Testimony of Scott Wolf, Executive Director,
Grow Smart Rhode Island,
To the House Finance Committee in support of
H 5851, a Bill to Extend and Streamline
the State Historic Tax Credit Program
May 28, 2015

I am here today representing Grow Smart Rhode Island. We are a non-profit public interest group representing a broad coalition of groups and concerned citizens committed to strengthening Rhode Island’s economy in a sustainable way through revitalization of our urban and town centers, strengthening of our public transportation system and aggressive stewardship of our agriculture and food systems.

We are enthusiastic about H5851, the bill that Representative Regunberg and others have introduced to extend and streamline the State Historic Tax Credit ("HTC") program. This is a program that we have long championed as a powerful economic development and neighborhood revitalization tool. As you know, the version of the State Historic Tax Credit that many of you worked to reinstate in 2013 has elicited strong interest from property owners and developers, interest that far exceeds the currently available funding. In fact, just two days ago I learned from David Sullivan the Administrator of the RI Division of Taxation, that there are 22 projects on the waiting list for enrollment in the Historic Tax Credit program and that these projects collectively are seeking more than $33 million in State Historic Tax Credits.

H5851 would go a long way to reducing this backlog and the more than $100 million in deferred economic development activity it represents by authorizing new annual allocations for the State Historic Tax Credit of up to $25 million annually in credits and or refunds through July of 2022.

This is critical because the periodic interruptions in RI's HTC program have reduced the flow of benefits to the state in terms of both jobs and economic investment. HTC projects are complicated, requiring a long lead time that includes architectural, engineering and financial planning before construction starts. Studies of the RI HTC program as well as of HTC programs in other states have demonstrated conclusively that the pre-development and development activities of historic rehab projects stimulate construction jobs and generate a positive impact on state tax revenues long before the state spends its HTC dollars—an outlay that only occurs if and when a project is completed.

Another feature of H5851 that we strongly endorse is that it retains important reforms in the HTC program that the House passed in 2013, reforms designed to streamline and target the program’s resources more fairly and efficiently. These reforms included
making private social clubs and most single family homes ineligible for the credit, and placing stringent limits on the amount of time an enrolled project could remain inactive and still qualify for the HTC.

There are several significant additional changes that Grow Smart Rhode Island has been advocating in the existing State Historic Tax Credit program, and these changes are highlighted in the "White Paper" on the program that we and our close partner, Preserve Rhode Island, recently prepared and distributed to this Committee. H 5851 includes most of these changes. For example, the bill expands the HTC’s existing “refund option” to eliminate the need for brokers and reduce “leakage”. It achieves this by giving all holders of state Historic Tax Credits the choice of claiming a refund rather than a credit. The refund option eliminates the need for a broker since any entity can claim the refund. This removes the need for a broker’s most important role of making a match with a corporation or individual that has RI tax liability. There are some technical language changes we recommend considering regarding the refund issue that we will review with Representative Regunberg and, if warranted submit these to the Committee as part of a separate document.

We also applaud Representative Regunberg and his co-sponsors for allowing continued HTC eligibility for the small projects that can do so much to revitalize local Main Streets and Ddwontowns, and that represent more than three quarters of the projects currently enrolled in the reinstated HTC program.

There are a few changes to H5851 that we recommend, the primary one being to reduce the size of the HTC program’s non-refundable processing fee. The current RI HTC fee of 3% of Qualified Rehab Expenditures (“QRE’s”) is an outlier in the nation and presents too great a barrier to entry for many worthwhile projects. The majority of the more than 30 states with HTC programs have fees of $10,000 or less. In contrast, RI at 3% of QRE’s, can require a fee payment as high as $600,000. In New England, neither Maine nor Massachusetts charges a fee and Connecticut’s maximum fee is $10,000.

We advocate reducing the size of the fee from 3% of QRE’s to 1% which would match the proposed reduction in the size of the credit already included in H 5851. These parallel reductions in fees and credits would maintain the current HTC program’s net fiscal impact. We also advocate creating a limited time period in which a part of the fee is refundable so projects can complete their local permitting and determine if their project can go forward before being locked into the full fee payment. This is spelled out in more detail in the HTC White Paper we have previously submitted to you.

In advocating for passage of H5851, we acknowledge that the Governor’s Rebuild RI Tax credit proposal has a different approach to incenting historic rehab, one that focuses on large projects exclusively. While we believe that
this focus is too narrow, we agree that there is a case to be made for selectively funding beyond the current $5 million per project credit cap those large historic rehab projects that are judged to be catalytic. Therefore we would suggest that consideration be given to amending H5851 further to establish a two tiered HTC program in which minimum size thresholds and full pro forma reviews would apply to the selection and funding of one larger project per year. This approach is similar to that taken in Ohio where one “catalytic project” is selected each year through a competitive process for a larger award than is allowed for the bulk of eligible HTC projects.

My closing message is for Rhode Island to keep building on our strengths by ensuring that we can fully capitalize on our world renowned concentration of historic buildings and neighborhoods. This is one asset that really gives us a competitive economic advantage over most other states. H 5851 goes a long way to ensuring that we are able to take full advantage of this advantage!

Scott Wolf, Executive Director, Grow Smart RI