THE ECONOMIC BENEFITS OF

STATE HISTORIC PRESERVATION

INVESTMENT TAX CREDITS

2007

Prepared For:

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January 15, 2008

The Economic Benefits of State Historic Preservation Investment Tax Credits

Introduction

Economic studies show that historic preservation has had an enormous positive impact on local economies in states across the country. Like other economic development programs, historic preservation**: Increases the tax base, increases loan demand and deposits in local financial institutions, enhances property values, generates additional sales of goods and services, and---most importantly—creates jobs.**[1] As a long range economic development strategy, it is a superior economic catalyst compared to other investments, including new construction, because rehabilitation has a greater economic impact on the local economy in terms of jobs created, increase in household income, and demand created on other industries.[2] Rehabilitation is superior to new construction because it offers a smart strategy for sustainable growth that recycles increasingly scarce natural resources and materials, reduces the need for new, imported raw materials, reduces construction waste going to landfills, conserves energy, and re-uses the existing cultural and physical heritage of a community to create the needed jobs of tomorrow.

Rehabilitation Creates More Jobs than New Construction

Rehabilitation projects are labor intensive and produce more new jobs than new construction. In North Carolina, over a twenty year period, the federal rehabilitation tax credit program created 732 private-sector, income-producing historic rehabilitation projects representing $325 million in private investment; had these been new construction projects, they would have offered 1800 fewer jobs and $26,000,000 less in household income.[3] Rehabilitation projects have a dramatic impact on the local economy because they are significantly more labor intensive than new construction. New construction expenditures generally are divided equally between labor and materials. Historic rehabilitation projects, on the other hand, spend between 60 and 70 percent of the total cost on labor.[4] According to economist, Donovan Rypkema, “The dollars spent renovating an historic building are largely paid as wages to skilled trades people, including carpenters, plumbers, and electricians—each of whom in turns spends his or her paycheck in the local community. The value of economic development is the creation of jobs, and the value of historic preservation is the creation of well-paying local jobs…”[5]

Dollar for dollar, historic preservation is one of the highest job-generating economic development options available. According to Rypkema, “In Michigan, $1 million in building rehabilitation creates 12 more jobs than does manufacturing $1 million worth of cars. In West Virginia, $1 million of rehabilitation creates 20 more jobs than mining $1 million worth of coal. In Oklahoma $1 million of rehabilitation creates 29 more jobs than pumping $1 million worth of oil. In Oregon $1 million of rehabilitation creates 22 more jobs than cutting $1 million worth of timber. In Pennsylvania $1 million of rehabilitation creates 12 more jobs than processing $1 million worth of steel. In California $1 million of rehabilitation creates 5 more jobs than manufacturing $1 million worth of electronic equipment.[6] When North Carolina passed its state-level rehabilitation tax credit program in 1997, giving historic homeowners a 30% state tax credit, an economic study supported the measure and predicted the state tax credit program would produce over 25,000 jobs, $500 million in household incomes, and a total economic impact on the North Carolina economy of over $1.5 billion.[7]

In Rhode Island, from 2002 to 2005, a $1.5 billion investment in rehabilitation projects (30% for income-producing properties and 20% for owner-occupied residential properties) produced total direct construction employment of approximately 17,725 jobs earning $677.54 million in wages, and an indirect employment impact estimated at approximately 8,436 jobs worth $277.52 million in wages.[8]

In Maryland, rehabilitation projects returned 1,050 historic buildings to productive use between 1978 and 1999 and stimulated $501,545,102 in private investment, producing 8,197 construction jobs; 7,752 jobs created elsewhere in the economy; and an increase of $381,826,286 in the Maryland household sector of the economy.[9]

In Missouri, the economic impact of historic preservation, which contributes more than $1 billion annually to the gross state product, has resulted in 28,000 jobs. Between 1998 and 2001, a $74 million tax credit program generated 6,871 jobs; $121 million in income; $282 million in gross state product; $60 million in total taxes (including $25 million in Missouri state and local taxes) and $249 million in in-state wealth.[10] By demolishing these buildings and using them as parking lots, they would have added little economic value to the local economy. As rehabilitation projects, the buildings have become active employers who paid wages and taxes from the construction stage of the project to the present completed hotel or office building.

Increased Direct Tax Revenues Offset Tax Credit Expense

Each $1 million in state tax credits leverages approximately $5.35 million in total economic output, increasing a government's tax base.[11] Through increased economic output, the state recoups its investment in rehabilitation tax credits through four sources: **construction period taxes, real property taxes, plus post-construction sales and income taxes.** The 2007 Rhode Island study on the rehabilitation tax credit program used the IMPLAN input-output economic model to estimate economic and fiscal impacts.[12] For projects completed between 2005 and 2007, Rhode Island spent $160 million on tax credits. An analysis of the public revenues generated by these completed projects shows that almost one-quarter **(**24.3%) of this expense had already been offset before it was incurred, through collection of construction period taxes totaling $39,019,507 million. In addition, the state received income and sales tax revenues paid by new wage earners and resident households—an incremental revenue stream with an estimated value of 18.3% of the state's tax credit investment. The increased value of local assessable bases, estimated at approximately $267.6 million and assuming a commercial tax rate of 1.94%, generated an annual increase in real estate tax collections estimated at $5.19 million, with a present value revenue stream of $103.80 million. The authors of the fiscal impact analysis believe this estimate is very low due to the conservative approaches used to calculate value and effective tax rates.[13] In addition, these numbers do not include new residents and employees resulting from the rehabilitation project who would contribute net new income and sales tax revenues. In summary, it appears that Rhode Island recouped almost 50% of its tax credit expense through direct forms of revenue returns.

Other states report that tax revenues off-set the expense of tax credits. Missouri claims to have recouped the cost of its tax credits in additional payroll taxes alone. Moreover, from 1998 to 2001, Missouri's $74 million rehabilitation tax credit program (which leveraged $295 million in private investment in historic rehabilitation) produced $283 million in gross state product, $60 million in taxes, including $25 million in state and local tax revenue, 6,871 jobs, and $121 million in additional income. The study on economic and fiscal impacts of Missouri's tax credit program concluded that, "when the economic activity and the ensuing tax payments fostered by the historic preservation tax credit program are considered, there is little net cost to Missouri taxpayers."[14]

Property tax revenues increase as property values rise through the investment of capital into an area and improvements to a neighborhood. In Mobile, Alabama, a study of 170 historic buildings within a 21-block area showed that rehabilitation activity increased property tax revenues by 582% over a 15 year period, from 1974 to 1989 through appreciated property values.[15] A Michigan study in 2004-5 showed that property values in a designated commercial local historic district grew about 385% over a thirty year period, in contrast to just 72% in non-designated area.

Rehabilitation Tax Credit Program Benefits the Economy

The value of the tax credit program as an economic engine has been recognized by over half the states that have passed rehabilitation tax credit legislation to promote the reuse of historic buildings.[16] In Michigan, every $1 of credit issued benefited the economy an additional $11.43 in economic impacts.[17] Tax credits produced $249 million in income for Missouri residents and a gain of $292 million in in-state wealth, with total tax revenues of $70 million, including $30 million in state and local tax revenues.[18] State tax credit programs also produce an increase in federal tax credit investment in the state. Rhode Island attracted less than $10 million in federal historic tax credit investment during the 5 year period preceding enactment (1996-2001); but more than $78 million in federal credits have been awarded in the 5 years since (2002-2007).[19]

Reports that studied the fiscal impacts of historic preservation in North Carolina, Georgia, Maryland, Kentucky, New Jersey, New York, Missouri, Colorado, Indiana, Michigan, all conclude that rehabilitation tax credits have an overwhelmingly positive economic impact. In Michigan, more than $819 million was privately invested in state and federal rehabilitation tax credit projects between 1971 and 2001, which created more than 22,250 jobs and a total economic impact of $1.7 billion.[20]

Rehabilitation Revitalizes Neighborhoods

One of the tax credit program's greatest benefits is that it stimulates private development interests. During the first five years of the Rhode Island Historic Tax Credit Program, the state experienced more investment in historic rehabilitation than in the previous twenty five years combined. Scott Wolf, executive director of Grow Smart Rhode Island, called the rehabilitation tax credit the "single best economic development and neighborhood revitalization tool the state has seen in decades."[21] A recent Ohio news release estimated that the $120 million tax credit program is expected to produce $147 million private investment.[22] Ohio issued tax credit awards to eleven recipients, who will invest a combined total of $147 million in rehabilitation projects. The Selle Gear Co (Akron) was given an $801,813 credit for an investment worth $3.7 million. The Sunshine Coak Co Bldg (Cleveland) was given a credit for $1.6 million on a $7.5 million investment. The largest project, William Taylor, Dept Store (Cleveland), was given a credit of $16,404,438 million for an investment of $55.9 million.[23]

Tax Credits Offer Smart Sustainable Development

“At the most elemental level economics and preservation are fundamentally about the same thing—saving scarce resources.”[24] Rehabilitation is superior to new construction for economic reasons discussed in the section on jobs, but also because it offers a smart strategy for sustainable growth that recycles increasingly scarce natural resources and materials, conserves energy, and re-uses the existing cultural and physical structure of a community to create the jobs of tomorrow. Environmental sustainability is smart economic policy for our island state. We have limited natural resources, the threat of global warming, and an increasingly fragile natural environment. Smart, sustainable development that encourages the reuse of older buildings has been a recent focus at the national level too. In December 2007, Richard Moe, president of the National Trust for Historic Preservation (NTHP) stated that “over the past ten years, historic tax-credit incentives have sparked the rehab of more than 217 million square feet of commercial and residential space—and saved enough energy to heat and cool every home in the six New England states for a full year… [And that] similar incentives …will help private homeowners to use green technology in maintaining and renovating their homes.[25] Re-using existing structures also reduces the need for new, imported raw materials and reduces construction waste going to landfills, which are critically full. It does not require new infrastructure systems, such as roads, water, sewer, and it conserves land and reduces sprawl. In Missouri, $485,318,415 in tax credits were issued since1998 producing an investment of $2,357,650,759 billion in rehabilitating Missouri's oldest communities.[26]

Tax Credits Increase Affordable Housing

A tax credit program to boost the reuse of older buildings also increases affordable housing. Proposed federal legislation, *Community Restoration and Revitalization Act* (S.584/H.1043), which is under consideration by the 2008 House Ways and Means Committee, has portions relating to a rehabilitation tax credit that are being looked at as part of a large affordable housing package. With respect to the state tax credit program, the Rhode Island Economic Policy Council found that **89% of the increased employment and housing generated by the tax credit for the period 2002 to 2006 took place in census tracts where household incomes are below the statewide median, and rehabilitation projects are estimated to provide more than 750 subsidized housing units over the next twenty years.**[27] The Grow Smart Rhode Island study concluded that rehabilitation tax credits are helping the state's housing affordability crisis because **three fourths** of the projects involve rental housing (totaling 6,739 units among the 277 projects analyzed, with 761 designated as subsidized affordable units). Tax credits provide non-profit developers with a tool in assembling the financing necessary to create affordable housing, while they also make for-profit developers consider both market-rate and affordable units in urban neighborhoods.[28]

Tax Credits Support Environmental Clean-up

The rehabilitation tax credit program can stimulate environmental clean-up by providing the necessary financial support to clean up contamination found on many of the historic sites being recycled into use. Based on data from the Rhode Island DEM and the RI Historical Preservation and Heritage Commission, 65% of the total investment in completed and planned projects is going into contaminated sites that are being cleaned up.[29] Grow Smart Rhode Island reports that the state's tax credit program is projected to generate nearly $2.5 billion in economic activity over the next twenty years that is predicted to result in the cleanup of dozens of environmentally contaminated sites, often known as brownfields.

Tax Credits Improve Historic Resources that Attract Heritage Tourism and the Film Industry

Successful heritage tourism destinations require planning and partnerships among many groups, such as tourism, natural resources, and preservation organizations. The NTHP lists the benefits of cultural heritage tourism as the creation of jobs, increased tax revenues, diversification of the local economy, opportunities for partnerships, attracting visitors interested in history and preservation, increasing historic attraction revenues, preserving local traditions and culture, generating local investment in historic resources, building community pride in heritage, increasing awareness of the site or area's significance. A 2002 study by the Travel Industry Association of America reported that heritage and cultural tourists consistently stay in a place longer and spend more money than other types of travelers. Heritage tourists in Colorado spent $1.5 billion in direct expenditures in 2003, which generated an additional $1.9 billion in indirect economic impacts. Heritage spending generated an estimated $1 billion in total earnings by Colorado workers and nearly 61,000 jobs.[30]

In Michigan, a study reported that 66% of ALL Midwestern tourists visited a historic place or museum—and historic downtowns ***are*** historic places.[31] One historic site, Castle Farms, built by a Sears Roebuck & Co. executive, was rehabilitated and reopened in May 2006 and expects to host 50,000 Heritage Tourists before the year is over. In Missouri, tourism is one of the State's top three revenue producers. With just the heritage portion of their travel, tourists spend $660 million a year, which translates into economic benefits equaling 20,077 jobs, $325 million in income, $574 million in gross state product, $79 million in state and local taxes and annual in-state wealth creation of $506 million.[32] Protecting, preserving and promoting historic resources creates many opportunities for visitors to learn and appreciate a place, and also a way for towns and communities to introduce outside dollars into an area.

Like heritage tourists, filmmakers often choose their locations for the unique historic resources a place offers. In North Carolina, for example, 360 films have been shot on location since 1980 with a direct expenditure estimated at $4.6 billion. This has created jobs and businesses to support the thriving film industry. North Carolina attributes its success (it has led the nation in film industry growth and development recently), to its comfortable year-round climate and locations such as beaches, wilderness, the foliage, and the variety of period buildings.[33] Hawaii also offers beautiful and cultural locations, except for a smaller inventory of "period" buildings, which have become a scarce resource here. The State should embrace a program like the rehabilitation tax credits to protect and perpetuate the disappearing cultural and physical structures we enjoy.

Conclusion

The majority of tax credit projects involve rental housing, with an increasing focus on commercial or mixed-use. A state's investment in tax credits is leveraged with private financing and equity investments, as well as historic tax credits. State tax credits also lead to significant federal investment. Investment in rehabilitation projects generates construction employment, and indirect employment, both of which represents jobs and wages. A state's tax credit expense is recouped directly, to some extent, from four sources: construction period taxes, real property taxes, plus post-construction sales and income taxes.. A state also receives increased income and sales tax revenues paid by new wage earners and resident households. The Rhode Island report concluded that, cash flows of the tax credit projects support values which are only 50%-60% of project cost and that, without the tax credit program, these rehabilitation projects would simply not happen because they would not meet the threshold requirement of a fair return on the developer's equity investment. The tax credit program returns properties to the tax rolls and generates employment and housing where opportunities have been limited. The state's tax credit investment produces substantial private investment in areas where, otherwise, it would not occur, and in every state this investment has only produced overall economic gain.[34]

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[9] *The Value of Historic Preservation in Maryland,* by Donovan Rypkema for Preservation Maryland, 1999

[10] *Economic Impacts of Historic Preservation In Missouri,*by Center for Urban Policy Research at Rutgers University for Missouri Downtown Association and Missouri Department of Natural Resources, Outreach and Assistance Center, State Historic Preservation Office, 2002

[11] *Rhode Island Historic Preservation Investment Tax Credit, Economic & Fiscal Impact Analysis 2007,* Prepared for Grow Smart Rhode Island by Lipman Frizzell & Mitchell, September 7, 2007

[12] According to the authors of the Rhode Island study, the IMPLAN Input-Output Models examine the relationships between businesses and households by using multipliers to estimate the changes in economic activity occurring in a State due to the introduction of a new economic activity. The actual impact of a source of spending on an economy is greater than the simple total of the spending being measured because as this money is spent, it becomes the income for other businesses or households, which in turn, spend this money on other purchases creating successive cycles of earnings and spending. Multipliers estimate the total impact of these successive cycles.

[13]*Rhode Island Historic Preservation Investment Tax Credit, Economic & Fiscal Impact Analysis 2007,* Prepared for Grow Smart Rhode Island by Lipman Frizzell & Mitchell, September 7, 2007

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[16] *State Tax Credits for Historic Preservation: A State-by-State Summary*, National Trust for Historic Preservation, 2007

[17] *The Economic Impacts of Historic Preservation in Michigan,* Michigan Historic Preservation Network, November 2006

[18] *Economic Impacts of Historic Preservation In Missouri,*by Center for Urban Policy Research at Rutgers University for Missouri Downtown Association and Missouri Department of Natural Resources, Outreach and Assistance Center, State Historic Preservation Office, 2002

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[25] *Sustainable Stewardship: Historic Preservation's Essential Role in Fighting Climate Change*, Richard Moe, President, National Trust for Historic

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