State Historic Tax Credits: Maximizing Preservation, Community Revitalization, and Economic Impact

PREPARED BY THE NATIONAL TRUST FOR HISTORIC PRESERVATION // NOVEMBER 2018

The National Trust envisions a future where leaders who make decisions impacting our neighborhoods consider the reuse of historic buildings an essential strategy to create more inclusive, prosperous, and resilient communities. The National Trust has long supported the enactment of state historic tax credits (HTC) as a way of promoting building reuse. As a result of recent changes to the federal tax code, state incentives for financing historic rehabilitation projects are increasingly important and provide an opportunity for innovation. The long-standing federal credit has enabled thirty-five states to build upon the existing model to put in place many low-cost, high-performing rehabilitation incentives.

This report provides state and local policymakers a guide to understanding the benefits of historic rehabilitation and key factors for structuring an effective state historic tax credit program. Ideally this report will catalyze state legislative and policy changes that attract private investment to transform unique yet underperforming buildings into vibrant and economically-productive community assets.

Iowa's historic tax credit enabled the conversion of an entire city block in the Dubuque Millwork District into the Schmid Innovation Center | CARADCO Lofts. COURTESY GRONEN PROPERTIES

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Benefits of a Strong State Historic Tax Credit Incentive

Creates Highly Paid Local Jobs. Rehabilitation project costs are on average 60 percent labor and 40 percent materials compared to new construction costs of about 40 percent labor and 60 percent materials. Labor is usually hired locally and often includes higher-paid craftsmen skilled at repairing historic windows, plaster, masonry, and flooring.

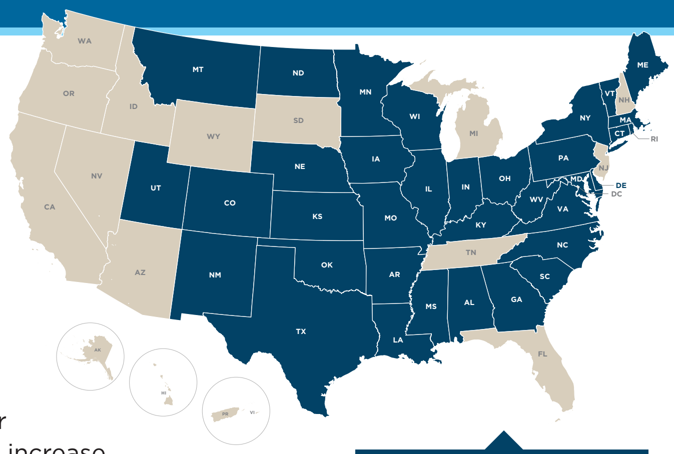
Makes Historic Rehabilitation Financially Feasible. Given the financial risks and often increased costs associated with rehabilitating historic buildings, banks lend fewer dollars to these projects compared to new construction, requiring incentives to fill the financing gap and make these projects economically viable.

A Consistently Strong Return on State Investment. These incentives require the private sector to make the initial investment and states do not award the credits until a building's rehabilitation is completed and certified. According to the 2016 analysis by Baker Tilly Virchow Krause, LLP, *Wisconsin Historic Tax Credit: Impact Analysis*, 40 percent of the credit is paid back in state taxes before the building is finished, and the remainder is recouped by the state in 4 years. After the repayment period, rehabilitated buildings continue to generate new local and state tax revenues.

Leverages Significant Private Investment. More than a dozen studies document the significant additional private investment that is attracted to states that offer a state historic tax credit. A 2015 assessment conducted for the Ohio Development Services Agency, for example, estimates that every dollar in state historic tax credit attracts an average of $6.20 in private investment.

Elements of Effective State Historic Tax Credit Incentives

Thirty-five states currently offer tax credits incentivizing the rehabilitation of historic buildings. The most successful historic preservation incentives, those that preserve the greatest number of historic buildings and drive the most reinvestment, share the following characteristics:



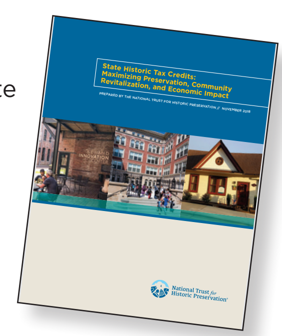
35 STATES OFFER TAX CREDITS

> **Tailoring Historic Tax Credits to Address State Priorities.** States individually tailor historic tax credit incentives to address multiple objectives. States seeking to encourage smaller, Main Street rehabilitation projects in rural areas, for example, have increased the percentage of credits available for projects in smaller communities or set aside a portion of the credits for rural areas. To increase the reuse of specific building types, South Carolina offers an additional credit for rehabilitating abandoned mill buildings while New York offers an increased historic tax credit for projects that rehabilitate barns that are income-producing and built before 1935.

> **Easily Transferrable Credits are Critical to Creating Value.** A state tax credit is valuable only to the extent that a taxpayer can use the credit to offset state tax liability. States that offer multiple ways to transfer the credit to entities with tax liability are more successful in attracting investment dollars to prospective rehabilitation projects. States have addressed this issue through allocation within a partnership (26 states), direct transfer (20 states), and refundability (9 states).

> **Predictability is Key to an Effective Incentive.** The most effective state historic tax credits provide property owners, investors, and lending institutions with certainty that they are able to utilize all of the credits certified by the state. State incentives that are tied to an arbitrary aggregate dollar limit do not perform as well as those without an aggregate cap, because they inject uncertainty into the process.

> **Setting an Optimal Credit Percentage Assures Better Performance.** Establishing the appropriate credit percentage for each state requires examining multiple factors. A review of the 35 states that have historic tax credits indicates the best performing incentives are typically in the range of 20% to 30% of qualified rehabilitation expenditures.



ACCESS THE FULL REPORT AT FORUM.SAVINGPLACES.ORG/STATE-HTC

The 2011 renovation of a former power plant for Kansas City's Union Station into the Todd Bolender Center for Dance and Creativity was made possible through Missouri's historic tax credit (HTC). Today, the 60,000 square foot building serves as the home for the Kansa City Ballet. With one of the oldest and most effective state historic credits in the country, millions of dollars in private investment have been leveraged in many of the state's most distressed areas.
COURTESY MISSOURI ALLIANCE FOR HISTORIC PRESERVATION

Additional considerations that help maximize the positive impact of state historic tax credits include:

> **Set an Appropriate Minimum for Private Investment.** States can best promote smaller transactions in towns and rural areas by setting a lower minimum rehabilitation cost than the federal standard.

> **Maximize the Different Taxes a State's 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.

> **Extend the Time Period Over Which Historic Tax Credits May Be Claimed.** If a taxpayer has insufficient tax liability the year the credit is approved, the majority of states allow the credits to be carried forward to future years. For example, 13 states allow their credits to be carried forward between seven to ten years. The federal credit can be carried forward up to twenty years.

> **Set Deadlines and Reallocate Credits.** To ensure the efficient use of their investments, some states require work to start within a certain period. If those requirements are not met, some states reallocate the credits to other projects.

> **Expand the Definition of Who Can Claim the Credits.** A majority of states permit for-profit owners, long-term lessees, and homeowners to claim the credits. Nonprofit organizations that undertake the most difficult projects with the largest community impact are eligible to receive credits in eight states.

> **Evaluate Performance on a Regular Basis.** To ensure transparency and an understanding of the credit's performance, states should require applicants to provide data on job creation, property values, square footage, housing creation, pre and post vacancy rates and details on post-construction property use.

STATE HISTORIC TAX CREDIT CORE ELEMENTS

State historic tax credits are a dollar for dollar reduction in tax liability.

Although there is significant variety from state to state, most incentives include the following core elements:

- Criteria establishing which buildings qualify to receive historic tax credits
- Preservation standards that ensure a building's historic character remains
- A method for calculating the value of qualified rehabilitation expenditures
- A minimum amount of investment required
- An approval process that starts with the state historic preservation office

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Economic Studies Demonstrate the Impact of Effective Historic Tax Credits

The findings below are from reports undertaken by state agencies and economic modeling firms that have examined the many benefits that result from effective state tax credit programs from pre-development to property operations in the years that follow.

Half of all projects receiving the credit spent less than $500,000 to rehabilitate their historic income-producing buildings, demonstrating that the historic tax credit is fundamentally a small business incentive.

The Historic Tax Credit: Building the Future in Louisiana, Place Economics for the Louisiana Office of Cultural Development, Department of Culture, Recreation & Tourism, 2017

Typically, historic tax projects pay back one-third to one-half of state's investment during construction. For every $100,000 in credits the state invests in rehabilitation projects, it receives $19,537 in Personal Income Tax, $6,556 in Business Income Tax, and $25,560 State Sales Tax before the construction is complete.

Oklahoma Historic Tax Credit, Impact on the Oklahoma Economy, Place Economics for the Tulsa Foundation for Architecture, 2016

For the years examined, the state is estimated to receive for every $1 of historic tax credits an average of $4.73 during the initial rehabilitation period and to fully recoup its investment through tax revenue within nine years.

Preserving the Past, Building the Future: Historic Rehabilitation Tax Credit at Work in Virginia, Virginia Commonwealth University and Virginia Department of Historic Resources, January 2018

While the taxable value of the rehabilitated parcels increased by about 258%, the value of nearby parcels also increased by 25.6%, showing how historic rehabilitation can catalyze additional value within the neighborhood.

Ohio Historic Preservation Tax Credit, 2015 Comprehensive Report, Ohio Development Services Agency, December 2015

Businesses located in the improved buildings are anticipated to provide an ongoing surplus value to the state. After ten years, Wisconsin is estimated to receive more than $187.7 million in additional tax revenue resulting from projects completed between 2014 and 2016.

Wisconsin Historic Tax Credit Analysis, Impact Analysis Calendar Years 2014-2015, Baker Tilly, April 2017

"It is not possible to do these restorations with just a loan. If the historic tax credits were not available in Ohio, we would not have been able to save and develop the three buildings in the Mercantile Block and the former Journal News building in downtown Hamilton," said Steve Coon, owner of Coon Restoration & Sealants, Canton, OH.

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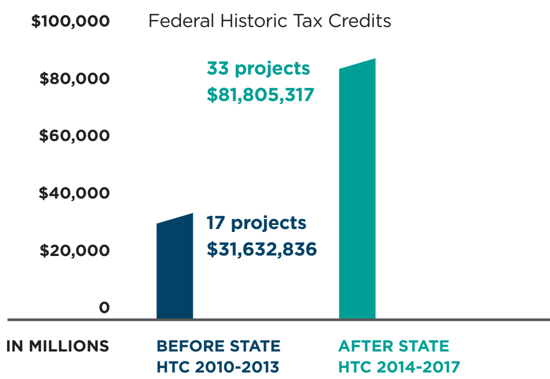
ENACTMENT OF TEXAS HISTORIC TAX CREDIT INCREASED FEDERAL REHABILITATION INVESTMENT IN THE STATE



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