine the distinctive character of a community.[1] America's current downtown revivals suggest that people like, and in many cases prefer, old buildings. Research from the National Trust for Historic Preservation shows that nearly all (97%) of millennials feel it's important to preserve and conserve buildings, architecture, neighborhoods, and communities.[2]

Historic preservation has also been demonstrated to have a positive impact on property values. A hedonic price analysis conducted on multiple historic districts concluded that a historic district location added a 19-31% increase in the value of a residence.[3] A compilation of studies on historic preservation by the Advisory Council for Historic Preservation has concluded that home values within a historic district rise more quickly than comparable areas and that buyers are willing to pay a premium for homes in preservation zones.[4]

On a broader scale, historic rehabilitation projects significantly contribute to the economic revitalization of a community, supplementing local tax revenues, and supporting growth and sustainability. Historic rehabilitation projects can be powerful catalysts in economic development and community revitalization, while providing additional social benefits.

As research continues to prove the benefits of historic preservation, and the economic return on investment is demonstrated across the country, more and more states are recognizing the need to expand state historic tax credit programs. Out of 35 states with current HTC programs, at least 20 have increased or removed annual program caps in the last 10 years, including Delaware and Pennsylvania, which increased appropriations by 23% and 67%, respectively.

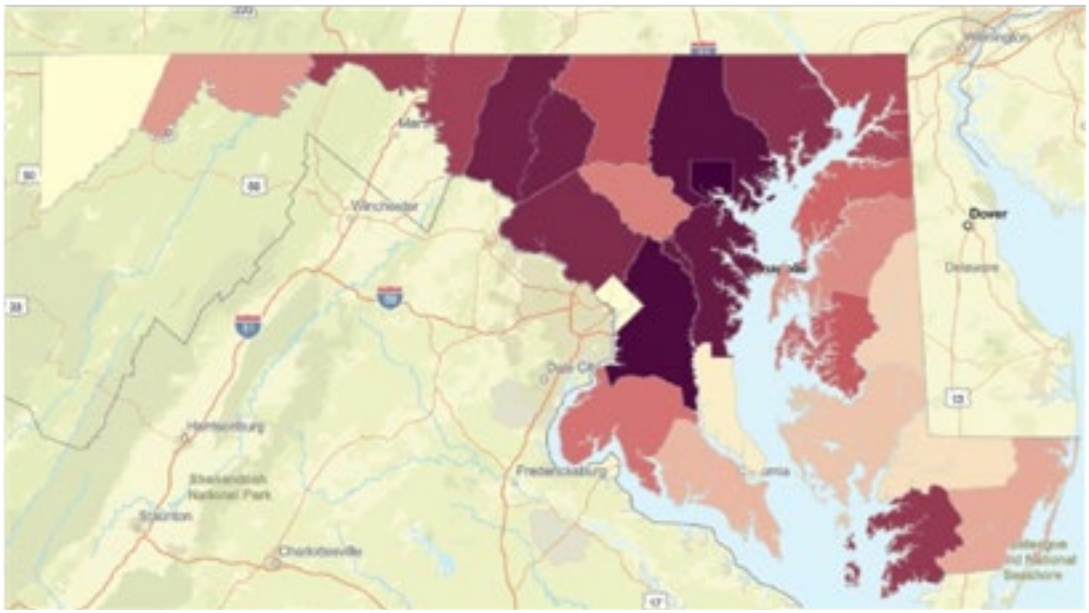
Necessity of the Maryland Historic Revitalization Tax Credit Program

The Maryland HTC program is a vital tool in the support of historic preservation and revitalization efforts throughout the state. The National Main Street Center cites financing as one of the primary barriers to historic rehabilitation projects. In a survey conducted by RPRG of a sample of recent HTC applicants, over three-fifths (60.7%) of homeowner and commercial applicants have stated that they would not have attempted rehabilitation of their historic properties unless the Maryland historic tax credits were available. Simply put, without the Maryland Historic Revitalization Tax Credit Program, most historic preservation projects would not be completed. Investment in Maryland's historic preservation is directly related to the availability and support of the Maryland Historic Revitalization Tax Credit Program. Outlined later in this report, the investment in the HTC program yields significant economic and social benefits, which are dependent on this important program.

C. Inventory of Eligible Historic Structures

Maryland is well known for its extensive inventory of historic sites and properties. Based on Maryland Historical Trust estimates and a survey of local municipalities, the number of contributing structures in National Register historic districts and structures in local historic districts throughout the state is estimated to be approximately 110,000.[5] An estimated 67,500, or 62% of those properties, are located in Baltimore City. The next largest inventories of historic properties are within Prince George's, Frederick, and Washington counties (Figure 1). Although statistics are not available regarding the allocation of historic properties among residential or commercial structures, the National Park Service estimates approximately 70-80% of historic structures are typically residential in most jurisdictions across the country.[6]

Figure 1: Maryland Historic Property Concentration by County



*Darker colors reflect higher numbers of historic properties

III. PROGRAM IMPACTS

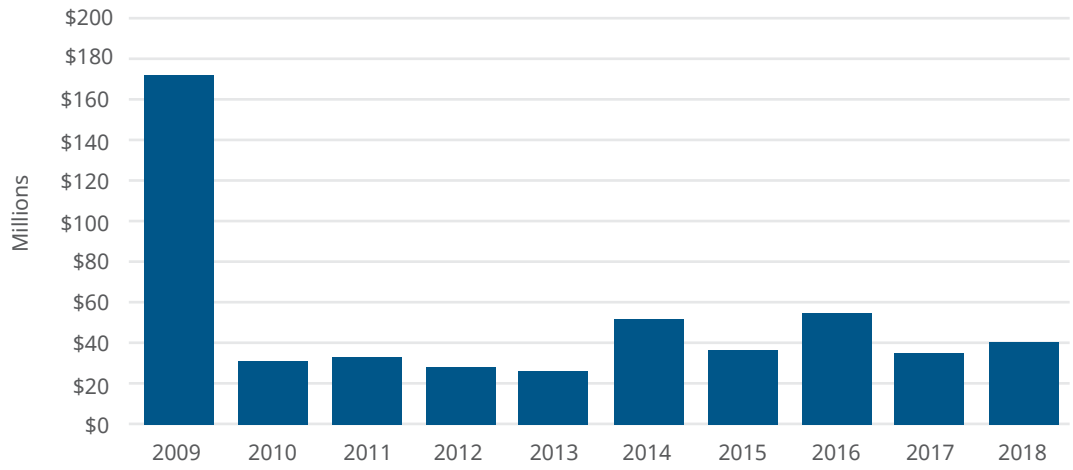
A. Utilization of HTC Program (2009-2019)

Despite the previously illustrated need for historic preservation in Maryland, the HTC program has been reduced to just a fraction of what it was over a decade ago due to progressive cuts in the competitive commercial program. As mentioned previously, significant changes have been made to the HTC program since 2001, and more recently, since 2009. With annual competitive commercial appropriations now at $9 million, the investment in the program—and subsequent volume of projects and rehabilitation spending—has dramatically decreased during the previous decade.

Prior to 2010, the competitive commercial historic tax credit was generally funded at higher levels than it has been since that time. The credit appropriations for 2007 and 2008 were $30 million and $15 million, respectively. As of 2019, the annual appropriation is $9 million. With increasing cuts, limits, and restrictions to the program, the number of applications has decreased over the last 11 years as well, though demand still far exceeds available funds; high numbers of preservation projects are unable to move forward due to limited funding resources.

Since 2009, the Maryland Historic Revitalization Tax Credit Program has helped facilitate 136 historic commercial (competitive commercial and small commercial) revitalization projects over the roughly 11-year period from January 2009 through July 2019.

Figure 2: Total Project Expenditures



Those projects involved over $425.4 million in total rehabilitation spending ($479.5 million in 2019 dollars) by developers, assisted by an investment of $97.3 million in state tax credits. Compared to the previous 10-year period of 1997 to 2008, commercial tax credit allocation is down 60%, and total rehabilitation spending is down 54%.

The Maryland historic tax credit program has assisted in 1,493 homeowner historic rehabilitation projects since 2009. Those projects involved over $90.5 million in total rehabilitation spending ($100.5 million in 2019 dollars) by owner-occupants, assisted by an investment of $18.1 million in state tax credits.

To gauge the benefits that historic preservation can bring to Maryland, we analyzed the impact of tax credit-facilitated projects on the state's economy and public budgets over the roughly 11-year period from January 2009 through July 2019. The distinct impacts of the commercial and homeowner components of the inventory were studied separately, using ratios contained in the IMPLAN economic input-output model for Maryland. Methodology for the economic and fiscal impact analyses can be found in Appendix 1.

B. Impacts of Commercial Revitalization Projects

Economic Development

Over the past 11 years, completed commercial projects, utilizing a $97.3 million tax credit investment, have generated a total economic impact on the Maryland economy of more than $791.4 million (in 2019 dollars) in total economic activity, employing an estimated 4,790 persons earning $302.7 million ($2019). Construction and related industry labor on the job sites totaled an estimated 2,844 workers earning $192.9 million ($2019)—almost one-quarter of the total economic impact (Table 2, page 10). We note that these total impacts go well beyond the construction sector; impacts are spread among multiple industry sectors, especially trade (wholesale and retail) and professional services sectors that play important roles in rehabilitation projects. As mentioned previously, historic renovation is a labor-intensive process that creates jobs, especially valuable in times of economic turbulence. The IMPLAN economic input-output model confirms that rehabilitation activity creates up to 20% more jobs than new

Table 2: Commercial HTC Economic Impact

Impact	Employment	Labor Income	Value-Added	Output
1- Direct	2,844	$192,970,415	$244,853,965	$479,519,469
2 - Indirect	832	$51,292,725	$83,573,765	$139,789,698
3 - Induced	1,114	$58,418,485	$106,086,865	$172,170,912
Total	**4,790**	**$302,681,625**	**$434,514,595**	**$791,480,079**

construction. Over the past 11 years, the state's tax credit investment has generated 958 more jobs than would have been created had the same funds been used for new construction.

Fiscal Impact

The 136 projects generated an estimated $33.1 million ($2019) in state and local taxes. Of this $33.1 million, approximately $19 million is attributed to state taxes, effectively paying down one-fifth of the state's total $97.3 million tax credit investment. Contributions to tax revenues result in opportunities for increased funding for much-needed areas such as state and local education. As historic preservation projects support economic growth throughout the surrounding area, they also provide increased funding for important education and community public services to better support the local economic growth. A 2017 study conducted by the Center for Urban and Regional Analysis found that including operational activity, historic rehabilitation projects paid back the initial tax credit investment within five years through state and local tax revenues.[7]

Scale of Rehabilitation

Included in our commercial analysis are both competitive commercial projects and small commercial projects. Maryland's HTCs are often vital to mom and pop businesses supporting local communities. Though commercial projects have ranged in their scale of total rehabilitation expenditures from $5,500 to $19 million, more than half (54%) of projects have involved spending of less than $500,000 (small commercial projects). Of the larger competitive commercial projects, 31 have required a rehabilitation scope exceeding $5 million, but those projects generated more than $348.1 million in rehabilitation spending—over four-fifths of total commercial rehabilitation expenditures and tax credits awarded by the state.

Geographic Distribution

Commercial projects (both competitive commercial and small commercial) have generally been well represented in Baltimore City, accounting for more than half (57%) of all awards, and representing 78% of all rehabilitation expenditures and 78% of all tax credits. This is not surprising, as an estimated 62% of Maryland's eligible historic properties are located in Baltimore City. Nonetheless, projects were located in all but five Maryland jurisdictions—the three Southern Maryland counties (Charles, Calvert, and Saint Mary's) and Garrett and Worcester counties. Montgomery (13), Allegany (7), and Dorchester (6) counties had the highest inventories of commercial tax credit awards next to Baltimore City.

Urban centers produce greater return on economic investment for projects such as historic preservation. Due to the multiplier effect of economic impacts, indirect and induced value of investments such as historic rehabilitation projects are magnified in dense urban and commercial centers. However, when considering the ratio of projects and tax credits to municipality size and historic building inventory, even a small number of projects can have a relatively large impact on these smaller communities.

C. Tax Credit Leverage

The economic impact of historic tax credits is magnified by the fact that, for every $1 invested by the State of Maryland, there must be a total expenditure of at least $5 in rehabilitation expenses by the property owner (not including additional credits for LEED, LIHTC, or Opportunity Zones). These private-sector investments are multiplied, catalyzing additional indirect and induced economic activity. Using the IMPLAN economic and fiscal impact statistical model, we estimate the leverage gained by the state in the rehabilitation of commercial projects as follows (Table 3):

Table 3: Leverage of Maryland Tax Credits Impact of 20% Commercial Credit

	Per $1 of Credit
Total Economic Output	$8.13
Employee Compensation	$3.11
State & Local Tax Receipts	$0.34
Construction Wages (On-Site)	$1.98
	Per $1 Million in Credits
Total Employment (Jobs)	49.2
Construction Jobs (On-Site)	29.2

D. Impacts of Homeowner Revitalization Projects

Economic Development

Over 11 years, completed homeowner projects, with a total $18.1 million tax credit investment, have generated a total economic impact on the Maryland economy of more than $170.7 million ($2019) in total economic activity, employing an estimated 1,023 persons earning $63.2 million ($2019). Construction labor on the job sites totaled an estimated 560 workers earning $38.1 million ($2019)—almost one-quarter of the total economic impact (Table 4, page 12).

Fiscal Impact

During their construction periods alone, the 1,493 projects generated an estimated $6.7 million ($2019) in state and local taxes. Of this $6.7 million, approximately $4 million is attributed to state taxes, effectively paying down over one-fifth of the state's total $18.1 million tax credit investment. As with commercial projects, contributions to tax revenues from homeowner revitalization projects result in opportunities for increased funding for much-needed areas such as state and local education. Additional fiscal impacts are generated by long-term increases in property values and related tax revenues as referenced previously in this report.

Scale of Rehabilitation

Though projects have ranged in their scale of total rehabilitation expenditures from $5,001 to the maximum $250,000, four-fifths (80.4%) of projects have been small—involving total rehabilitation spending of less than $100,000. Only 75 homeowner projects submitted the maximum final qualified rehabilitation cost of $250,000—in total about one-fifth of all rehabilitation expenditures and state homeowner tax credits.

Table 4: Leverage of Maryland Tax Credits Impact of 20% Commercial Credit

Impact	Employment	Labor Income	Value-Added	Output
1- Direct	560	$38,110,478	$47,400,457	$100,457,296
2 - Indirect	230	$12,904,438	$20,358,511	$34,348,032
3 - Induced	232	$12,189,338	$22,133,638	$35,925,433
Total	**1,022**	**$63,204,254**	**$89,892,606**	**$170,730,761**

Geographic Distribution

Homeowner rehabilitation projects were awarded tax credits in all counties in Maryland except Allegany, Queen Anne's, and Saint Mary's counties, though roughly half of projects (55.5%) and spending (48.9%) were located in Baltimore City. There have been 730 rehabilitation projects in the city, involving eligible expenditures of $50.2 million. Baltimore (270) and Montgomery (222) counties had the next greatest numbers of homeowner tax credit awards. It should be noted that an estimated 62% of the state's designated historic properties are located in Baltimore City, leading to its disproportionate representation in tax credit expenditures and economic/fiscal benefits analyzed above.

IV. COMMUNITY & SOCIAL IMPACTS

Beyond dollar amounts and estimated number of jobs, Maryland's historic rehabilitation projects serve as catalysts for additional rehabilitation, community involvement, supportive services, and sustainable growth. According to the Lincoln Institute[8], urban historic rehabilitation is an important component of open space conservation efforts, decreasing the public costs of road and sewer construction, and supporting the economic backbones of many traditional local economies. Additionally, these projects are often instrumental in supporting community revitalization and expanding affordable housing opportunities, which is often not the case in regard to new suburban construction.

A. Benefits of Rehabilitation vs. New Construction

The historic rehabilitation of centrally located projects achieves multiple benefits in comparison to similar new construction projects in outlying suburban areas. According to the National Trust for Historic Preservation, projects integrating historic preservation with public transportation initiatives in central urban locations contribute to additional goals of easing traffic congestion, lessening dependence on autos, improving air quality, providing affordable housing, preserving open space and farmland, and generally improving quality of life.[9]

Transportation Congestion and Commute Time

Recent research suggests that the increased development density of urban centers is one of the leading factors in reducing vehicle miles traveled (VMTs)—up to 40% lower

compared to outlying suburban areas (relative to the accessibility of the suburban area).[10] The difference can be even more drastic for emerging outlying areas experiencing new construction. A 2017 study concluded that households drive 32% fewer miles for every 50% increase in proximity to a city's urban center.[11] When development and growth initiatives incorporate rehabilitation of centrally located historic buildings, the related connectivity, walkability, proximity to public transit, and mixed-use community characteristics foster a reduction in commute times, VMTs, and traffic congestion. Studies have demonstrated that a focus on urban revitalization, including historic rehabilitation, can help reduce vehicle miles traveled (VMTs); for every 20% increase in density, VMTs can be reduced by up to 45%.[12] Researchers at Saga University, working with traffic engineering firm TransConsult Co., concluded that new developments are one of the major causes of traffic congestion in many major cities, and historic preservation is one key to preventing or mitigating traffic congestion.[13]

Open Space Preservation

Historic preservation plays a key role in preserving Maryland's open space, with both efforts serving to support social benefits in the form of parks and recreational areas, sustaining ecological systems including forests and greenways, or supporting local economies through preserving farmland. Studies have demonstrated that the revitalization of a centrally located historic property will often serve to preserve valuable open space, especially compared to the new construction of residential and commercial properties in outlying areas. A study of development patterns in the Philadelphia region concluded that the urban redevelopment and revitalization initiatives were an effective and underutilized tool available to slow sprawl.[14] Research has demonstrated the need to combine urban revitalization (including historic preservation) initiatives with land protection measures to support open space preservation. There is evidence from multiple studies that the rehabilitation of central urban properties takes pressure off open space amenities, resulting in more efficient utilization of resources, reduced municipal costs, and improved quality of life.[15]

Job Creation

Historic rehabilitation projects in centrally located areas also provide increased job creation compared to comparable new construction projects in outlying areas. As mentioned previously, the IMPLAN economic input-output model indicates that rehabilitation activity creates up to 20% more jobs compared to new construction.

B. Community Revitalization

The value of historic rehabilitation projects as part of community revitalization is well documented due to both the cultural and economic value these projects represent. Case studies compiled by project sponsors and third-party organizations throughout Maryland have documented additional community revitalization benefits of the HTC program. These include the following four examples:

CASA de Maryland, Inc. aka CASA (Langley Park): Utilizing federal and state historic tax credits, CASA redeveloped the historic McCormick-Goodhart Mansion (constructed in 1924) into the CASA Multicultural Center. With a project cost of $13.7 million, the new 18,000-square-foot center allows CASA to double the number of beneficiaries the organization can serve each year from 3,000 to 6,000. The project has had a significant impact on the surrounding community, resulting in 90 temporary jobs created during the construction, 121 permanent jobs created upon completion, and contributions of $705,800 in state and local taxes.[16] Built to U.S. Green Building Council LEED Gold standards, the development allows CASA to better serve low-income families in the community, including educational, vocational, and employment services, as well as English as a second language (ESL) services. The project also allows the organization to expand its reach to other underserved populations in Langley Park.

Phillips Packing House Redevelopment (Cambridge): Utilizing historic tax credits, the former canned tomato facility is being transformed from a deteriorating historic factory building into a new innovation hub for regional agriculture and aquaculture industries. The 60,000-square-foot facility designed to achieve LEED Gold certification will preserve the building's physical integrity, providing a mix of innovative spaces intended to advance technology, agriculture, and aquaculture with sensitivity toward the local ecology. A shared innovation hub with both office and lab space will attract local entrepreneurs, businesses, and nonprofit organizations—adding permanent jobs to this important area of Dorchester County. The project is part of a broader development plan including Cannery Park, a new 9-acre city park adjacent to the factory. The redevelopment has been credited by local officials with being an important component of reinvestment activity in both residential and commercial corridors adjacent to the site throughout the Cannery District of Cambridge. The project has supported an estimated 100 new jobs, according to the developer, with dozens of permanent jobs added upon completion. The Packing House will serve as a connection between the growing downtown revitalization in Cambridge and the nearby highway route taking people to the Maryland and Virginia beaches. The commercialization, research, production, and active retail uses at the Phillips Packing House will support local employment and inform nutrition and public health programming on the Eastern Shore.

Miller's Court (Baltimore City): Miller's Court is a mixed-use community designed for teachers and the communities they serve. In addition to providing affordable housing options, the project created a workforce community with a common tenant base, while providing collaborative and economical office space for nonprofits and spurring growth in a disinvested area of the city. The project was built to achieve LEED Gold certification and has spurred revitalization in the surrounding neighborhood. In the two years before the former 1890s manufacturing building was rehabilitated into the Miller's Court complex, just two residential building permits were issued in the surrounding neighborhood. In the three years since it opened, 17 permits were issued.

Footer's Dye Works Building (Cumberland): After sitting vacant for years, the former 1906 manufacturing complex was redeveloped into a mixed-use project including apartments and two restaurants. The $9 million historic rehabilitation project utilized Maryland and federal historic tax credits. Five of the apartments are affordable units targeting low-income households. The Footer's Dye Works Building project contributed to the revitalization of a prominent neighborhood in Cumberland, which includes festival grounds and serves as the location of the C&O Canal Bike Trail. According to the Cumberland Economic Development Corporation, the historic rehabilitation of the Footer's Dye Works Building is an important re-purposing project that adds to the downtown core in a material way. A study done prior to the project's commencement indicated reuse of the historic Footer Building could bring about economic growth of up to 100 jobs with an incremental state tax revenue of up to $500,000 annually.

C. Increased Education Funding

As mentioned previously, historic preservation has also been demonstrated to have a positive impact on property values with some studies documenting a 19-31% increase in the value of a rehabilitated historic structure as well as home values within a historic district rising more quickly than comparable areas.

Previously referenced in the "Program Impacts" section of this report, impacts to state and local tax revenues were demonstrated to be substantial: For every $1 in historic tax credits, state and local tax revenues received $0.34.

When looking specifically at local tax revenues, historic preservation projects generated $0.15 for every $1 in historic credits. This increased local tax revenue results in increased education funding, as significant proportions of most local tax revenues are dedicated to education expenditures. To further illustrate this point, we use several examples.

According to the city of Baltimore's 2019 fiscal year budget, approximately 16% of city annual revenue is allocated to education funding.[17] Applying an average 25% increase in property values (demonstrated by previous studies) for historic preservation projects would subsequently yield an increase of 25% in this source of education funding.[18] Hypothetically, a historic rehabilitation property initially valued at $1 million could yield the city of Baltimore an additional $900 in funding for education simply through increased property values.[19] As another example, a $500,000 historic rehabilitation property in Prince Frederick, Calvert County could yield approximately $613 in additional education funding, applying the same assumptions.[20] Looking at the overall direct, indirect, and induced impacts of a commercial rehabilitation project, a hypothetical $1 million project (total project cost) in Baltimore City could yield up to $4,705 in increased education funding, including all related economic impacts.[21]

D. Expanding Affordable Housing Opportunities

Federal and statewide historic preservation projects are often closely tied with affordable housing development. An effective state historic tax credit combined with both the federal historic tax credit as well as the Low-Income Housing Tax Credit (LIHTC) can make a substantial difference in providing affordable housing. One local example includes the conversion of the former Columbus School (built in 1891) in Baltimore into a low-income housing complex using a combination of state historic tax credits, federal historic tax credits, and low-income housing tax credits.

Over the life of the federal historic tax credit, nearly 30% of all housing units rehabilitated or created through the use of federal historic tax credits have been affordable units, according to the National Park Service. Maryland's HTC bonus of an additional 5% tax credit for LIHTC projects further supports the development of affordable housing throughout the state. With the state currently needing thousands of affordable housing units to simply meet the current demand, historic rehabilitation and the state historic tax credits are strong tools to address this crisis in Maryland.

V. COMPARISON OF STATE HTC PROGRAMS

The research conducted by RPRG is clear in demonstrating the short- and long-term yields that the state of Maryland has received on its investment in historic preservation through the Maryland Historic Revitalization Tax Credit Program. To better gauge the effectiveness of Maryland's HTC program, we looked at similar HTC programs in neighboring states including Virginia, West Virginia, Pennsylvania, and Delaware. The HTC programs among these states vary in the amount of tax credit offered (20-25%), annual tax credit appropriation caps ($5 million to unlimited), project caps ($500,000 to unlimited), the availability of credit transfers, additional incentives, as well as additional limits and restrictions (Table 5).

In reviewing the various statewide programs, RPRG found that the processes among the various states are somewhat similar. The greatest differences between Maryland's program and those of neighboring states include program credit appropriations, project caps, and credit transferability. To compare states of varying populations and budgets, we looked at total annual program appropriations as well as annual appropriations per capita. Virginia has never had a program cap, and HTC staff referenced the unlimited nature of the program as a key benefit to its success. West Virginia recently added an annual program cap

of $30 million in 2018. This cap is more than triple the cap for Maryland for a state with less than a third of Maryland's population. West Virginia HTC staff explained that the $30 million cap is sufficient to fund all applications in 2018 and should be sufficient to fund all applications in 2019 and the foreseeable future as well. Pennsylvania recently raised its annual allocations by 67%, and Delaware recently increased its annual limit from $6.5 million to $8 million in 2019.

Evaluating maximum state credit appropriations on a per capita basis demonstrates how far Maryland is now being outpaced by three of four neighboring states. Delaware invests $8.27 per person in its historic tax credit program; West Virginia allocates $16.61 per person; and Virginia has no limit, but averages $9.86 per person in annual investments, while Maryland only invests $1.49 per person each year. Pennsylvania has the lowest per capita

Table 5: Mid-Atlantic State Program Comparison

Impact	Maryland	Virginia	West Virginia	Delaware	Pennsylvania
State Population	**6,042,718**	8,517,685	1,805,832	971,171	12,807,060
State Annual Budget	**$46.6 billion**	$62.3 billion	$4.63 billion	$4.45 billion	$85.8 billion
2019 Max State Appropriation	**$9 million***	Unlimited	$30 million	$8 million	$5 million
Annual Approp. Per Capita	**$1.49**	$9.89**	$16.61	$8.27	$0.39
Annual Approp. Change 2009-2019	**-39%**	N/A	N/A	23%	67%
Tax Credit	**20%**	25%	25%	20-30%	25%
Max Comm. Project Cap	**$3 million***	$5 million	$10 million	N/A	$500,000
Additional Restrictions/ Limits	**No more than 60% of funds available for commercial projects in any year may go to any single jurisdiction.**	Costs must be > 25-50% of assessed value.	Residential costs must be > 20% of assessed value	$1.5 million: small projects; $1.5 million: downtown projects	Regional distribution considerations
Competitive Award Process	**Yes***	No	No	Partially	Yes
Full Credit Transferability	**No**	Yes	Yes	Yes	Yes
Credit Refundable	**Yes**	No	No	No	Yes
Incentives	**5% LEED, 5% LIHTC, 5% or 7.5% OZ**	N/A	N/A	10% LIHTC	30% LIHTC
Application Fees	**Nonrefundable initial review fee of $250, additional fee of 3% of anticipated credit amount upon award (less $250 initial fee)***	Nonrefundable fee of $250-$8,000 during Part 2 and Part 3 of application	0.5% of anticipated credit amount	Nonrefundable initial review fee of $250, additional fee of 3% of anticipated credit amount upon award*	$100

*Commercial program
**Virginia does not have a program limit, but averages $84 million in annual credit allocations from 2010-2018.
Source: RPRG survey of each state's historic tax credit program staff

allocation across all 35 states with historic tax credits, but the state increased its cap by 67% in 2019. Virginia and Delaware have much higher per-project caps compared to Maryland, and Delaware has no caps for individual projects.

Although not located in the Mid-Atlantic region, Missouri provides an interesting comparison to Maryland, as both states have similar populations and long-running HTC programs beginning in the late 1990s initially without program caps. While Maryland has significantly decreased and limited its HTC program, Missouri maintained an uncapped program over much of the past several decades. Due to budget issues, Missouri recently instituted an annual program cap of $90 million, with an additional $30 million allocated for distressed census tracts—over 13 times the annual appropriation for Maryland, for a state of similar size. State officials have referenced Missouri's HTC program as a central component of their economic development and revitalization strategy.

Massachusetts also serves as an interesting comparison to Maryland, as both states are similar in geographic size and population. Massachusetts has an annual program cap of $55 million, with 25% of credits set aside for projects with affordable housing. There is no project-specific cap, and taxpayers may carry over credits for any of the succeeding five taxable years. Any taxpayer allowed to take the historic rehabilitation credit may transfer the credit, in whole or in part, to any individual or entity, without the requirement of transferring any ownership interest in the project or any interest in the entity that owns the project.

Wisconsin has a population comparable to that of Maryland as well. Wisconsin also offers a 20% state historic tax credit with a $3.5 million per-project cap for commercial projects, similar to Maryland. The Wisconsin Economic Development Corporation previously had a moratorium placed on issuing historic preservation tax credits but lifted it because of higher-than-expected demand for the credits. The program is now unlimited, and economic development officials site it as a key driver of economic growth. In 2018, Wisconsin completed $376.2 million in commercial project costs and $11.3 million in homeowner building projects.

Pennsylvania is the only neighboring state similar to Maryland with a competitive process for projects vying for its very limited annual HTC allocation and restricting/regulating geographic distribution of projects. Such competitive systems are inherently more complex and costly, involve longer timeframes, and add greater uncertainty to the process. Interviews with developers indicate projects that require the state credit to be financially feasible are often discouraged from participating because of the lack of certainty as to the outcome, the cost of preparing a competitive application that may be unsuccessful, and the difficulties of keeping financing commitments in place during the evaluation process. The National Trust for Historic Preservation has found states that have resisted capping have seen greater impact through investments in historic resources.

Similarly, restricting the ability to transfer tax credits discourages involvement and investment in the program. A transferable credit allows a taxpayer to transfer a tax credit to another taxpayer with a tax liability enabling more taxpayers to take advantage of the tax incentive—thus promoting greater participation in the program. Although Maryland currently makes tax credits refundable, credit transferability could potentially create efficiencies for many projects, reducing transactional costs and the federal tax liability of the state credit on some projects. In some cases, a transferred credit is more advantageous to applicants and partners than a refund. All neighboring states allow for more free/direct-credit transfer compared to Maryland's program. A lack of transferability prevents many important and valuable projects from getting completed. These restrictions make Maryland less competitive and effective compared to neighboring states.

VI. EVALUATION OF MARYLAND'S HTC PROGRAM & FINAL CONCLUSIONS

RPRG's research confirms historic preservation is both cultural stewardship and economic development. The economic impact analysis for the Maryland Historic Revitalization Program demonstrates that each $1 of tax credits invested yields the state $8.13 in total economic output. Job creation is also significant, with 49.2 jobs (29.2 on-site) being created during the construction period throughout Maryland for each $1 million investment by the state.

A. Program Benefits

These results are generated partially due to the effective work and partnership among Maryland's public agencies, nonprofit organizations, and the private sector. Economic benefits of the 20% Maryland tax credit are further leveraged by additional funding sources such as the Federal Historic Tax Credit, and additional incentives offered by the Maryland HTC program. Maryland clearly has a great need for this important program, reflected in the state's significant inventory of historic sites combined with statewide efforts toward revitalization and increased affordable housing.

Maryland's HTC program features several benefits that have proven successful throughout the history of the program, many of which are also successfully implemented among other states:

- *Refundable Credits*: Any amount in excess of the taxpayer's tax liability is refunded to the taxpayer; credits are also fully refundable to nonprofit organizations. Nonprofit developers accounted for about one-tenth of Maryland commercial rehabilitation projects during the past decade: 13 projects involving $47 million in expenditures. Because the nonprofits could not themselves take advantage of the tax credits, they received refunds for the full amount of the tax credits. This refund also benefits low-income homeowners.

- *Federal Historic Tax Credits*: In addition to tax credits available from the state of Maryland, a federal 20% income tax credit is available for approved rehabilitation projects of historic, income-producing buildings approved by the secretary of the interior, through the National Park Service. While not a feature specifically of the Maryland HTC program, we note that the ability to combine state and federal tax credits is an important component of many historic preservation projects. The majority (62%) of statewide commercial HTC projects also utilized federal historic tax credits. Owing to their challenging nature, many of these commercial projects would not be attempted without the equity provided by the combination of state and federal incentive programs.

- *Incentives*: Additional credits are available for commercial LEED Gold projects, Low-Income Housing Tax Credit (LIHTC) projects, and those in a Maryland Opportunity Zone. In each of these instances, an additional 5% credit is available, and an additional 7.5% credit is available for some Opportunity Zone projects (projects are not eligible for multiple credits). Other states include additional credits as well, with some offering 10-30% credits for LIHTC projects, though Maryland is one of the few states to offer incentives for LEED projects or Opportunity Zones. While the availability of these additional credits is an advantage of the Maryland HTC program, the benefits are limited by the program and project caps.

- *Application Fees*: Maryland's application fees are appropriate and comparable to other states: Competitive commercial part 2 applications must include a nonrefundable initial review fee of $250, and once awarded a credit, an additional fee equal to 3% of the anticipated credit amount (minus the initial $250 fee) must be paid. Homeowner and small commercial applications require a review fee

of $10 for part 2 applications, and the part 3 application review fee is 3% of the amount of the tax credit (20% of the greater of the estimated or final qualified expenditures) for the rehabilitation project less the initial $10 processing fee submitted with the part 2 application. This is similar to Delaware's fees, while West Virginia charges only 0.5% of the anticipated credit amount, and Pennsylvania has an application fee of only $100. Virginia has a fee schedule based on project size, which generally ends up being 1-4% of the credit award.

B. Program Challenges

The results of our study indicate that the economic and fiscal impacts as well as community revitalization and support would be multiplied if the program were expanded and better utilized. While the return on investment among recent projects is significant, the drastic and continuous cuts to the program, limiting annual appropriations and project sizes, have cost the state of Maryland in lost opportunities for growth and development. The competitive award process, program changes, limitations, and barriers further reduce the full potential of the program.

In evaluating Maryland's HTC program as it has evolved over the past 20 years—including interviews with developers, and compared to programs among other states—we note several challenges to the Maryland HTC program:

- Maryland currently has an aggregate annual credit limit of $9 million in aggregate historic tax credits able to be awarded each year. This translates to just $1.49 per Maryland resident. Of the 35 states that offer historic tax credits, only 19 have annual allocation caps, and almost all exceed Maryland on a total cap basis and per capita basis. Additional restrictions include a $3 million tax credit cap on any commercial project and a $50,000 cap on any homeowner/small commercial project. A policy report produced by the National Trust for Historic Preservation concluded that low aggregate caps and project restrictions are among the factors most limiting the effectiveness of a state's historic tax credit program.

- Any unused Maryland tax credits are refundable but have no carry-forward provision, while 24 states allow their credits to be carried forward between five and 10 years; federal credits can be carried forward up to 20 years.

- Maryland HTCs are currently not freely transferable. Credit transferability is referenced by the National Trust for Historic Preservation as a key factor in the success of a state's HTC program. Neighboring states including Pennsylvania, Delaware, Virginia, and West Virginia all offer credit transferability.

- Maryland's application, certification, and award process are more complex and less predictable than some other states; several states have recently implemented reforms to their application process to enhance accessibility and ease of use. Pennsylvania has an online application system, and Oklahoma tied its program directly to the federal program to create efficiencies. Virginia revised its regulations in 2016 for clarity and transparency. Maryland's competitive ranking process for commercial projects, small commercial program, and various restrictions and caps make it more complicated and less predictable compared to some other states, which can discourage developer applicants. Transactional costs and barriers to small projects can be prohibitive given the scale of these projects. The application process is lengthier and more complicated compared to other funding sources; many small business owners do not have the liquidity to wait years to recoup the value of the credits. Costs associated with the program can deter small business owners including those related to application, complying with design requirements, and complying with the secretary's standards. A lack of promotion of the program to the public, partially due to staffing issues at the Maryland Historical Trust, may prevent the small commercial program from being as effective as possible.

C. Recommendations

If the Maryland Historic Revitalization Tax Credit Program is to be maximally effective in delivering its environmental, economic, and fiscal benefits in the future, we recommend that, to the extent feasible, the following objectives be realized:

- *Remove or increase program and project caps:* The tax credit program is effective at capturing growth in areas of need and creating jobs. Due to the multiplier effect demonstrated previously in this report, larger projects create more employment and also tend to catalyze broader revitalization in their immediate neighborhoods. However, total rehabilitation spending among commercial projects was down 54% in the last 10 years compared to the 12-year period of 1996-2008, coinciding with a 60% decrease in state tax credit investments. The competitive process for limited funds creates uncertainty for developers, further limiting the effectiveness of the program. If Maryland is to compete with neighboring states for limited investment resources, the program must expand aggregate credit appropriations and raise per-project limits. Increasing or removing the aggregate cap may help overall program performance as well. In a 2018 study, the National Trust for Historic Preservation concluded that state incentives tied to arbitrary aggregate dollar limits do not perform as well as those without an aggregate cap because they inject uncertainty into the process. Virginia has never capped annual tax credit appropriations, and Elizabeth Tune, program director, stated that the lack of a cap is a key benefit for its program. Removing Maryland's competitive process would reduce uncertainty and encourage greater participation and investment in the program.

- *Consider credit transferability*: If the Maryland historic tax credit allowed full transferability of the credit, similar to many other states, it would likely make the program more efficient and potentially reduce transactional costs and the federal tax liability of the state credit on some projects. Although the Maryland historic tax credit is refundable, transferability provides an additional option of transferring credits and offers increased control over transaction costs that reduce the amount of equity available to rehabilitate buildings. Financing is one of the greatest challenges for HTC projects, and transferability would offer a second financing option to help move these essential neighborhood revitalization projects forward, some of which may otherwise not be feasible.

- *Process Efficiencies: Provide Maryland Historical Trust adequate resources to maximum effectiveness and efficiency of the program and application/award process.*

    - *Consider best practices used by neighboring states*: Virginia revised its regulations in 2016 both for clarity and in an attempt to reduce the application timeframe and costs. Oklahoma simply matches awarded federal tax credits to streamline applications and awards. Pennsylvania created an online application system, and the program director indicated the state is further reviewing the process and documentation to make it as clear and simple as possible. Increased certainty around credit awards would likely encourage broader developer participation. While an online application system would likely create process efficiencies, we note that if Maryland were to have an online application process, any related applications for federal credits would still require that federal forms be filled out and hard copies of attachments be provided.

    - *Ensure adequate staff and resources:* During recent program enhancements, Virginia also added an additional reviewer position to help with efficiency. The Maryland Historical Trust should be supplied with adequate resources necessary to efficiently administer the program.

- *Eliminate geographic requirements or limits:* Of the neighboring states, only Pennsylvania has a competitive system with geographic criteria/limitations similar to Maryland. The National Trust for Historic Preservation indicates these techniques often interfere with achieving the goals of the programs. In its Evaluation of the Sustainable Communities Tax Credit program (the predecessor to the existing program), the Department of Legislative Services Office of Policy Analysis concluded that the geographic restrictions had limited impacts in promoting geographic diversity and recommended reducing or eliminating these criteria.

- *Support small commercial projects:* Reduced transactional costs and barriers to small commercial tax credits (referenced previously) would enhance important and often neglected commercial centers of rural areas throughout the state. Additional subsidized programs, a tiered program, and third-party nonprofit assistance could result in more effective utilization of the program. Full credit transferability would greatly help facilitate such partnerships and help reduce barriers and costs for small commercial projects. In 2019, the Maryland General Assembly passed legislation that made changes to the small commercial HTC program, offering the potential to increase the program's use and impact. In order to make the recent changes to the program as effective as possible, it is recommended that there be additional funding for the small commercial program itself, as well as resources to promote and educate the public about the small commercial program.

- *Maximize the different taxes a historic tax credit may offset*: Allowing state historic tax credits to offset multiple types of taxes—such as income, business franchise, and insurance premium—ensures program stability and that the credit will be an attractive investment for a wide variety of corporate and individual investors. The state of Pennsylvania allows credits to be applied against the tax liability imposed on a taxpayer including personal income tax, corporate net income tax, capital stock-franchise tax, bank and trust company shares tax, title insurance companies shares tax, insurance premiums tax, gross receipts tax, or mutual thrift institution tax. Although the Maryland historic tax credit is refundable, applying credits against various tax liabilities may be more financially or logistically beneficial for some applicants, especially if partnered with availability of credit transferability.

- *Extend the time period throughout which historic tax credits may be claimed*: If a taxpayer has insufficient tax liability the year the credit is approved, many states allow the credits to be carried forward to future years. The federal credit can be carried forward up to 20 years. Some applicants may prefer this option over a refund, as it shields the taxability of the refund itself. We recommend allowing a carry-forward of the tax credit of up to five years in addition to the existing refundability of the credits.

About the Author

Ethan Reed joined Real Property Research Group in 2016 where he focuses on real estate market studies and economic analyses for development projects. Throughout his extensive career, Ethan has served the residential and commercial real estate industry including advising lenders, developers, homebuilders, investors, nonprofit organizations, and government agencies through market and property analysis, economic analysis, site selection, and marketing strategy. His current areas of concentration include economic impact studies, Low-Income Housing Tax Credits, New Market Tax Credits, FHA Section 221(d)(4), and commercial feasibility studies.

VII. APPENDIX 1: METHODOLOGY OF ECONOMIC IMPACTS

To estimate the impact of a new investment or a change in a region's economy, economists use input-output models based on sets of regional multipliers. The multiplier approach stems from decades of research into the functioning of regional economies. As demand for the output of one industry in a region increases (a direct impact), that industry will increase its demand for raw materials, parts, transportation, and utilities supplied by other industries in the region (indirect impacts). This increased demand from both the direct and indirect impacts increases not only demand for labor, but also employment and employment compensation. Increased employee compensation also increases household consumption, further increasing demand for industry output in the region (induced impacts). Input-output models are used to estimate this interaction between regional firms and consumers to predict the overall change in a regional economy that results from a single economic event, such as the construction of a new building, a new firm moving to a region, or a military base closing.

IMPLAN, an econometric model used for this impact analysis, was originally developed by the U.S. Department of Agriculture. Data and updated software are now available through IMPLAN Group, LLC. For any change in the final demand of a given industrial sector in an economy, IMPLAN provides the necessary calculations and data to estimate the direct, indirect, and induced impacts to economic output, employment, and value-added. Value-added impacts include: (1) employee compensation (including payroll and benefits); (2) proprietary income (payments received by self-employed individuals as income); (3) other property type income (rents, royalties and dividends); and (4) indirect business taxes (excise taxes, property taxes, fees, licenses, and sales taxes paid by businesses, but not taxes on profit or income).

Impacts from an investment such as a Maryland commercial or homeowner historic rehabilitation project come in two stages: (1) during the predevelopment/construction period, and (2) after build-out, and during the operations or occupation period. After build-out, the production/operating activities of the building's users, as well as any derivative production that can be determined to occur as a result of the sponsor's programs, are assumed to be permanent impacts. Combined, the impact analysis of the initial real estate investment, as well as the programmatic operations administered by the sponsor, provide a long-term view of the economic value that the subject development brings to a community. However, as data are unavailable to determine the operation programs of the historic preservation projects, only the impact of the construction phase is estimated, using the combined final construction budgets for commercial and homeowner projects receiving historic tax credits from January 2009 through July 2019 as the primary input for the models. Inputs included in our economic impact model include adjusting all project costs to 2019 dollars.

For purposes of this analysis, the regional economy is considered to be the state of Maryland.

VIII. APPENDIX 2: UNDERLYING ASSUMPTIONS AND LIMITING CONDITIONS

In conducting the analysis, we make the following assumptions, except as otherwise noted in our report, and the analysis is subject to the following limiting conditions, except as otherwise noted in our report:

1. The analysis contained in this report necessarily incorporates numerous estimates and assumptions. Some estimates or assumptions, however, inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will vary from our estimates and the variations may be material.

2. We have no responsibility for considerations requiring expertise in other fields. Such considerations include, but are not limited to, legal matters and environmental matters.

3. Information, estimates, and opinions contained in or referred to in our report, which we have obtained from sources outside of this office, are assumed to be reliable with attempts to independently verify to the extent possible.

4. The conclusions and recommendations in our report are subject to these underlying assumptions and limiting conditions, and to any additional assumptions or conditions set forth in the body of our report.

5. Assumptions included in our economic impact model include reliance on project data provided by the Maryland Historical Trust and IMPLAN's multipliers, adjusting all project costs to 2019 dollars. Fiscal impacts are generated using IMPLAN's tax impact methodology.

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20 Per Tim Hayden, Director of Finance & Budget, Calvert County, 50% of county tax revenue dedicated to education.

21 Applying ratios generated from the IMPLAN model for the state of Maryland.

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by Ethan Reed

About the Abell Foundation

The Abell Foundation is dedicated to the enhancement of the quality of life in Maryland, with a particular focus on Baltimore. The Foundation places a strong emphasis on opening the doors of opportunity to the disenfranchised, believing that no community can thrive if those who live on the margins of it are not included.

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