Forum Focus
Research Confirms Power of Historic Tax Credits
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Research Confirms Power of Historic Tax Credit

“PRESERVATION=JOBS” makes an eye-catching campaign button, but it’s also the truth. In 2011 historic rehabilitation projects supported by the federal Historic Tax Credit (HTC) created some 55,458 jobs. The assertion that “the Historic Tax Credit program more than pays for itself” is not just a sound bite. It’s a fact. Research has proved that the program is a sound fiscal policy—for every federal dollar invested, $1.72 is returned in federal taxes. In this Forum Focus we share the findings of four important research efforts that assess the economic impact of tax incentive programs, including three that look at the federal Historic Tax Credit and one that documents the economic benefits of Ohio’s state rehabilitation tax credit. For each, we explain the scope, methodology, and timing of the report and highlight important findings. Each makes a powerful case for why tax incentives for historic rehabilitation should be maintained and, as appropriate, expanded.

THE HISTORIC TAX CREDIT’S CUMULATIVE ECONOMIC BENEFITS: THE RUTGERS REPORT

The Report on the Economic Impact of the Federal Historic Tax Credit, better known as the Rutgers Report, has become the definitive source for both quantitative and qualitative information about the economic impact of the federal Historic Tax Credit over time. Now in its third year, the report is commissioned by the Historic Tax Credit Coalition and the National Trust for Historic Preservation. The Rutgers University Center for Urban Policy Research conducts the research under the guidance of Dr. David Listokin, Dr. Michael L. Lahr, and Charles Heydt with further research assistance provided by the Technical Preservation Services office of the National Park Service and the National Conference of State Historic Preservation Officers. John Leith-Tetrault and Anna Klosterman of the National Trust Community Investment Corporation also contribute to the report.

RESEARCH METHODOLOGY

The Rutgers Report evaluates data provided by the National Park Service and the National Conference of State Historic Preservation Officers from 1978 to 2011 to measure the economic impact of projects that received final National Park Service approvals for the federal Historic Tax Credit—some 48,000 projects to date. Using a Preservation Economic Impact Model (PEIM), researchers input data such as total project cost, location, size, and property use to calculate jobs created, economic output, gross domestic product, income generated, and increases to federal, state, and local tax bases.
Using PEIM, the Rutgers team has been able to demonstrate the tremendous economic benefit of HTC investments, and yet it finds that the report’s tally is conservative at best. Because the study focuses solely on the economic effects of HTC-related construction, a one-time investment, it does not offer a full accounting of the benefits of rehabilitation projects, including recurring year-by-year economic returns. Nor does it quantify other income generators such as enhanced tourism, commercial space for businesses that generate payroll and tax payments, increased property values, and so on.

This makes the report’s case studies particularly useful because they demonstrate more broadly what HTC-related historic rehabilitation has meant to local communities. For example, the rehabilitation of the 1930s Michigan Bell and Western Electric Warehouse Building in Detroit not only resulted in 232 construction jobs, 299 permanent jobs, and $2.04 million in state and local taxes, it also provides housing and support services for formerly homeless adults. Total project costs were $37 million and the tax credit equity was $6.32 million.

2012 REPORT RESEARCH FINDINGS
In spite of continuing economic uncertainty, the HTC continues its strong performance. The 2012 report found the following cumulative impacts:

- The HTC leverages private investment five times the cost of the program. Taken over the life of the program, the HTC is responsible for nearly $100 billion in new investment in urban and rural communities.
- The HTC generated about 2.2 million new jobs and billions of dollars of total (direct and secondary) economic gains.
- The cumulative positive impacts on the national economy included $230.5 billion in output, $113.8 billion in gross domestic product (GDP), $83.7 billion in income, and $33.5 billion in taxes, including $24.4 billion in federal tax receipts.
- The program pays for itself. The cumulative $19.2 billion cost of the HTC program is more than offset by the $24.4 billion in federal taxes generated over the same period.

GUIDE TO INPUT AND OUTPUT DATA

INPUT DATA: Information, facts, and figures about a specific project that provide quantifiable metrics for analysis.

Total Project Cost: All fees, costs, and charges associated with any given project, including costs of materials and labor (hard costs) and other costs not associated with materials or labor, such as construction loan interest and professional and development fees (soft costs).

Location: Refers to geographic location. A project’s geographic location significantly affects many of its economic and logistical outcomes, including the possible twinning of federal tax incentive programs with state programs, number of existing jobs, the current tax base, average income, available labor and materials, and any environmental conditions that would affect the project, such as topography, soil, vegetation, and climate.

Size: Refers to the physical size of a project, i.e., total square footage (buildings and land), number of structures, and relation to its surroundings. Physical size affects not only project costs, but also its feasibility, possible number of jobs, and return on investment.

Property Use: Rehabilitations often involve a change in use (i.e., a mill converted to apartments). Identifying the property’s current or historical use (i.e., woolen mill, bank, church) informs how the property must be physically adapted to its new or future use. A property’s current or historical use may also affect how it is zoned, and, by extension, its potential reuse options.

OUTPUT DATA: Metrics by which a project’s results are analyzed and assessed.

Jobs Created: Rehabilitation projects require construction workers, tradespeople, architects, and engineers, among others. To determine the net gain of new jobs directly attributable to the project, the number of jobs that existed in a location (whose parameters were defined in the input data) prior to the project is compared to the number of jobs existing after the project is underway (of course excluding any non-project related new jobs, for example, a restaurant worker or doctor).

Economic Output: A rehabilitation project’s economic output includes all of the money generated from the project, including the increase in employees’ household incomes, increase in tax base, increase in local industry and economy through the purchase of local construction materials, and the amount of money project employees spend within the local community.

Gross Domestic Product: Refers to the overall economic output of the United States. This is particularly important as a comparative figure for assessing the impact of a specific project to its specific location.

Income Generated: The number calculated by adding up the wages, salaries, and benefits included in each new job created by the project.

Increases to Federal, State, and Local Tax Bases: New jobs created by a project increase the household incomes of the new employees. A higher income may increase the tax rate for that household, which then contributes more money to local, state and federal tax bases.
A YEAR’S WORTH OF ECONOMIC ACTIVITY: THE NATIONAL PARK SERVICE’S STATISTICAL REPORT AND ANALYSIS

For each fiscal year, the Technical Preservation Services branch of the National Park Service (NPS) publishes *Federal Tax Incentives for Rehabilitating Historic Buildings Statistical Report and Analysis* accompanied by a brief report highlighting the primary findings. Specifically it reports on the number of jobs created, the number of buildings rehabilitated (with a special focus on housing units created), and total rehabilitation costs in order to define the total amount of private investment in rehabilitation projects.

RESEARCH METHODOLOGY

NPS gathers data from tax credit applications which are submitted in three parts. Part 1 certifies a property as historic and thus eligible for the tax credit. Part 2 represents the approval of proposed rehabilitation work and begins to estimate total costs that will qualify for the tax credit as well as number of housing units and other features of the rehabilitation plan. Part 3 is the final certification that allows the project developer to secure a tax credit totaling 20 percent of all qualified expenditures. Information on ownership and primary use of the building is also found here, specifically the number and types of housing units created. Upon certification of the Part 3, the owner/applicant is asked to complete a *User Profile and Customer Satisfaction Questionnaire* through which they report job creation data.

FY 2011 HIGHLIGHTS

2011 proved to be a record year for both the use and impact of the credit:

- For the fourth time in its history, the amount of rehabilitation investment surpassed the $4 billion mark, an increase of 17 percent over 2010.
- In 2011 the National Park Service approved 937 new projects, with an average investment of $4.88 million for each completed, certified rehabilitation project (Part 3s), the second highest in program history.
- Despite the economic real estate market downturns, the HTC program continued to be a catalyst for economic recovery in 2011. Completed certified projects created 55,458 new jobs nationwide and a record average of 78 jobs per project.
- In 2011 the number of housing units created through approved projects also set a new record for the program, with 15,651 total housing units—7,435 rehabilitated and 8,216 new units. Of those, 7,470 were new, low-to moderate-income housing units.

ANOTHER MEASURE OF SUCCESS: HISTORIC TAX CREDIT RECAPTURE SURVEY

In spring 2012, the National Trust for Historic Preservation commissioned Novogradac and Company LLP, a leading national accounting firm, to measure the success or failure of Historic Tax Credit projects by determining how frequently and at what amount these projects were subject to recapture under the law. The Internal Revenue Code mandates a return or recapture of tax credits if within five years of the date of the qualified rehabilitation the ownership of the property changes, or the NPS revokes its Part 3 approval. A project subject to recapture can, in a sense, be considered a failure because the project was not able to secure the tax advantages intended and, for whatever reasons, did not accomplish its rehabilitation and reuse objectives.

RESEARCH METHODOLOGY
Novogradac and Company LLP conducted an online survey of large institutional investors including national banks and Fortune 500 companies that make direct and indirect investments in tax credit transactions. All told, survey respondents collectively have earned more than 50 percent of total tax credits claimed over the past 10 years. Respondents were asked to report on the number of years their organization has been investing, the total amount invested, number of transactions they have been party to, the number of such transactions subject to recapture, and when during the five-year period the recapture occurred.

SURVEY FINDINGS
Based on the dollar value of credits, less than three-quarters of one percent of tax credits were subject to recapture—a remarkable finding. This means that in spite of a struggling economy and weak real estate market, historic rehabilitation projects perform exceptionally well even when compared to other real estate transactions.

Read the full report at www.preservationnation.org/take-action/advocacy-center/additional-resources/historic-tax-credit_recapture-survey_021512.pdf
ECONOMIC IMPACT OF STATE CREDITS: A REPORT FROM OHIO

Thirty-one states follow the federal government’s example and offer state-level incentive programs for rehabilitating historic buildings. Research consistently demonstrates that an effective state tax credit dramatically increases the use of the federal tax credit. In addition, unlike the federal program, 21 states also offer a tax credit for certified rehabilitations of owner-occupied residences.

A recent study from Ohio illustrates the economic impact of state-level credits on the state’s economy. In 2007 Ohio started a pilot program offering an income tax credit on 25 percent of the qualified rehabilitation costs to owners of certified historic buildings. The state caps the program at $5 million per project and at $60 million annually. In 2011 Heritage Ohio commissioned economists in the Great Lakes Environmental Finance Center (GLEFC) at Cleveland State University to assess economic returns resulting from the tax credits, including whether or not the state’s investment was encouraging rehabilitation, creating jobs, and stimulating economic development.

RESEARCH METHODOLOGY
To determine the credit’s effect on Ohio’s economy, researchers used an economic model developed by Regional Economic Models, Inc., (REMI) to project the economic impacts of the 111 projects awarded credits by the state since the program’s inception. The model, used nationally and internationally, was tailored to include state tax and employment data. Input data for the model was provided by the Ohio Department of Development and included total project spending and sources, redevelopment end uses, and jobs created during the construction period.
The report looked at job creation (direct, indirect, and induced employment) changes in gross regional product, changes to income, output (or sales), and tax impacts. Researchers used data from all 111 awarded projects. Since only 38 projects were completed at the time, they used a project completion schedule to estimate when the remaining rehabilitations would be finished. This allowed the researchers to calculate both the construction and operating benefits of all the projects awarded credits by the state.

**STUDY FINDINGS**

- Ohio’s investments in the program will generate nearly $10 billion in economic impacts and 6,976 jobs in the state over an 18-year period (2007-2025).
- 31 cents of every dollar is paid to the state in revenue before the credit is claimed.
- Historic buildings are being “pushed to their highest and best use” by this incentive because 82 percent of the 111 projects were vacant before redevelopment.
- For every $1 spent on the tax credit, $8.24 is leveraged in construction spending, and 83 construction jobs will be created between 2007 and 2013.
- Each $1 spent on the rehabilitation of the 111 historic buildings, will leverage $32.33 in operating benefits and create 298.8 jobs operating the businesses in these buildings between 2010 and 2025.
- Every $1 million in tax credits allocated by the state resulted in $8 million in construction spending and 80 jobs in construction-related areas; $32 million in total increased economic activity, resulting from building’s operation; and 300 permanent jobs.

This report was instrumental in persuading legislators to make the successful pilot program permanent in 2012. According to Joyce Barrett, director of Heritage Ohio, even though legislators wanted to support the tax credit, “they needed to see the economic impact to the state: the private investment leveraged, jobs created, and most importantly, the real economic return to the state in tax revenues for each credit allocated.”


In Youngstown, Ohio, the Realty Building’s interior was renovated into apartments thanks to Ohio’s historic preservation tax credit program.

PHOTO BY NATHANIEL KAELIN
THE THREAT TO THE HISTORIC TAX CREDIT

Despite the impressive track record detailed in these reports, the Historic Tax Credit program is now in danger. The nation’s fiscal environment is leading to calls for broad scale tax reform and deficit reduction. Every tax expenditure, including the home mortgage and charitable deductions and tax credits, is at risk. In the effort to identify sources of revenue, some legislators have called for the elimination or reduction of the Historic Tax Credit.

The National Trust has launched a concerted advocacy campaign to protect the Historic Tax Credit and support the Creating American Prosperity through Preservation, or CAPP Act (www.preservationnation.org/take-action/advocacy-center/policy-resources/historic-tax-credits.html). This bill, Introduced by Representatives Aaron Schock (R-IL) and Earl Blumenauer (D-OR) in the House (H.R. 2479) and Senators Ben Cardin (D-MD) and Olympia Snowe (R-ME) in the Senate (S. 2074) would modernize and enhance the Historic Tax Credit’s impact on local economies.

You can take action by letting your senators and representative know how important the credit is to your community. In addition to these reports, you will find a host of resources and tools to help you make the case at the National Trust’s Advocacy Center (www.preservationnation.org/take-action/advocacy-center/).

ENDNOTES

1. For the 5-year period (2002-2007) after the enactment of a state tax credit for rehabilitating commercial buildings, more than $78 million in federal historic tax credits was awarded to Rhode Island projects—an increase of more than 700 percent. Lipman Frizzell & Mitchell LLC, Rhode Island Historic Preservation Investment Tax Credit: Economic and Fiscal Impact Analysis 2007 for Grow Smart Rhode Island.

2. For a full list of economic benefit reports for state historic preservation tax credits, visit www.preservationnation.org/take-action/advocacy-center/additional-resources/historic-tax-credit-maps/state-rehabilitation-tax.html

3. Direct employment is created by the actual investment, growth or change. Indirect employment is created by the need of the new firm to purchase goods and services, essentially the local supply chain. Induced employment is defined as the household that supplies goods and services to the workers in the prior two categories. Examples of these include education, dry cleaners, accountants, gas stations, lawyers, and grocers.