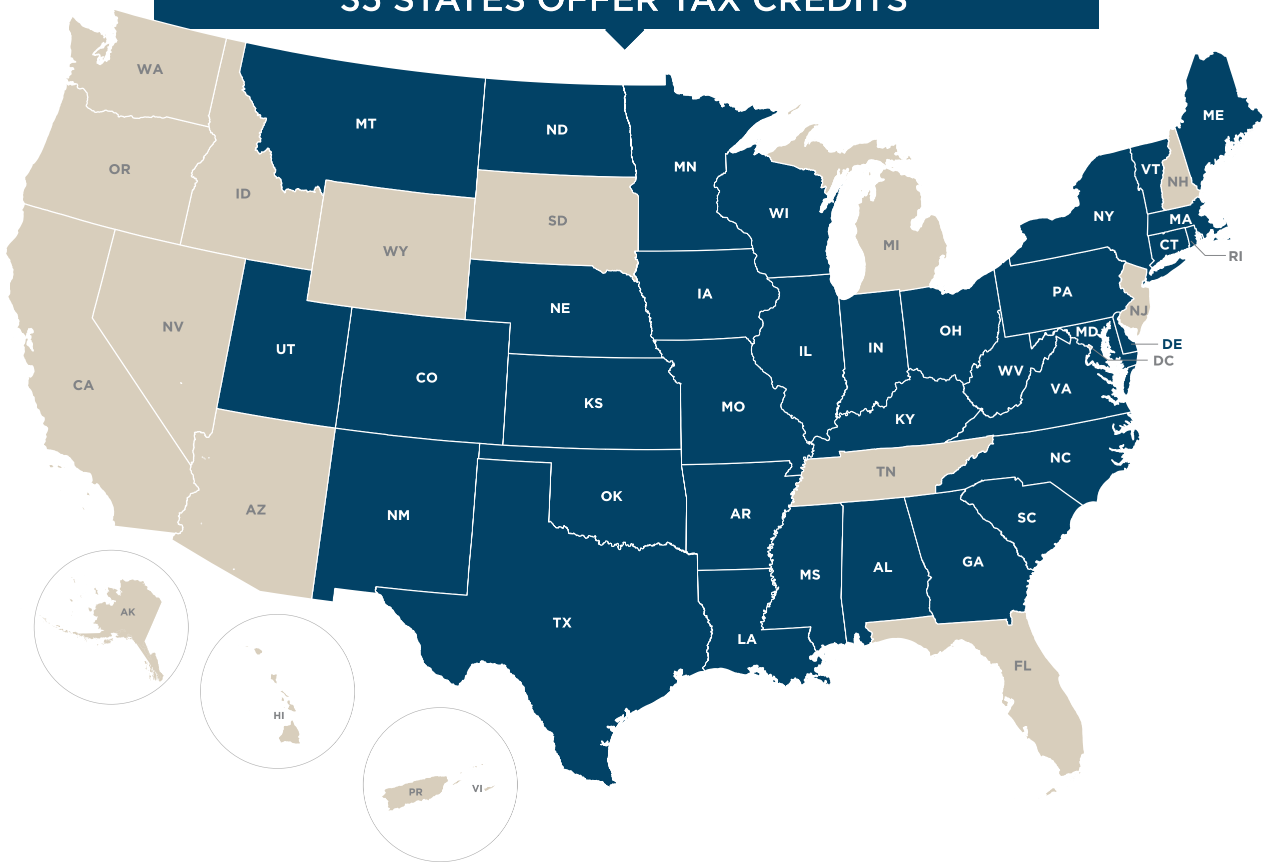
State Historic Tax Credits: Maximizing Preservation, Community Revitalization, and Economic Impact

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

National Trust *for* Historic Preservation®

Beginning in 1984 with New Mexico, thirty-five states now have tax credits that incentivize the rehabilitation of historic buildings. Historic tax credits also help accomplish many other community objectives like workforce housing, rural development, job creation, energy efficiency and preservation and reuse of specific building types.

35 STATES OFFER TAX CREDITS



Cover photos, left to right:

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. Built between 1867 and 1909, the former factory now offers loft living and space for restaurants, bars, coffee houses, artist shops, retail and office space. PHOTO COURTESY GRONEN PROPERTIES

The Boys and Girls Club of Harlem, Monadnock Development LLC and Alembic Community Development renovated the historic New York City Public School 186 building into 79 apartments for families of different incomes and a state-of-the-art facility to support children in science, technology, engineering, arts/athletics, and math (STEAM). PHOTO COURTESY OF DATTNER ARCHITECTS

After World War II, urban areas both large and small saw outmigration of population and businesses to the suburbs. State historic tax credits help reverse this trend by encouraging businesses to locate downtown like Maggy's Place on Main Street in Elkin, North Carolina. The former Elkin & Alleghany Railroad Office is a destination rental that opened in December 2016 thanks to the state's historic tax credit. PHOTO COURTESY NORTH CAROLINA MAIN STREET

Investing in Our Past for Our Future

Every community in America has a story to tell. Sharing these stories creates a narrative about who we are as a people, how far we have come, and where we aspire to go in the future. Preserving our past, however, does not happen without significant effort. Proactive actions by governments at all levels are critical to telling and retelling these stories to future generations.

Encouraging much-needed investment in our neighborhoods was top of mind last year when Congress chose to retain the federal historic tax credit (HTC) in the Tax Cuts and Jobs Act, the most sweeping tax legislation in more than thirty years. Congress acted because thousands of preservation leaders, mayors, architects, economic development advocates, and members of the redevelopment industry made their support of historic tax credits known, having experienced firsthand their tremendous benefits. Leveraging more than $144 billion in private investment for both rural Main Streets and urban downtowns, federal historic tax credits are one of our most important community reinvestment tools and are key to preserving our shared American story.

In Colorado, where I grew up, the same pioneering spirit that led to the establishment of our mining towns, farms and ranches led the state to become a pioneer in historic tax credits: Colorado established one of the first state HTCs in the country in 1990. Affirming the success of this experiment after nearly thirty years of positive dividends, the Colorado legislature reauthorized their state's historic credit earlier this year. They also updated their credit so that it better addresses a key issue in Colorado—reinvesting in our rural towns. The revised state program now offers a 35 percent credit for projects in rural communities and allocates half the credits awarded to smaller rehabilitation projects.

As President Reagan said after strengthening the federal historic tax credit, and as Colorado and 34 other states have seen first-hand, preservation of our historic buildings makes economic good sense. The restoration of historic buildings creates jobs, increases surrounding property values, encourages additional redevelopment, and generates new state and local tax revenue that consistently pays *far more* than the cost of a state's incentive.

Our latest historic tax credit report, now before you, brings into focus how states have sought to attract private investment to their historic downtowns and neighborhoods while preserving the stories of their community. The National Trust welcomes this opportunity to share the innovative ways states are utilizing historic tax credits to spur community reinvestment, increase property values, and preserve and enrich our shared history. If you have any further questions about how historic tax credits benefit—or could benefit—your community, please do not hesitate to contact our historic tax credit team at savingplaces.org.

Stephanie K Meeks

Stephanie K. Meeks, President
National Trust for Historic Preservation

A Partnership for Progress

History teaches us that progress requires a commitment to cooperation at all levels of government. The federal historic tax credit, part of the tax reform bill passed last year, is an excellent example of how local, state, and the federal government can work together to improve our communities. Tax incentives for historic preservation protect not only culturally important spaces for future generations, but also generates significant economic returns on investment for the community, which is why the AIA continues to fight for robust and comprehensive state and federal historic tax credits.

The federal historic tax credit is a valuable tool that architect's, working in partnership with community, business, and civic leaders, use to redevelop and to renew architectural treasures across the country. There are few projects that an architect will lead that will have as long or as meaningful an impact as restoring and preserving our shared past. The tax credit leverages almost $144 billion in private investment, and to date has created nearly 2.5 million jobs and has been instrumental in the reclamation and reuse of more than 43,000 buildings. On a macroeconomic level, Storm Cunningham in his book, The Restoration Economy, estimates that re-investment accounts for $1 trillion in economic activity annually in the United States.

However, the federal and state historic tax credits are about more than money. Ultimately, the tax credit is an investment in our future, a commitment to honoring our collective history, and above all, a measure of our compassion as a nation.

A good example is my home state of Mississippi, which uses the funds leveraged by the historic tax credit to help families and communities recover from the destruction caused by Hurricane Katrina. The tax credit has successfully leveraged millions of private dollars that employ scores of architects who lead recovery efforts that help communities not just to rebuild, but to thrive, and to be better prepared for the future.

Another example is Illinois, where the advocacy efforts, led by AIA Illinois and its partners, including Landmarks Illinois, building and trade groups, civic and community leaders, resulted in the expansion of the River Edge Redevelopment Zone Historic Tax Credit and the creation of a new statewide Historic Preservation Tax Credit.

These and the many other examples in this guide make clear the power of AIA and our components to ensure that lawmakers not just hear, but also use architect's unique talent and expertise to ensure that future generations stay connected to our shared history.

Robert Ivy

Robert Ivy, FAIA
EVP/Chief Executive Officer
American Institute of Architects

AIA

Capitalizing on Community Character

The U.S. Conference of Mayors recognizes the effectiveness of historic preservation as a tool for revitalizing communities and was deeply involved in the establishment of the federal historic tax credit more than 30 years ago. Since then, more thirty-five states have supplemented the federal credit with companion historic tax credits to spur job creation and attract private reinvestment to vacant and underperforming historic buildings.

During the 2017 tax reform debate, Congress concluded an incentive to rehabilitate historic buildings should remain a permanent part of the tax code. As our Conference repeatedly made clear, historic tax credits help drive investment towards our downtowns instead of towards new construction on the outside of town. Changes made to the federal historic tax credit during tax reform, however, have reduced the value of the incentive. The development community has plainly stated that this reduction in value is making it more difficult to redevelop historic buildings.

As mayors, we have witnessed historic buildings repurposed for both affordable and market rate housing and seen homeowners use the credits to preserve the character of their property while increasing its value. We see first-hand how historic tax credits encourage vibrant retail and entertainment districts. In Columbia, SC, we have augmented these federal and state tax credits with local property tax incentives to further drive investment in historic properties. As a result, we have seen tremendous private sector investment that has revitalized our Main Street, attracted thousands of people to live downtown and created bustling retail and entertainment districts.

State and federal historic tax credits enable us to use our past to power our future, and we hope this report serves as a useful guide for implementing these critically important incentives.

Stephen K. Benjamin, President
U.S. Conference of Mayors and
Mayor of Columbia, South Carolina

Our Futures Can Be Built Where Our Histories Were Written

I have always been a lover of old things and the way that old buildings not only transport us to the past, evoking lessons of our shared history, but also offer continued meaning for today and into the future. It is why I have been an avid supporter of preservation and adaptive re-use my entire adult life. However, as a mayor, I can tell you that while historic tax credits may help preserve the past, they also are a vital tool for building a prosperous future in our communities, both large and small.

Here in Little Rock, our Main Street has come back to life with more than $150 million of private sector investment attracting residents, diners, artists, and entrepreneurs back to an area that sat mostly vacant for 30 years. In our "Creative Corridor," we are building the kind of 24/7 environment where the collision of arts and culture with science and technology draws young people (and the young at heart) to live.

Much of this renaissance is taking place in buildings our local preservation organizations fought to protect. Arkansas's 2009 state historic tax credit helped more of these projects financially "pencil out," especially when coupled with other incentives like brownfield funds or new market tax credits. We have seen this reflected in the numbers. From 2001 to 2008 Little Rock saw 21 rehabilitation projects totaling $22,995,648 and from 2009 through 2016 (after the adoption of state tax credits), we saw 49 projects totaling $87,157,113. In 2017, Arkansas state lawmakers made an important increase to the size of the tax credit that can be claimed for income-producing projects. We are hoping to see these numbers continue to grow as a result.

These tax credits are also bringing families back into our urban core with residential rehabilitation projects spurring investment in our hip SoMa District and neighborhoods surrounding National Historic Site Little Rock Central High. Little Rock's future is being built in the very locations where our history was written.

Little Rock is not alone. Through my presidency of the National League of Cities, I hear from city leaders across the country, from small towns to our biggest cities, about the innovative economic development strategies being deployed around historic tax credits. We know that one of our abundant resources, historic buildings, can help us retain one of our greatest assets—our youth. Millennials, seeking authenticity, are drawn to the character of these storied buildings.

Mayors have to be about more than the creation of cool spaces though. Rehabilitation also drives rising property values and makes the tax base strong through the addition of jobs and increased revenues in sales, income and property taxes.

Like me, my fellow mayors and council members know that historic rehabilitation projects simply would not have been possible without federal and state historic tax credits. Our communities need these tools to be able to rehabilitate long vacant buildings. This playbook will help states create stable incentives our municipal leaders can count on.

Mark Stodola, President
National League of Cities and Mayor,
Little Rock, Arkansas

NLC NATIONAL LEAGUE OF CITIES

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In 2017, West Virginia increased its historic tax credit from 10% to 25% and set aside $5 million of the annual authorized $30 million in credits for small projects. The state's historic tax credit enabled the transformation of a 1913 theater in downtown Clarksburg (pop. 16,000) into the Robinson Grand Performing Arts Center. Purchased by the town in 2014 and vacant for over ten years, the renovated theater opened again on October 20, 2018. According to the theater's executive director, Ryan Tolley, "State and federal historic tax credits enabled the City of Clarksburg to reach its goals of preserving a local landmark, creating economic activity downtown, and providing artistic opportunities for area residents."

PHOTO COURTESY WYK ASSOCIATES

Executive Summary

The National Trust envisions a future where leaders who make decisions impacting our built environment consider the reuse of historic buildings as an essential strategy to create more inclusive, prosperous, and resilient communities. No policy better supports adaptive reuse of historic buildings than state and federal historic tax credits.

And while the preservation movement should celebrate the decision by federal policymakers to reaffirm the nation's commitment to preserving historic buildings in the most sweeping rewrite of the tax code in a generation, changes to the federal historic tax credit weakened the incentive at a time when we are experiencing significant change in our cities and Main Street communities. As a result, financing historic rehabilitation projects has become more difficult, and the preservation movement stands to lose opportunities to transform older and historic buildings into meaningful economic community assets. As efforts are underway to enhance the federal historic tax credit, this report provides state and local policymakers a guide to understand the benefits of historic rehabilitation and ways to structure highly effective state historic tax credits.

Leading the way in the 18-acre Jacob Schmidt Brewing Company Historic District, Dominium used the Minnesota historic tax credit to transform vacant space into the Schmidt Artist Lofts.

PHOTO COURESY DOMINIUM

> "We are not looking at any states for historic projects unless they have some sort of state incentive to pay for the extra costs of historic renovation."

JEFF HUGGETT, VICE PRESIDENT AND PROJECT PARTNER WITH DOMINIUM, A NATIONAL AFFORDABLE HOUSING DEVELOPMENT FIRM THAT HAS UNDERTAKEN DOZENS OF HISTORIC REHABILITATIONS ACROSS THE COUNTRY

[1] *The Historic Tax Credit: Building the Future in Louisiana*, Place Economics for the Louisiana Office of Cultural Development, 2017; *Final Report of the Governor's Taskforce on Maryland's Heritage Structures Rehabilitation Tax Credit*, 2004; *Estimates of the Economic Impact of the Ohio Historic Preservation Tax Credit Program on the State of Ohio*, The Great Lakes Environmental Finance Center, Maxine Goodman Levin College of Urban Affairs, Cleveland State University, May 2011.

[2] In the past five years, the following states have enacted new or additional state historic tax credits: *Alabama (2017), Colorado (2015), Illinois (2018), Mississippi (2016), Nebraska (2015), North Carolina (2015)* and *Texas (2013)*.

After World War II, urban areas both large and small saw outmigration of population and businesses to the suburbs. State historic tax credits help reverse this trend by encouraging local businesses to locate downtown like Maggy's Place on Main Street in Elkin, North Carolina. The former Elkin & Alleghany Railroad Office is a destination rental that opened in December 2016 thanks to the state's historic tax credit. The 523 square foot space offers a parlor, kitchenette, full bath and bedroom for visitors coming to the Yadkin Valley Wine Region.

PHOTO COURTESY NORTH CAROLINA MAIN STREET

The reasons to enact new and strengthen existing state historic tax credits are clear:

- As an economic activity, historic rehabilitation greatly outperforms new construction in job creation. Rehabilitation project costs are on average 60 percent labor and 40 percent materials compared to new construction, which is about 40 percent labor and 60 percent materials according to researcher Donovan Rypkema. In addition to hiring local labor, materials for the rehabilitation are more likely to be purchased locally. As a result, approximately 75 percent of the economic benefits of these projects remain in the communities where these buildings are located.
- Revitalized sections of towns and neighborhoods enhance property values, encourage investment by adjacent owners and augment revenue for local and state governments.
- When states evaluate the performance of historic tax credit incentives, a common finding is that one third or more of the states' investment is returned during a project's construction phase[1] and the investment is completely recouped within four to nine years after a building is placed in service.

In the past five years, seven states have created historic tax credits[2] while several states have recently strengthened their incentives, like Illinois, Maryland and New York. States created these incentives to fill a critical funding gap in financing and enable vacant and underutilized historic buildings to become economically productive again. Because the private sector is required to make the initial investment and states do not award credits until a building's rehabilitation is completed and certified, policy makers understood historic tax credits were a good investment.

Over the past three decades, the National Trust supported the enactment of 35 state historic tax credits and is working with partners to increase this number. These credits attract private investment to restore historic properties, many of which would otherwise likely be demolished. The National Trust has observed the renewed prosperity of countless historic communities throughout the country and in nearly every instance a common thread is the use of historic tax credits.

Benefits of a Strong State Historic Tax Credit Incentive

Thirty-five states across the country have enacted state historic tax credits that work in tandem with the federal historic tax credit. Below are a few of the many social, economic and fiscal benefits of these incentives:

- **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 2015 report for the Ohio Development Services Agency found that 78% of the rehabilitation projects that applied for credits would not have moved forward without the state's investment.
- **Attracts private capital to areas that have not seen public investment in decades** According to the Ohio Development Services Agency, more than 80% of historic buildings were fully vacant prior to the rehabilitations enabled by the state's historic tax credit. Without rehabilitation, these blighted buildings lower the tax base, invite crime, deter other investment, and cost communities money. Economic development in areas with existing infrastructure saves significant tax dollars and also reduces pressure for new construction in our farmland and open spaces.
- **Creates highly paid local jobs** Labor for the rehabilitation project is usually hired locally and often includes higher-paid craftsmen skilled at repairing historic windows, plaster, masonry, and flooring. The incentive is provided to retain historic materials and assist with the added expense of rehabilitation. Specialized skills are often required for this restoration work. While credits are not issued until the work is completed and certified, state and local governments benefit from taxes on labor.
- **Consistently provides a strong return on state investment** Shortly after a building is rehabilitated, a state will see its full investment returned. 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 other taxes before the building is finished, and the remainder is recouped within 4 years. After the repayment period, rehabilitated buildings continue to generate new local and state tax revenues.

HISTORIC TAX CREDITS FACILITATE GREATER AFFORDABILITY BY ENABLING LOWER RENTS

Financing a $1,500,000 Rehabilitation Project*	Monthly Mortgage Payment
Without Any Tax Credits	$7,984
With 20% Federal Historic Tax Credit	$6,487
With 20% State and 20% Federal Historic Tax Credits	$4,823

** assuming a 7%, 30-year loan and 20% down payment (owner equity) on the loan amount*
Example courtesy of Johan Graham, AU Associates, KY

HISTORIC TAX CREDIT PROJECTS CREATE MORE JOBS BECAUSE THEY ARE MORE LABOR INTENSIVE

REHABILITATION PROJECT COSTS	NEW CONSTRUCTION PROJECT COSTS
Avg. **60%** labor	Avg. **40%** labor
Avg. **40%** materials	Avg. **60%** materials

- **Offers a flexible tool for community reinvestment** State historic tax credits are adapted to provide economic assistance to areas suffering from disinvestment. Enacting a credit to encourage the rehabilitation of vacant mill buildings in North and South Carolina, for example, helped rebuild former textile-dependent communities. Other states like Vermont and Colorado offer a higher credit percentage to rehabilitate historic buildings impacted by disasters.
- **Leverages significant private investment** For every dollar invested, states frequently see between \$3 and \$7 of private investment flow to their underutilized historic buildings. 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.
- **Benefits a broad range of communities** Potential historic rehabilitation projects exist in blighted former industrial areas and main streets. Redevelopment of a historic building increases its property value and the property value of surrounding buildings, promoting economic activity in the area.

The advent of The Mast General Store opening was a major milestone in downtown Winston-Salem's revitalization and marked the "rebirth of retail" in the historic Arts District.

PHOTO COURTESY DAVID E. GALL, AIA

Elements of an Effective State Historic Tax Credit

State historic tax credits (HTCs) 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

The highest performing credits, those that preserve the greatest number of historic buildings and drive the most reinvestment, generally follow the framework of the federal historic tax credit and incorporate the concepts outlined below:

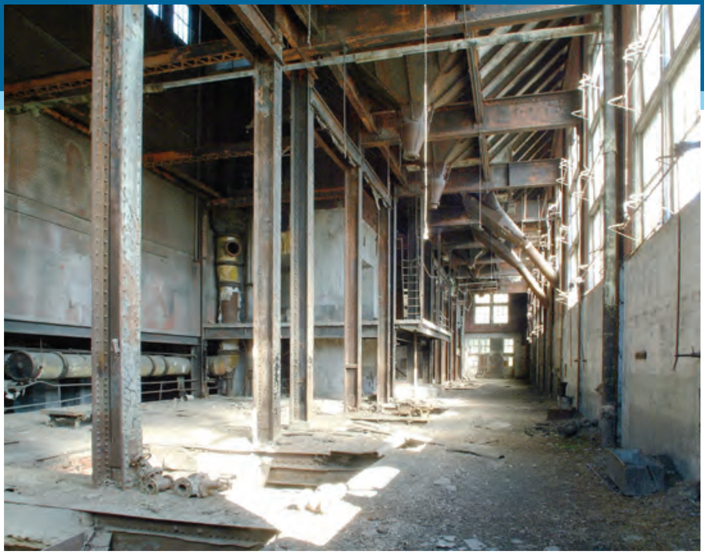
Tailoring Historic Tax Credits to Address State Priorities

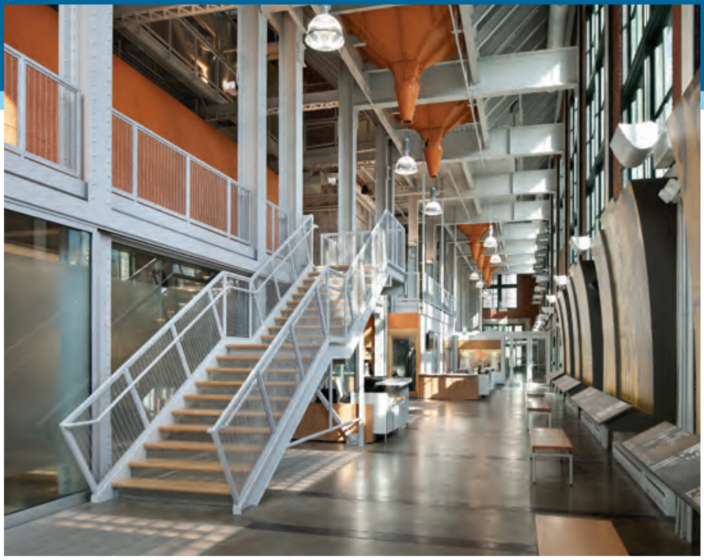
States tailor their HTCs to address multiple objectives. States seeking to encourage smaller, Main Street rehabilitation projects, for example, have increased the percentage of credits available for projects in smaller communities or set aside a portion of the credits for rural areas (see box on page 7).

Historic buildings are frequently rehabilitated for housing, and states use HTCs to encourage this reuse. Connecticut and Delaware, for example, offer increased percentage rates for the creation of affordable housing. Massachusetts sets aside 25% of its credits for those projects that include a housing component.

To increase the reuse of specific building types, South Carolina and North Carolina enacted a 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. The South Carolina mill credit can be taken in combination with the state HTC. Some states, like Colorado and Vermont, use historic tax credits to encourage rehabilitation after natural disasters. Oregon and Washington, meanwhile, have considered state historic tax credits as a mechanism for incentivizing seismic retrofits.

To ensure the benefits of the credit are realized in all regions of the state, states have experimented with geographical set-asides for rural areas. Another approach to geographically target investment is to limit the use of the credit to specific areas of physical deterioration and economic distress. These techniques, however, should be evaluated with care to make sure limitations do not diminish the overall objective to drive community reinvestment and encourage historic preservation throughout the state.





The 2011 rehabilitation of a former Kansas City power plant into the Todd Bolender Center for Dance and Creativity was made possible by Missouri's historic tax credit. Today, the 60,000 square foot building serves as the home of the Kansas City Ballet. With one of the oldest and most effective state historic credits in the country, tens of millions of dollars in private investment has been leveraged in many of the state's most distressed areas.

PHOTO COURTESY MISSOURI ALLIANCE FOR HISTORIC PRESERVATION

Easily Transferrable Credits are Critical to Creating Value

A state tax credit typically has value only to the extent that a taxpayer can use the credit to offset state tax liability. Consequently, in certain instances, an otherwise valuable state tax credit may in practice be unusable. 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.

Fundamentally, a high-performing state historic tax credit requires a workable mechanism to put the credit in the hands of the party that can use it. States have addressed this issue in several ways:

Syndication with Allocation by Partner Agreement. Twenty-six of the thirty-five states that offer a state historic tax credit allow syndication of the credits to third parties. The syndication process begins by identifying prospective investors like corporations, entities with pooled funds or individuals, for a state tax credit project. This transfer mechanism gives developers, who often do not owe enough in state taxes to use all the credits themselves, the ability to form a limited liability corporation (LLC) and admit outside investors as partners. In this way the

HOW TO ENCOURAGE SMALLER AND RURAL REHABILITATION PROJECTS

INCREASE PERCENT OF CREDIT Starting in 2020, Colorado's credit increases from 25% to 35% for projects in certain communities under 50,000 in population. When Wisconsin increased its credit from 5% to 20% in 2013, the state saw a 67% increase in the number of rehabilitation projects within two years.

SET ASIDE CREDITS Alabama sets aside 40% of its credits for projects in counties with populations with less than 170,000, while West Virginia sets aside $5 million for projects with less than $500,000 in qualifying expenditures.

LEAVE SMALL PROJECTS UNCAPPED Missouri does not cap projects with less than $1.1 million in qualified rehabilitation expenses (QREs), while Georgia exempts from its annual aggregate cap those commercial projects under $300,000 in credits.

OFFER AN ADDITIONAL CREDIT Maine offers a 25% "Small Project Rehabilitation Credit" for buildings that have between $50,000 and $250,000 in rehabilitation costs. Maryland additionally offers a 20% credit for small commercial projects with $500,000 or less in QREs and no more than 75% residential rental.

development entity that is awarded the credit can pass through the credit to an investor that has sufficient state tax liability to fully use the credits. Allocation of credits among partners is a vital tool for developers and significant effort should be made to include it in the state. Each state regulates business partnerships differently, requiring close examination of development entities' ability to allocate credits within the partnership.

Direct Transfer. Twenty states allow their historic tax credits to be transferred by direct sale to an investor who remains outside the development partnership. The tax code in these states permits the party that earns the credit to assign or sell the credits outright to a third party that has sufficient tax liability to use it. After the rehabilitated building is placed in service and final tax credit approvals obtained, the taxpayer is given a certificate to claim their state income tax credit. These direct sales can significantly lower transaction costs. States that do not limit the number of times historic tax credits can be transferred increase the value paid for the credits. It is important to keep in mind, however, that a transfer of state tax credits is often considered a taxable event for federal income tax purposes and reduces the value of the state HTC.

Refundability. Nine states offer a refund to an owner that does not have sufficient tax liability in the year the credits are issued. A refundable credit allows for a cash refund to the owner for any portion of earned historic tax credits for which there is no corresponding state tax liability. States and developers find refundable credits easy to manage because they avoid the need to set up a complicated partnership structure to bring in third-party historic tax credit investors. As with the direct transfer, transaction costs are lowered when the credits are refundable. Depending on circumstances, however, a refund can take up to a year to receive and is subject to federal tax.

The most effective state tax credits provide property owners, investors, and lending institutions with the ability to utilize the credits certified by the state. Because each rehabilitation project has unique challenges and financing options differ, those states that offer multiple ways to transfer HTCs to entities with tax liability are more successful in attracting private investment dollars.

FEDERAL TAX ON STATE HISTORIC TAX CREDITS

Unlike the federal tax credit, which is not taxed federally, state historic tax credits are taxed by the federal government. Consequently, state HTCs are always worth less than their face value after federal law is taken into account because direct transfers trigger a short-term capital gain and the inability to take a deduction on state tax paid with a state historic tax credit.

Methods of Distributing State HTCs for Income Producing Properties

A state tax credit has value only to the extent that a taxpayer can use the credit to offset state tax liability. Twenty-one states offer multiple mechanisms to maximize the use of their credits. Twenty-six states allow the credit to be allocated by partnership agreement, twenty states permit direct transfer, and nine states issue refunds.

State	Direct Transfer	Allocation By Partner Agreement	Refundable
Alabama	●		●
Arkansas	●	●	
Colorado	●	●	
Connecticut	●	●	
Delaware	●	●	
Georgia	●	●	
Illinois		●	
Iowa		●	●
Kansas	●	●	
Kentucky	●	●	●
Louisiana	●		
Maine		●	●
Maryland		●	●
Massachusetts	●	●	
Minnesota	●	●	●
Mississippi		●	●
Missouri	●	●	
Montana			
Nebraska		●	
New Mexico		●	
New York			●
North Carolina		●	
North Dakota			
Ohio		●	●
Oklahoma	●		
Pennsylvania	●		
Rhode Island	●	●	
South Carolina		●	
South Carolina (mills)	●	●	
Texas	●	●	
Utah			
Vermont	●		
Virginia		●	
West Virginia	●	●	
Wisconsin	●	●	

Elements of an Effective State Historic Tax Credit

A Predictable Credit Amount Makes Project Financing Easier

The most effective state HTCs provide property owners, investors, and lending institutions with certainty that they will receive all the credits they are eligible to receive. State incentives that fail to provide this certainty, like those with an arbitrary aggregate dollar limit, do not perform as well as those without an aggregate cap.

While annual aggregate caps offer a degree of budgetary oversight, more often these caps create significant uncertainty for developers trying to complete their projects on schedule. Artificially capping the amount of credits issued by a state directly correlates with lost investment opportunities. Where demand for credits exceeds the amount permitted by a state that imposes an annual aggregate cap, applicants must either compete for credits or participate in a lottery or other arbitrary allocation system. Many high impact projects are discouraged from participating because of the lack of certainty as to the outcome, the cost of preparing a competitive application that nonetheless may be unsuccessful, and the difficulties of keeping financing commitments in place during the application process.

When property owners initiate a historic rehabilitation project, they first develop a financing plan (e.g., a pro forma) that includes private equity and other funding sources. Historic building owners approach investors and lending institutions for the remainder of the project financing knowing that if the rehabilitation work is conducted according to the Secretary of the Interior's Standards for Rehabilitation, they will receive 20% of qualified rehabilitation expenses in federal historic tax credits. In instances where a state has enacted an overall program limit, however, the owner does not have a similar assurance that a federally-acceptable rehabilitation project will receive state HTCs.

As a result, historic building owners will often delay their loan application and the project start date until state HTC awards are announced. The development process in these cases is less efficient and can result in the building owner foregoing the state HTCs and borrowing more to complete the project. Additional borrowing results in greater expenses to the developer who then must increase rents, if market conditions will even permit this, to ensure a project is financially feasible.

This lack of predictability is most damaging for those projects located in economically depressed areas where there is a maximum amount the community can afford in rent. As a result, historically significant buildings that have the potential to transform our most challenged communities continue to sit vacant and underutilized and a blight on the neighborhood.

States that place an annual aggregate cap on their credits then face a difficult choice in deciding how to select which rehabilitation projects receive the credit. States either:

- Create a lottery system where valid projects fail to receive the credit while less impactful projects receive credits; or
- Award credits on a first-come, first-serve basis which can be difficult if every project submits on the day of the deadline; or
- Establish a rigorous competition where projects compete for the state's funding which can be time-consuming and staff-intensive.

The state line that divides Bristol, Tennessee and Bristol, Virginia runs through a shared commercial district. With its highly effective state historic tax credit, Virginia encouraged private investment in seven historic renovation projects with expenditures of $29 million (2002-2016) on its side. Conversely, Tennessee does not currently offer a state historic tax credit and saw only two projects with a total of $2.2 million in federal qualified rehabilitation expenditures during the same period.

Understanding the problems associated with overall program caps, some states simply limit the dollar amount of credits that are awarded to individual projects. The effectiveness of the per-project cap is likely to be a function of how high the limit is set. Connecticut and Maine offer caps as a high as $5 million per project, where others, like North Dakota limit the per project amount to $250,000, which does little to help spur rehabilitation of large commercial buildings. Developers are typically able to work with per-project caps in the range of $3 to $5 million. New York uses both a per project cap of $5 million and limits the use of credits to census tracts whose median incomes are at or below 100% of the statewide median.

Other Elements to Maximize the Positive Benefits of State HTCs:

- **Set an Optimal Credit Percentage to Assure Better Performance.** A review of the 35 states that have a historic tax credit (HTC), indicates the best performing states set their credit rate at a level high enough to constitute a meaningful incentive, typically in the range of 20% to 30% of qualified rehabilitation expenditures. Rates that are significantly lower often fail to provide enough incentive to make a difference in a property owner's decision to undertake a historic rehabilitation project. When Wisconsin increased its rate from 5% to 20%, the state saw a 67% increase in rehabilitation project development over a similar prior 3-year period according to a 2015 report by Baker Tilly.

- **Set an Appropriate Minimum for Private Investment.** States should require a minimum investment by property owners and lessees in the rehabilitation. Some states replicate the federal standard of $5,000 or the adjusted property basis whichever is greater. Some states have found, however, that the adjusted property basis is often more than a small property owner is willing to invest in the rehabilitation where property appraisals often don't support this much rehabilitation. States can best promote smaller transactions in towns and rural areas by setting a lower minimum rehabilitation cost than the federal standard. Adjusted basis equals property purchase price, plus the cost of any improvements, less any depreciation taken.

Former Longfellow School transformed into apartments in Madison, WI

PHOTO COURTESY JASON KEEN

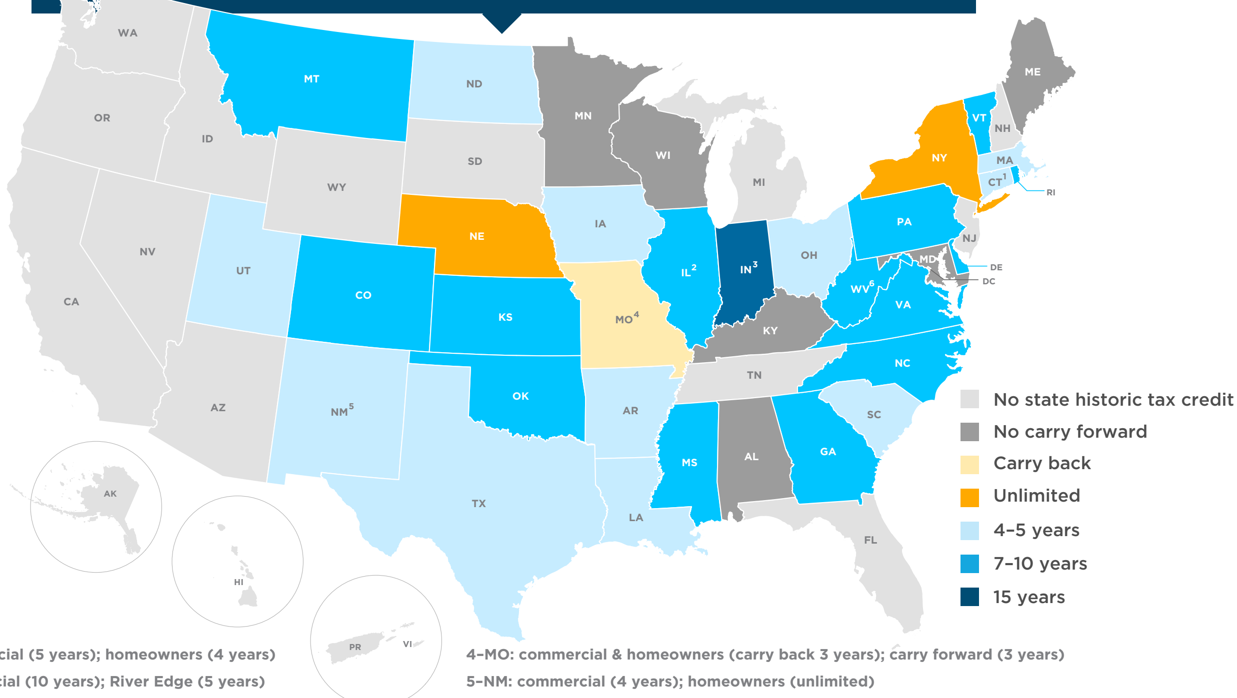
Elements of an Effective State Historic Tax Credit

›› **Maximize the Different Taxes a State's HTC May Offset.** In most cases, state historic tax credits are used to offset a state's income tax. In several states, however, entities such as insurance companies, banks and public utilities are not taxed under the state corporate income tax law but are subject to tax laws that are specific to their industries. Allowing state historic tax credits to offset multiple types of taxes helps create and sustain investor demand. ***This is especially true for those states that do not have a state income tax.*** States without an income tax can still offer a historic tax credit against other taxes. For example, Texas which has no income tax allows its historic tax credit to be taken against its business franchise and insurance premium taxes. (See case study on page 18).

›› **Extend the Time Period Over Which Historic Tax Credits Can 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. Twenty-six of the thirty-five states permit an entity which receives a tax credit in an amount greater than its tax liability in a given year to carry the unused balance forward for a period of years and applied against future taxes. Two states permit unused tax credits to be "carried back" or applied against state tax liability in preceding years. These provisions are similar to the federal rule which permits credits to be carried back for one year and forward for twenty.

›› **Set Deadlines and Reallocate Credits.** To ensure the efficient use of their investments, some states like Iowa, Missouri, and Ohio, require rehabilitation projects to start within 12 months of receiving the credit and require completion of projects within 36 months or 60 months for those that require multiple phases of rehabilitation. If these requirements are not met, the state reallocates these credits to other projects. We recommend an appropriate and clear extension appeal process.

CARRY FORWARD BY STATE



1–CT: commercial (5 years); homeowners (4 years)
2–IL: commercial (10 years); River Edge (5 years)
3–IN: no commercial credit; homeowners (15 years)
4–MO: commercial & homeowners (carry back 3 years); carry forward (3 years)
5–NM: commercial (4 years); homeowners (unlimited)
6–WV: commercial (10 years); homeowners (5 years)

The Boys and Girls Club of Harlem, Monadnock Development LLC and Alembic Community Development renovated the historic New York City Public School 186 building into 79 apartments for families of different incomes and a state-of-the-art facility to support children in science, technology, engineering, arts/athletics, and math (STEAM).

PHOTO COURTESY OF DATTNER ARCHITECTS

›› **Expand the Definition of Who Can Claim the Credits.** A majority of states permit commercial property owners, long-term lessees, and homeowners of eligible historic properties to claim the credit. Nonprofit entities also play an important role in community redevelopment projects and should be eligible to claim the credit as they are in Kansas, Kentucky and Texas. Nonprofit owners of historic buildings are usually tackling the most difficult rehabilitation projects that have the most positive community impact. Often affordable housing, healthcare centers and community theaters, for example, need the historic tax credits to be renovated.

›› **High performing state historic tax credits also make incentives available to residents of owner-occupied properties.** Homeowner credits are particularly important because there is no federal credit for owner-occupied residences. Lower income homeowners tend to live in older homes, which makes properly structured state HTCs a potential tool for inclusive community revitalization. A tax credit for homeowners helps brings reinvestment to these neighborhoods and their commercial districts as part of an overall revitalization strategy. Twenty-three states offer a credit for homeowners.

Since homeowners earning credits are effectively precluded from using the more complex techniques for transferring credits, states should allow the credits to be applied against their personal income tax and a refund given if their tax liability is less than the amount of the credit.

Elements of an Effective State Historic Tax Credit

- **Evaluate Performance on a Regular Basis.** To determine the effectiveness of a state historic tax credit in rehabilitating historic structures and stimulating investment, states should collect information from applicants, including: the number of construction and permanent jobs created, the number of years vacant, the number of affordable housing units created, and the amount of private dollars leveraged.
- **Effective Program Management.** The majority of states require application fees and we recommend they fully support the costs of administering the HTC. States often streamline the process by reviewing proposed rehabilitations for both state and federal historic tax credits at the same time. However, those states like Colorado which have not required rehabilitation projects to meet the sometimes higher federal thresholds have increased the number of rehabilitation projects states should require within their states.

Successful historic tax credits efficiently and creatively use the state's resources to preserve its history while encouraging economic development. If adopted, the elements described above states should encourage more rehabilitation, more economic growth and more jobs in a state.

BILL BOYKIN GREW UP IN GREENVILLE, MS (POP. 31,500) AND SAYS:

"Without historic tax credits, projects like mine would not be feasible. Since I took the risk to rehabilitate the former 1940s Sears building into a 28-room boutique hotel and loft apartments, nine or ten other properties have been sold along the street. We now have nearly 75 employees [in the hotel, restaurant and bar] and it's hard to find a parking spot downtown. What a good problem to have."

TO SEE BILL'S RENOVATION CLICK HERE.

PHOTO COURTESY BLUE MAGNOLIA

Economic Studies Demonstrate the Impact of Effective Historic Tax Credits

The following is a sample of reports undertaken by state agencies and economic modeling firms that examined the many fiscal benefits, from pre-development to property operations in the years that follow, that result from effective state historic tax credits. Below are key findings from each report:

Louisiana

The Historic Tax Credit: Building the Future in Louisiana, Place Economics for the Louisiana Office of Cultural Development, 2017

- 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 tax credit is only awarded after the rehabilitation is complete. However, Louisiana collects taxes as the work progresses. "As a result, for every $1 of tax credit awarded, the Louisiana Treasury receives $.42 before a developer or owner can even use the credit."
- Nearly 60% of the federal investment in rehabilitating Louisiana's older buildings over the last decade is attributable to the existence of the state historic tax credit.
- The value of properties within 500 feet of the historic rehabilitation projects increased more than 20% thus increasing the tax base for the City of Monroe and Ouachita Parish.

CLICK HERE WATCH VIDEO OF THE LOUISIANA TAX CREDIT IN ACTION

Ohio

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

- Ohio found that 78% of the buildings renovated with the credit had been vacant at least one year prior to its redevelopment.
- Ohio estimates that $.32 cents are returned in state taxes during the construction phase for every $1 of credit the project receives. The credits are only awarded once the work has been completed and certified as meeting the Secretary of the Interior's Standards for Rehabilitation.
- The majority (82%) of owners and developers found the historic tax credit critical to making the project work.
- While the taxable value of the rehabilitated parcels increased by about 258%, the value of nearby parcels increased by 25.6%, showing how historic rehabilitation catalyzes additional value.

> "In the last decade more than $2.2 billion dollars have been invested in commercial properties throughout the state using [the Louisiana Historic Tax Credit]. These were not investments in the past; these were investments in Louisiana's future—creating housing, offices, arts and entertainment facilities, restaurants, stores and more."

BILLY NUNGESSER, LIEUTENANT GOVERNOR, STATE OF LOUISIANA IN PREFACE TO THE COMMISSIONED STUDY

Economic Studies Demonstrate the Impact of Effective Historic Tax Credits

Virginia

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

- For the years examined, the state is estimated to fully recoup its investment through tax revenue within nine years.
- Once the rehabilitation is certified and placed in service, the businesses in the renovated buildings are estimated to generate $4.66 in state tax revenue for every $1.00 in historic tax credits.
- On average, the assessed value of renovated buildings increased by 170%. Those buildings rehabilitated for institutional or public use experience the largest value gains followed by multifamily residential, commercial, and single-family residential use.

Wisconsin

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

- The change from a 5% HTC to a 20% historic tax credit sparked a 67% increase in rehabilitation development over a similar three-year period.
- Local municipalities are estimated to see an increase of more than $6.9 million annually in property tax revenue from the improved historic buildings which by state law benefits local schools and Wisconsin's Technical Colleges.
- The HTC projects are estimated to pay back the state's investment in four years after all the rehabilitated buildings are placed back in service.
- 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 from projects that were completed between 2014 and 2016.

AFTER EXPANDING THE FEDERAL HISTORIC TAX CREDIT IN 1984, PRESIDENT RONALD REAGAN SAID,

"Our historic tax credits have made the preservation of our older buildings not only a matter of respect for beauty and history, but of course for economic good sense."

TO SEE PRESIDENT REAGAN'S MESSAGE CLICK HERE.

Oklahoma

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

- Historic tax credits are used to encourage rehabilitations of all sizes. While the average project spent over $6.8 million in construction, one third of all the project owners spent $500,000 or less to rehabilitate their income-producing historic buildings.
- Typically, states receive between one-third and one-half of their investment back during the construction period. The Oklahoma treasury is estimated to receive about 50% of its investment back before the credit is even awarded through taxes on building materials and labor.
- 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.

Colorado

Preservation for a Changing Colorado, The Benefits of Historic Preservation, Colorado Preservation Inc., 2017

- Colorado's credit is one of the oldest in the country. Between 1991-2015, Colorado saw 1,113 historic rehabilitation projects undertaken with an estimated $192.9 million in qualified expenditures.
- Colorado's historic tax credit projects generated $2.8 million in state personal income tax revenues, $1 million in state business income tax revenue and $12.6 million in state sales tax revenue.

According to Mark A. Rodman, Colorado's Deputy State Historic Preservation Officer "We've seen a lot of interest in the tax credit program along the Front Range since 2015, and now we are making a concerted effort to tap into rural communities. This year Colorado's legislature increased the state's HTC from 25% to 35% beginning in 2020 in rural areas.

The economics of maintaining vibrant and thriving small towns can be challenging, and the historic preservation tax credit is designed to ease that burden. For example, the rehab of the 1890 Odd Fellows Hall into New Castle's (pop. 4,500) only dentist's office was made possible by Colorado historic tax credits."

PHOTO COURTESY COLORADO HISTORY

Texas Case Study: Transforming Communities Through State Historic Tax Credits

FAST FACTS

Date Effective: 2013
Credits available after Jan. 1, 2015

Statute: Tex. Tax Code Ann. §§ 171.901 – 171.909

Credit % of Qualifying Expenditures: 25%

Taxes Applied Against: Business Franchise, Insurance Premium

Distribution Methods: Direct Transfer,Allocation Within Partnerships

Total Number of Completed Rehabilitation Projects: 125 (between 2013–July 2018)

Total State Historic Credits: $296,175,908

Total Qualified Rehabilitation Expenditures: $1,184,703,634

Total Rehabilitation Expenditures: $1,598,917,469

Texas achieved a remarkable policy milestone in 2013 when it became the first state in the nation without an income tax to enact historic tax credit legislation. Prior to enactment of the Texas historic tax credit, every state with a historic tax credit designed its incentive to reduce income tax liability. Recognizing the community reinvestment opportunities that were being lost, Texas joined the 34 other states offering a historic tax credit.

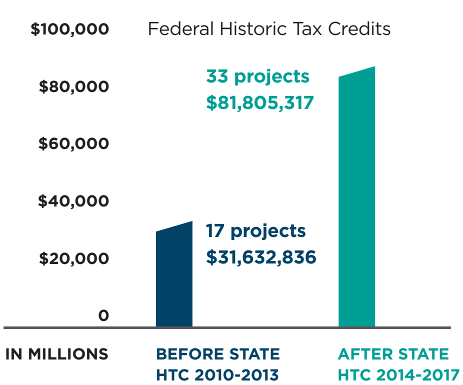
To create a state historic tax credit, the Texas legislature identified the business franchise tax because it was broadly applicable and significant enough to be used by those with tax liability. The legislature later improved the credit during the 2017 legislative session by allowing the credit to also apply against the Insurance Premium Tax. This change expanded interest in the credit to insurers and health maintenance organizations in the state.

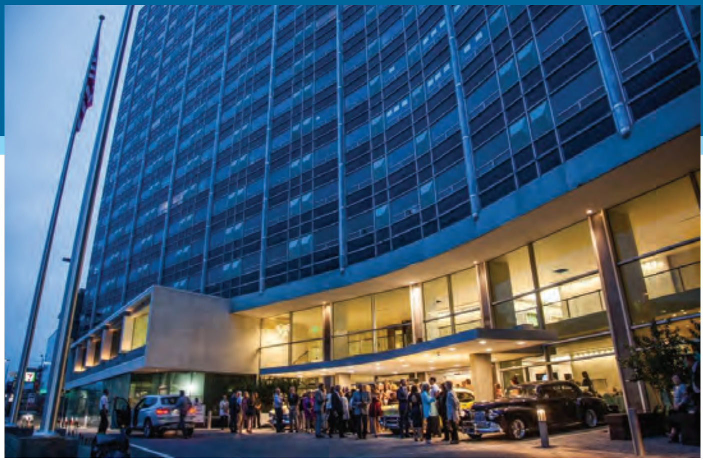
Designed to spur reinvestment in the state's older communities, the Texas historic tax credit has achieved impressive results. Since enactment, more than 123 rehabilitation projects have been completed with total construction spending of $1.6 billion. Historic tax credit applications represent 81 different communities of various sizes throughout the state. Roughly 350 buildings either completed or in progress, that were previously empty or severely underutilized are now back in service and contributing for the first time in many years to the state and local tax base.

Caroline Wright, who reviews the credit applications for the Texas Historical Commission says, "We now have potential or ongoing [historic rehabilitation] projects in 81 different cities across the state. Half of the projects are from outside of the four largest cities (Houston, San Antonio, Dallas, and Fort Worth). The smallest population center with a project has only 600 people."

In the year before the state historic tax credit was enacted, there were just three completed rehabilitation projects undertaken using the federal historic tax credit (HTC) in the entire state of Texas. For a state with more than 3,300 buildings listed on the National Register of Historic Places, it was clear a preservation incentive was needed. After enactment of the state's historic tax credit, however, like Texas Historical Commission now receives triple the number of rehabilitation applications each year, helping to preserve the unique character of the state.

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





Despite some calling for its demolition, the 1956 Statler hotel once again provides stylish accommodations in downtown Dallas thanks to the state's historic tax credit which made the financially complicated project possible. The hotel's innovative construction and design elements make it a significant landmark building not just for the city but for the development of a Mid-Century Modern architectural style in Texas.

PHOTO COURTESY PRESERVATION DALLAS

The effectiveness of the Texas historic tax credit is due in large measure to the best practices incorporated into its design.

- **First, the program mimics the federal historic tax credit.** If the rehabilitation is completed according to the Secretary of the Interior Standards, then property owners, lenders, and investors know the state and the federal government will award credits.
- **Second, the credits are transferrable through a simple certificate multiple times.** To maximize efficiency, a state should offer a mechanism to easily transfer the credits to those with state tax liability. Texas issues a certificate that can be monetized as part of the financing for the rehabilitation and is easily transferred multiple times if necessary.
- **Third, since Texas does not collect income taxes, the credit can be applied against a business franchise tax or an insurance premium tax.** Originally just applied against the business franchise tax, the Texas legislature amended the credit thereby making the program more versatile for property owners and investors.
- **Fourth, the state also encourages the renovation of extremely large rehabilitation projects by allowing the work to be certified in phases.** A property owner receives credits for the approved rehabilitation work that was completed in the first phase which can be monetized to help with the later renovation phases.
- **Finally, the Texas legislature also amended the credit to allow nonprofits to utilize the credit starting on January 1, 2016.** The change encourages more investment in difficult-to-renovate community buildings like theaters, which usually take many sources of financing and often spark the adjacent redevelopment of restaurants, coffee shops, and artists' housing.

> "All of us at the Texas Historical Commission appreciate the vision and support of our state leaders, who made our historic tax credit possible. They understand the importance of a strong preservation program and the economic impact it can have on a community. The Texas historic tax credit has made a difference to a phenomenal number of projects by attracting private investment from Texans and from investors across the country."

JOHN NAU, CHAIRMAN, TEXAS HISTORICAL COMMISSION

Texas Case Study: Transforming Communities Through State Historic Tax Credits

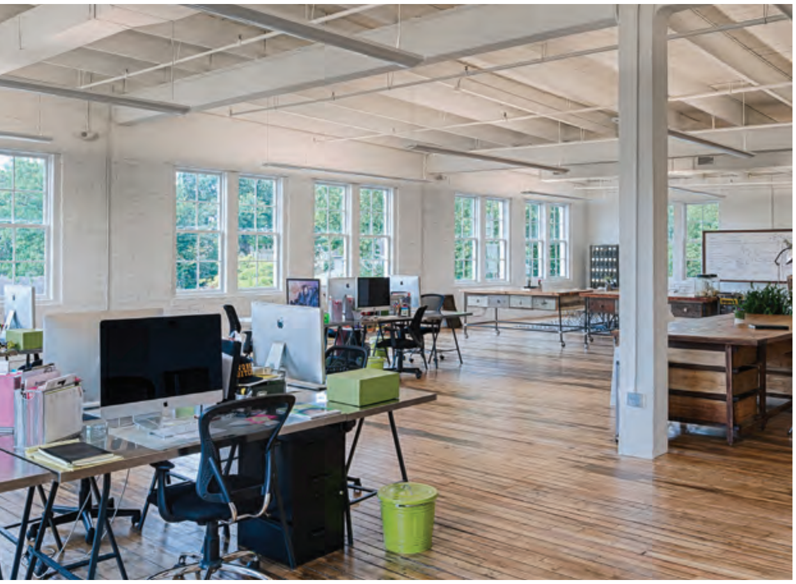
Although relatively new, the Texas historic tax credit is already making a positive impact in both large and small communities across the state. For example, the 1894 Oriental Textile Mill once thrived in the former industrial center of Houston Heights but had sat neglected for years. The state's historic tax credit spurred the owners to renovate the building for several new purposes including lofts for working and living, retail space, a bakery and a café. The five-story tower, with its historic Seth Thomas clock which once helped locals keep time, became a private apartment. The conversion of this textile mill illustrates the credit's impact on Houston.

According to the architectural team of Nonya Grenader, FAIA, David Watson, RA, and Sam Grenader, AIA, the existing structure and character of the building informed the design layout and programmatic intentions. Nonya says, "In a rapidly changing context, the Textile Mill serves as a historical presence and a reminder of the neighborhood's industrial past."

Between 1987 and 2013, the National Park Service certified around forty federal HTC projects in Houston, with total reported qualified rehabilitation expenditures of $217 million. Astoundingly, between 2007 and 2013 the National Park Service did not certify any rehabilitations in Houston. Since the passage of the state's historic tax credit in 2013, however, there have been fifteen completed rehabilitation projects with a total estimated expenditure of $219.3 million in construction and other associated rehabilitation work. Accordingly, over the last five years, Houston has seen nearly the same amount of building reuse as it has over the preceding 20 year period. The singular reason for the dramatic increase in rehabilitation projects is enactment of the Texas historic tax credit.

The massive 1894 Oriental Textile Mill in the former industrial center of Houston Heights was renovated for retail, lofts, a bakery and a café. The building is just one of several in Houston whose reuse was sparked by the state's historic tax credit.

PHOTO COURTESY NASH BAKER



Accordingly, over the last five years, Houston has seen nearly the same amount of building reuse as it has over the preceding 20 year period. The singular reason for the dramatic increase in rehabilitation projects is enactment of the Texas historic tax credit.

The state historic tax credit allowed property owners in the town of Ennis to chose rehabilitation over demolition after a tornado struck in 2013.

PHOTOS COURTESY FRAN MCCARTHY

Similarly, the state's historic tax credit made a big difference in the fate of Ennis, Texas (pop. 18,500). On May 16, 2013, a tornado tore through downtown Ennis, leaving buildings without front facades. The state's historic tax credit enabled four impacted buildings to be returned to productive use in the past two years. According to business owner Fran McCarthy, "the historic tax credit allowed us to do projects that we wouldn't have otherwise been able to move forward. Integrity-wise it allowed us to keep historic features that people appreciate and are attracted to." After the tornado, the city considered moving its offices out of downtown. After seeing private owners willing to reinvest in their downtown buildings, city officials decided to keep their offices downtown and are now exploring the possibility of moving into a renovated historic building.

The Texas incentive also spurred redevelopment in the town of Elgin (pop. 9,300). According to Elgin's Community Development Director, the town has seen five buildings renovated in past three years. "The loft apartments have been a huge success for our community. They lease immediately and stay leased and it's been really good for downtown businesses to have more people living downtown," said Amy Miller.

Owner Emilio Rangel located his new business in a historic tax credit project that transformed a former department store into lofts and commercial space in downtown Elgin, Texas.

PHOTO COURTESY SONIA BROWDER

Emilio Rangel, a self-taught hat shaper and Elgin High School graduate, located his business in a historic tax credit project. Rangel located downtown because a former department store was rehabilitated to include two commercial spaces in addition to the two loft apartments. Rangel's hats are manufactured at 32 North Main and shipped all over the world.

From small towns like Elgin and Ennis, which have seen multiple buildings renovated, to larger cities like Dallas and Houston, the Texas historic tax credit is filling a critical financing gap and spurring redevelopment of underutilized historic properties. As Ennis building owner Fran McCarthy says, "renovating historic buildings is expensive and the credits enable you to install new plumbing, new electrical, etc. The credit allows us to create spaces that people want to be in."

Maine's Historic Tax Credit Reaches Half a Billion in Rehabilitation

FAST FACTS

Date Effective: Jan. 1, 2008

Statute: Me. Rev. Stat. Ann. Tit. 36 § 5219-BB

Credit % of Qualifying Expenditures: 25% if qualified for federal HTC and 25% if taxpayer does not claim the federal HTC and incurs between $50,000-$250,000 in qualified expenses; 33% where at least 50% of the aggregate square feet is housing (of which 50% creates new affordable housing) or at least 33% of the aggregate square feet of the completed project creates new affordable housing.

Attributes: $5 million per building placed in service per year; credit taken in four equal annual installments

Taxes Applied Against: Income tax, Insurance Premium Tax

Distribution Methods: Allocation by Partner Agreement; Refundable

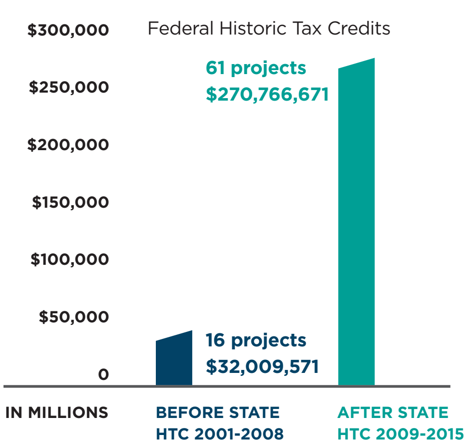
Total Number of Completed Rehabilitation Projects: 92 (2008–Oct. 2018)

Total State Historic Credits: $97,217,807

Total Qualified Rehabilitation Expenditures: $387,811,229

Total Rehabilitation Expenditures: $473,376,140

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



With a population just over 1.3 million people spread out over 33,000 square miles, the Pine Tree State has found the right balance of incentives to preserve historic buildings, address community needs, and attract private capital to the state. Since its historic tax credit program was reauthorized in 2008, Maine has seen 92 historic buildings rehabilitated, an uptick in rural reinvestment, the creation of more affordable housing, and $473 million in private investment flowing to older and historic communities.

Maine's historic tax credit is performing as envisioned, helping preserve historic buildings statewide in small and large towns and from Main Street to large mill complexes. Maine offers a 25% state historic tax credit for income producing properties that also qualify for the 20% federal credit, and a separate 25% credit for the rehabilitation of certified historic structures with qualified rehabilitation expenditures between $50,000 and $250,000. Both credits may be increased to 33% if the rehabilitation project results in the creation of a certain amount of affordable housing.

The economic impact analysis of Maine's historic tax credit, completed by Planning Decisions, Inc. for Maine Preservation in 2015, found the incentive was performing well. The study documented the credit stimulated construction activity and jobs, and created a net revenue gain to state and local governments. From 2007 to 2015, the value of historic rehabilitation activity increased from $7 million to $65 million. Historic rehabilitation is also credited with catalyzing more than $64 million in new construction activity. The report highlights the connection between Maine's largest economic sector, tourism, and the value of reusing the state's existing historic building stock to create attractive, authentic and unique towns.

There was only a modest amount of historic rehabilitation occurring in Maine before the current credit was established in 2008. In the 10 years leading up to enhancement of the state's historic tax credit, there were on average four federal historic tax credit projects per year with a total value of $3.5 million. After the current state incentive was put in place, however, the annual average is now 8 projects with a total value of $56 million. Without a state historic tax credit, economic projections estimated that historic rehabilitation projects would still occur but with a 90 percent reduction in the amount of rehabilitation activity.

The state historic tax credit has allowed Maine to take advantage of its unique architectural history. According to Greg Paxton, Executive Director of Maine Preservation, "The state tax credit is encouraging private sector investment to carefully rehabilitate historic buildings which is in turn stimulating community revitalization. These investments are occurring not only in the state's largest cities and in former mill centers, but also in small towns like Berwick, Farmington, Freedom and Dover-Foxcroft."

The renovation of 265 Main Street in downtown Biddeford, Maine (pop. 22,000) into the Elements: Books Coffee Beer shop has "been instrumental in spurring the downtown's revitalization," according to Delilah Poupore, director of the Heart of Biddeford. The successful launching of the store led to other new businesses like the Palace Diner and Elda restaurant opening nearby. Historic tax credits are also making possible the renovations of former mills and former courthouse in the town.

PHOTO COURTESY KATIE PINARD

Main Street communities like Biddeford are seeing the results of the state's preservation incentive. The opening of a coffee shop in a historic tax credit project proved a key moment in Biddeford's revitalization efforts. The rehabilitation and reuse of a centrally located historic building helped draw students downtown and served as an inspiration for other business owners.

Inspired after visiting, owners of The Palace Diner decided to renovate the state's oldest diner in Biddeford for their new restaurant. According to Delilah Poupore, director of the Heart of Biddeford, historic tax credits are also making possible the renovations of the town's former mills and the former courthouse. "People are seeking authentic places to spend their time and that's what Main Street provides," said Poupore.

An important factor allowing private investment to reach small towns in Maine is the refundability of the state tax credit. If the development entity receives historic tax credits in excess of its tax liability, it is entitled to a tax refund from the state for the balance. Creating a refundable credit when the credit was substantially improved in 2008, has enabled smaller, local developers to take advantage of the program.

Another important policy objective for Maine when it was considering the creation of a state historic tax credit was finding ways to address the lack of affordable housing in the state. After gathering input from a group of stakeholders, the state incorporated an increased tax credit for historic rehabilitation projects that also create affordable housing. Maine's 25% historic tax credit increases to 33% if either 50% of the aggregate square feet of the completed project is housing and half of the aggregate square feet is affordable housing, or where at least 33% of the aggregate square feet of the completed project creates new affordable housing.

Maine's Historic Tax Credit Reaches Half a Billion in Rehabilitation

According to Kevin Bunker, a Portland developer, the improved state historic tax credit has stimulated the creation of additional housing. Bunker and his partner, for example, are renovating the historic Motherhouse at the Sisters of Mercy Site into 66 affordable and 22 market rate apartments for seniors. Located in Portland's Deering Center Neighborhood, the Motherhouse was built in 1906 but closed in 2005 due to a dwindling number of Sisters living on the community's 18.98 acres. Because of historic tax credits, the unique character the property including its grand stairways, stained glass windows, three-story chapel with altar and grand organ will be restored during the redevelopment process. "Some historic building types, like former mills and schools, lend themselves for conversion to housing. But without the historic tax credits, I doubt the Developers Collaborative would pursue renovations like the one at the Motherhouse."

PHOTO COURTESY DAVID MELE

The state defines "affordable housing" as "a decent, safe and sanitary dwelling, apartment or other living accommodation for a household whose income does not exceed 60% of the median income for the area as defined by the United States Department of Housing and Urban Development." Of new housing units created through 2015, 74% were affordable housing units (609 out of 819 total housing units reported). The 7% increase in the credit amount had the desired effect. To date, over 814 affordable housing units have been created and an additional 347 units have been preserved. The credit has been particularly successful at encouraging the renovation of formerly vacant schools and mills.

Business investors appreciate that Maine's historic tax credit incentive is a reliable source of redevelopment financing. Developers of historic properties in Maine operate with the certainty that if they complete projects according to program requirements, the project will receive state historic tax credits. Other state historic tax credit incentives that limit the amount of credits issued per year do not provide developers this same assurance. By setting a high cap for individual rehabilitation projects as opposed to setting an overall program cap, Maine's historic tax credit incentive is more attractive to potential developers. Owners of historic properties in Maine know that if their rehabilitation work meets the standards adopted by the state, there is certainty in obtaining up to $5 million per phase per year in state credits.

The increase in the per-project limit from $100,000 to $5 million when the program was reauthorized in 2008 had an immediate effect and directed millions more in private investment to the state's vacant and underutilized historic buildings. This certainty makes it easier to successfully finance many different types of historic rehabilitation projects in Maine, including projects that collect less rent and are aimed at creating low and moderate-income housing.

To leverage the most private investment possible, historic tax credits need to reach entities that have tax liability. Maine's historic tax credit does this by allowing the allocation of the credits within a development partnership according to the partners' wishes and does not require the credits to be split into equal shares.

The $10.7 million rehabilitation of the former Moosehead Furniture Manufacturing Company into 27 apartments, a boutique inn and has been a boon to Dover-Foxcroft (pop. 4,200), the county seat of Piscataquis County. The new mixed-use development officially opened in June 2015 after the mill sat vacant for more than 15 years.

PHOTOS COURTESY THE MILL AT DOVER-FOXCROFT

ACCORDING TO JADE HARMON, EXECUTIVE MANAGER OF THE MILL AT DOVER-FOXCROFT

"The apartments continue to be very popular and are fully rented. Because they received the most requests about our property, the local Chamber of Commerce named us Business of the Year in 2016."

An important aspect of Maine's relatively high per project cap is its ability to consistently meet budget projections. After discussion with members of the redevelopment community and the state's budget office, Maine legislators determined in 2008 a $5 million per project cap is both significant enough to attract private investment and limited in a way that permits the Department of Revenue to accurately budget the cost of the program. The state also reduces the annual budgetary impact of its historic tax credit incentive by requiring that the credits are taken in installments over four years. In 2011, the legislature extended the historic tax credit program to 2023 with unanimous bipartisan support. In 2014, the $5 million cap was increased to provide for phasing projects, allowing a cap of $5 million per phase per year. The tax credit program continues to foster redevelopment by attracting additional reinvestment in Maine's cities and towns, building pride and community identity.

The historic tax credit has significantly helped the state achieve its goal of creating housing and encouraging more rehabilitation of its historic buildings. Maine also automatically qualifies state historic tax credits for projects that also qualify for federal historic tax credits as a way of streamlining the review process. The benefits extend to local governments as well. Previously vacant and underutilized historic buildings are now contributing more to their communities through increased property values. Property taxes in turn help support local schools and other critical city services.

Ohio Case Study: Unlocking the Full Potential of Historic Building Reuse

FAST FACTS

Date Effective: April 4, 2007

Statute: Ohio Rev. Code § 149.311 and 5747.76 (Refund and Partnership)

Credit % of Qualifying Rehab Expenditures: up to 25%

Attributes: $60 million aggregate cap; $5 million per-project cap

Taxes Applied Against: Income Tax, Financial Institutions Tax, both Foreign and Domestic Insurance Tax

Distribution Methods: Allocation by Partner Agreement; Refundable up to $3 million per project

Total Number of Approved Rehabilitation Projects: 387

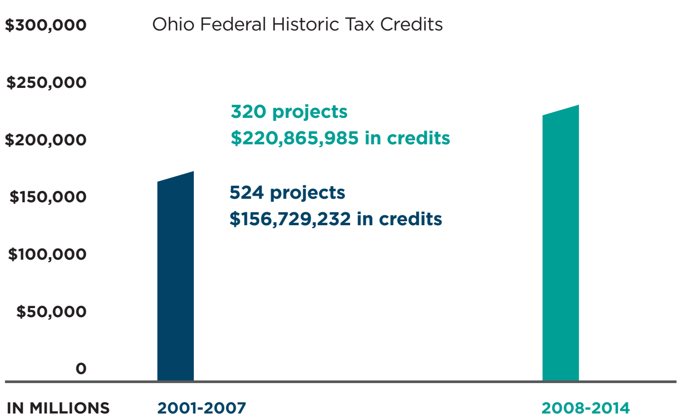
Total State Historic Credits: $723,657,178

Total Qualified Rehabilitation Expenditures: $4,456,807,040

Total Development Expenditures: $5,848,494,605

Ohio's historic tax credit program strongly considers community impact and return on investment in determining which projects should receive credits. With an annual aggregate cap of $60 million, the state evaluates each application against ten key priorities, including a demonstration of potential economic impact and a clear indication that the state historic tax credit is a "major factor" in the decision about whether to invest in the rehabilitation. Other weighted preferences in Ohio's ranking methodology include whether the buildings are underutilized, how many construction jobs are created, project readiness, the amount of leveraged investment, return on investment and if historic tax credits have previously been issued in the county or municipality. To encourage economic growth in distressed areas, the state evaluates local unemployment rates in the jurisdiction, poverty rates within certain census tracts, and local unemployment.

ENACTMENT OF THE OHIO HISTORIC TAX CREDIT INCREASED FEDERAL REHABILITATION IN THE STATE



Not only do small towns benefit from Ohio's tax credit ranking process, but small projects do as well. To ensure equitable access to credits, the state sets aside eight percent of allocated credits for small projects and 25% for intermediate-sized projects. Projects compete in these set-aside credit categories before competing against larger projects for the remaining credits.

As a result of an effective state historic tax credit, vacant landmark buildings in rural Ohio communities catalyze conomic development. Closed since 1985, the 98-year-old Ashtabula Hotel was transformed into medical offices for Signature Health in Ashtabula (pop. 18,000), and in Chillicothe (pop. 21,700), the 1885 Carlisle Building now offers office space on the ground floor and 32 loft apartments for medical professionals above.

Nearly destroyed by fire and covering almost a city block, the 1895 Carlisle building in Chillicothe (pop. 21,700) now offers office space on the ground floor and 32 loft apartments for medical professionals in the upper floors.

CREDIT: JONATHAN QUILTER / THE COLUMBUS DISPATCH

Once threatened with demolition, the rehabilitation of the Mercantile Block, comprised of the Second National Bank, the Howell-Sohngen building, and the Davis-McCrory Building, sparked a revitalization of downtown Hamilton (pop. 62,000) The city looked to Steve Coon of Historic Developers, LLC, Sandvick Architects of Cleveland, and the Hamilton Community Foundation to think creatively about how to complete this transformative rehabilitation project. As a result of this initial renovation, others soon followed, and an additional thirteen new business have chosen to locate downtown.

Not only are these credits generating construction jobs, state and local tax revenue, and sales and property taxes, the renovated buildings are also creating a wave of interest for new businesses and privately funded rehabilitations.

The state recognizes the benefits of encouraging large-scale projects in intermediate and large-sized cities because of their potential to generate significant new economic activity. Between 2014-2015, Ohio offered a "catalytic credit up to $25 million" for a single project that fostered significant economic development.

"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.

COURTESY OHIO DEVELOPMENT SERVICES AGENCY

Ohio Case Study: Unlocking the Full Potential of Historic Building Reuse

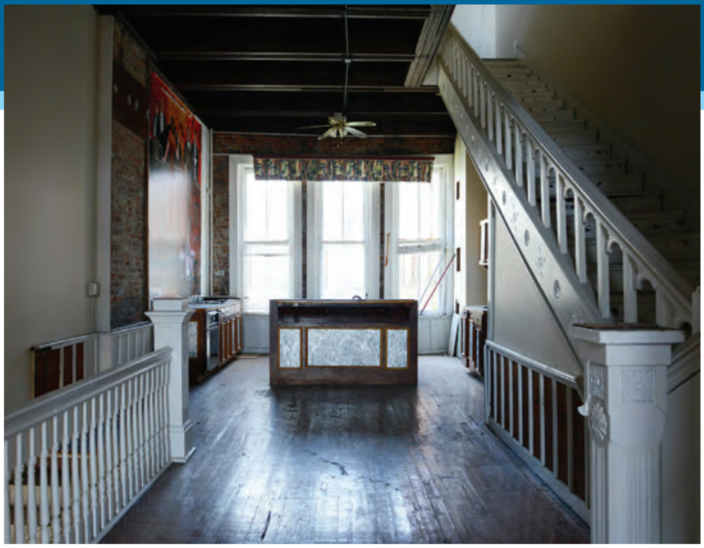
Cincinnati's 1878 Music Hall received the state's first catalytic credit to repurpose its spaces for the Cincinnati Symphony Orchestra, the Cincinnati Pops Orchestra, the Cincinnati Opera and the Cincinnati Ballet. Reopened on October 7, 2017, the four-year, $143 million renovation unquestionably helped spur the development of new shops and restaurants in the distressed Over-the-Rhine neighborhood.

According to the Ohio Development Services Agency, the state's historic tax credit creates jobs during construction and after a rehabilitated building is placed in service. Approximately 38,318 construction jobs were created as a result of the state's investment. An impressive 76,881 jobs are now housed in historic buildings that once were underutilized or vacant. Many of these jobs are in restaurants, retail shops, hotels, event venues, and other new businesses that were made possible by the state's historic tax credit.

Innovative community outreach and education contributes to the success of the program. Ohio promotes the state's historic tax credit through a series of convenings where preservation professionals provide education and training to communities, especially smaller, rural communities that have little to no experi-

Ohio's historic tax credits were pivotal in the renovation of spaces for the Cincinnati Symphony Orchestra, the Cincinnati Pops Orchestra, the Cincinnati Opera and the Cincinnati Ballet in the historic Music Hall. Once listed on the National Trust's Eleven Most Endangered List, the venue's $143 million renovation spurred new restaurants, bars, shops and galleries to open in the nearby distressed Over-the-Rhine neighborhood.

CREDIT: CINCINNATI PRESERVATION ALLIANCE

Investing in her hometown of Newark (pop. 49,000), small business owner Liz Argyle first created the Market District Lofts using a $58,000 in Ohio historic tax credits. She then transformed the historic Brunswick Building (pictured here). Since her initial rehabilitation, five additional historic tax projects in the town have been approved by the state of Ohio.

PHOTO COURTESY ARGYLE PHOTOGRAPHY

ence applying for these credits. In a two-year period alone, staff from the Ohio History Connection, the Ohio Development Services Agency and Heritage Ohio hosted trainings in more than 42 rural communities throughout the state.

Newark resident and owner of Argyle Photography, Liz Argyle tackled the rehabilitation of the upper floors of her 1880 building and turned them into four market rate apartments, the Market District Lofts. Vacant for almost sixty years, Argyle says the renovation wouldn't have been possible without the state's historic credit. According Argyle, the upper floors were "boarded up and really a bird cage. People thought we were nuts to tackle it. But the renovations had a ripple effect. We then took on turning the 1890 Brunswick Club Pool Hall into one large upstairs apartment and ground floor retail. Both were rented out before we had even finished the rehab. Because of these projects and an earlier one, the city then had two more preservation projects completed downtown as well as other rehabilitations that did not use the credits. It was momentum building."

Argyle credits the outreach by the state as being critical to her utilizing the credits. "I'd heard about them years before but being a small business owner I wasn't sure how to use all of the credits myself. They [staff] talked to me about the process. That's what I think kickstarted these credits to smaller communities like mine."

Ohio invested

$1 million

which resulted in:

$8 million
in construction spending and

$32 million
in total operating impact for a total of

$40 million
in economic activity.

2013 Cleveland State University study

"Economic impact studies show that the Ohio credit optimizes job creation while at the same time creating more tax revenue back to the state than it costs. I believe investing in our heritage today is a winning strategy for better communities tomorrow."

JONATHAN SANDVICK, OWNER, SANDVICK ARCHITECTS

A State by State Comparison

The chart below offers a comparison of different provisions of state historic tax credits. For additional details about each state's credit, please consult the state historic preservation office by clicking on each state name.

State	Effective Year	Credit % for Income-Producing Properties	Additional Credits	Minimum Investment	Annual Aggregate Cap	Annual Per-Project Cap	Direct Transfer	Allocation by Partnership Agreement	Refund
Alabama	2018	25%	25% homeowners	Greater of 50% of purchase price or $25,000	$20M	$5M	Yes		Yes
Arkansas	2009	25%	25% homeowners	$25,000	$4M	$400K	Yes	Yes	
Colorado	2018	25% for $2M QRE; 20% for $2M+ QRE	30% disasters; 35% in rural communities; 20% homeowners	25% of adjusted basis; in 2020, flat $20,000	$10M	$1M	Yes	Yes	
Connecticut	2007	25%	30% affordable housing; 30% homeowners	25% of assessed building value	$31.7M	$4M	Yes	Yes	
Delaware	2002	20%	30% affordable hsg & nonprofits; 30% homeowners	Greater of $5,000 or adjusted basis	$5M	None	Yes	Yes	
Georgia	2002	25%	30% residence in HUD areas; 25% homeowners	Greater of $5,000 or adjusted basis	No cap under $300K credits / $25M	$5M; $10M if meets job creation tests	Yes	Yes	
Illinois (River Edge)	2011	25%		Greater of $5,000 or 50% of purchase price	None	None		Yes	
Illinois (Statewide)	2019	25%		Greater of $5,000 or adjusted basis	$15M	$3M		Yes	
Indiana	2002		20% homeowners		$250,000	None			
Iowa	2000	25%	25% homeowners	Lesser of 50% of the assessed value or $50,000	$45M	None	Yes	Yes	Yes
Kansas	2001	25%	25% homeowners; 30% for nonprofits	$5,000	None	None	Yes	Yes	

Definitions

Allocation by Partner Agreement: a mechanism by which a state tax credit can be allocated to to stakeholders by mutual agreement within the partnership. Each state regulates business partnerships differently, requiring close examination of development entities' ability to allocate credits within the partnership.

Direct Transfer: the ability to make an outright transfer or assignment of the tax credit to another person or entity.

Refund: a tax refund is issued when the amount of one's tax liability is less than the tax credit.

State	Effective Year	Credit % for Income-Producing Properties	Additional Credits	Minimum Investment	Annual Aggregate Cap	Annual Per-Project Cap	Direct Transfer	Allocation by Partnership Agreement	Refund
Kentucky	2005	up to 20%	30% homeowners	Greater of $20,000 or adjusted basis	$5M	$400,000	Yes	Yes for non-taxed entities	Yes
Louisiana	2002	20%		$10,000	None	$5M per taxpayer, per year	Yes		
Maine	2008	25%	30% for affordable housing	Same as federal HTC; $50K if fed HTC not claimed	None	$5M per building. per year		Yes	Yes
Maryland	2004	20%	20% homeowners; 30% LEED gold; 30% affordable hsg	Greater of adjusted basis or $25,000	$9M	$3M		Yes	Yes
Massachu-setts	2005	Up to 20%	25% credit affordable hsg	25% of adjusted basis	$55M	None	Yes	Yes	
Minnesota	2010	20%		Greater of $5,000 or adjusted basis	None	None	Yes	Yes	Yes
Mississippi	2016	25%	25% homeowners	50% of the total basis	$12M	None		Yes but not also with refund	75% can be re-funded.
Missouri	1998	25%	25% homeowners	50% of total basis of the property	$90M; additional $30M in areas of high pov-erty; small projects uncapped	None	Yes	Yes	
Montana	1997	5%		Greater of $5,000 or adjusted basis	None	None			
Nebraska	2015	20%		$25,000 or 25% of assessed value	$15M	$1M		Yes	
New Mexico	1984	50%	50% homeowners		None	$25K; $50K inside Arts & Cultural Dis.		Yes	
New York	2007	20% credit	20% homeowners; 25% for barns	Greater of $5,000 or adjusted basis	None	$5M			Yes
North Carolina	2016	15% for up to $10M QRE; 10% for $10M–$20M QRE	Add 5% in target areas or sites; 15% homeowners	Greater of $5,000 or adjusted basis	None	$4.5M		Yes when 40% allocated to owner	
North Dakota	1999	25% for projects in Renaissance Zones	25% homeowners	50% of building value	None	$250,000			
Ohio	2007	25%	25% homeowners		$60M	$5M		Yes	Yes
Oklahoma	2009	20%		Greater of $5,000 or adjusted basis	None	None	Yes		

A State by State Comparison

State	Effective Year	Credit % for Income-Producing Properties	Additional Credits	Minimum Investment	Annual Aggregate Cap	Annual Per-Project Cap	Direct Transfer	Allocation by Partnership Agreement	Refund
Pennsylvania	2013	25%		Greater of $5,000 or adjusted basis	$3M	$500,000	Yes		
Rhode Island	2002	20%	25% if 1/4 of space for business	Adjusted basis of the building	Awaiting reauthoriz-ation	$5M	Yes	Yes	Yes for tax exempt entities
South Carolina	2003	10% 25% if no federal HTC	25% mills; 25% homeowners		None	None	Yes for mills	Yes for 10%; Yes for pass through entities on mills	
Texas	2015	25%		$5,000	None	None	Yes	Yes	
Utah	1993	None	20% for rental residential	$10,000	None	None			
Vermont	1998	10% down-town; 25% façade and 50% code improvements		$5,000	$2.4M	None	Yes		
Virginia	1997	25%	25% homeowners	at least 50% of the assessed value	None	$5M (between 2017-2019; reverts 2020 to no cap)		Yes	
West Virginia	2018	25%	20% homeowners	$5,000 or adjusted basis	$30M	$10M	Yes	Yes	
Wisconsin	2013	20%	25% homeowners (1989)	$50,000	None	$3.5M	Yes	Yes	

Conclusion

The National Trust for Historic Preservation has supported the establishment of state historic tax credits for more than three decades and is encouraged by the dramatic increase in historic rehabilitation that has occurred as a result of these powerful public-private partnerships. With these incentives, states not only increase revenue by broadening their tax base, but they also transform areas of disinvestment into older neighborhoods that attract residents and tourists alike. The many economic studies that show state HTC's pay back before credits are even issued is instructive and should give taxpayers confidence in their investment.

What the National Trust has observed since the first state historic tax credit was put in place in 1984 is that the most successful rehabilitation incentives—those that avoid program caps and are easily transferred—attract significant private investment and rehabilitate the greatest number of historic buildings. The National Trust looks forward to assisting states design historic tax credit incentives that make difficult rehabilitation projects possible and address the specific needs of its citizens.

The National Trust for Historic Preservation works to save American's historic places for the next generation. We take direct, on-the-ground action when historic buildings and sites are threatened. Our work helps build vibrant, sustainable communities. We advocate with governments to save American's heritage. We strive to create a cultural legacy that is as diverse as the nation itself so that all of us can take pride in our part of the American story.

National Trust for Historic Preservation

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RENEE KUHLMAN joined the National Trust for Historic Preservation in 1997 and currently serves as Director of Policy Outreach. Since 2004, she has been assisting legislators and advocates across the country with the adoption, expansion, and protection of state historic tax credits. Renee earned an M.S. Degree in Historic Preservation from the University of Vermont and a B.A. Degree in History from the College of William and Mary.

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