

**THE ECONOMIC BENEFITS OF
STATE HISTORIC PRESERVATION
INVESTMENT TAX CREDITS
2007**

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January 15, 2008

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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 often a superior economic catalyst compared to other investments, particularly 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 also 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 are proven to 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, backed by \$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 such a dramatic impact on the local economy because they are

significantly more labor intensive than new construction. Generally, new construction expenditures 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

Rypkema’s report concludes that, dollar for dollar, historic preservation is one of the highest job-generating economic development options available. He writes, “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 supporting the measure 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

Recent analyses that looked at the fiscal impacts of historic preservation in, for example, North Carolina, Georgia, Maryland, Kentucky, New Jersey, New York, Missouri, Colorado, Indiana, Michigan, all reached the conclusion that tax credits had overwhelmingly positive economic impacts. In Michigan, more than \$819

million were 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.⁸ From 2002 to 2005, Rhode Island's \$1.5 billion investment in state tax credits (30% for income-producing properties and 20% for owner-occupied residential properties) generated total direct construction employment of approximately 17,725 jobs, which earned \$677.54 million in wages, and the indirect employment impact was estimated at approximately 8,436 jobs worth \$277.52 million in wages.⁹ In Maryland, 1,050 historic buildings were returned to productive use between 1978 and 1999, which generated \$501,545,102 in private investment, 8,197 construction jobs, 7,752 jobs created elsewhere in the economy, and an increase of \$381,826,286 in Maryland household economy.¹⁰

In Missouri, the economic impact of historic preservation contributes more than \$1 billion annually to the gross state product and 28,000 jobs.¹¹ This state awarded \$74 million in tax credits between 1998 and 2001, which 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.¹² Had these buildings been demolished and used as parking lots, they would have added little economic value to the local economy; on the other hand, as rehabilitation projects, these buildings became active employers who paid wages and taxes from the construction stage of the project to the present completed hotel or office building.

Tax Credits Increase the Tax Base and Generate Other Revenue

Over 29 States have state rehabilitation tax credit programs to promote the reuse of historic buildings.¹³ According to the Rhode Island report, the state's up-front investment in tax credits for rehabilitation projects is likely to be recouped from four sources: construction period taxes, real property taxes, plus post-construction sales and income taxes. In the first four years of Rhode Island's tax credit program, \$145 million in tax credits resulted in \$795 million in economic

activity (a 5:1 return on investment). Tax credits added \$242 million to the tax base of local communities, resulted in a present value basis of \$179 million in additional property tax revenue, and \$42 million in sales and income tax revenue.¹⁴ Missouri recouped the cost of its tax credits in additional payroll taxes alone, with over \$1.8 billion invested since 1998.¹⁵ The tax credit program generates \$249 million in income for Missouri residents and produces a gain of \$292 million in in-state wealth, which results in total tax revenues of \$70 million, including \$30 million in state and local tax revenues.¹⁶

To look at it another way, in the 2001-2005 period, Michigan's economy benefited from an additional \$11.43 in economic impacts for every \$1 of credit issued.¹⁷ State tax credit programs can also stimulate an increase in federal tax credit investment in that 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).¹⁸

Rehabilitation Revitalizes Neighborhoods

The Ohio Historic Preservation Tax Credit program, which was authorized to get \$120 million over a two year period beginning in July 2007, gave tax credit awards to eleven recipients, who will be investing a combined total of \$147 million in the rehabilitation of historic buildings. The Selle Gear Co (Akron) is receiving an \$801,813 credit for its investment worth \$3.7 million. The Sunshine Coak Co Bldg (Cleveland) is investing \$7.5 million in return for a credit of \$1.6 million. William Taylor, Dept Store (Cleveland), the largest tax credit project, is investing \$55.9 million and receiving a credit of \$16,404,438 million.¹⁹

Michigan's tax credit projects range from multi-phase corporate investments in single and multiple buildings to small business investment on Main Streets.

The tax credit program clearly provides an incentive for private development interests. During the first five years of the Rhode Island Historic Tax Credit Program, Rhode Island experienced more investment in historic rehabilitation than in the previous twenty five years combined, while the executive director of

Grow Smart Rhode Island, Scott Wolf, called the rehabilitation tax credit the “single best economic development and neighborhood revitalization tool the state has seen in decades.”²⁰

Tax Credits Are Smart Sustainable Development

“At the most elemental level economics and preservation are fundamentally about the same thing—saving scarce resources.”²¹ 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.”²² 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.

Tax Credits Increase Affordable Housing

A tax credit program that boosts the reuse of older buildings can also be a means to achieve affordable housing. The proposed *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.²³ The Grow Smart Rhode Island study concludes that the rehabilitation tax credit is helping the state's housing affordability crisis because three fourths of the tax credit rehabilitation projects involve rental housing (totaling 6,739 units among the 277 projects analyzed, with 761 designated as subsidized affordable units), and it points out that 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, contributing to revitalization and stability.²⁴ In Missouri, \$485,318,415 in tax credits have been issued since 1998, and these credits have generated \$2,357,650,759 (billion) that was invested in rehab in Missouri's older communities.²⁵

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.²⁶ 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.²⁷

In Michigan, a study reported that 66% of ALL Midwestern tourists visited a historic place or museum—and historic downtowns **are** historic places.²⁸ 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.²⁹ 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.³⁰ 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. State’s investment in tax credits is leveraged with private financing and equity investments, as well as historic tax credits. State tax credits are also leveraging significant federal investment. Investment in rehabilitation projects generates construction employment, and indirect employment, both of which represents jobs and wages. More than ¼ of the state’s tax credit expense has already been offset before it is incurred, through construction period taxes collected. The State also benefits from income and sales tax revenues paid by new wage earners and resident households. Cash flows of the tax credit projects will 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. State’s estimated up-front investment is likely to be recouped from four sources: construction period taxes, real property taxes, plus post-construction sales and income taxes. The tax credit program is effective at returning properties to the tax rolls, generates employment and housing where opportunities have been limited. The State’s

investment leverages substantial private investment, which otherwise would not have occurred in those areas.³¹

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⁵ *The Value of Historic Preservation in Maryland*, by Donovan Rypkema for Preservation Maryland, 1999

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⁸ *The Economic Impacts of Historic Preservation in Michigan*, Michigan Historic Preservation Network, November 2006

⁹ *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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¹³ *State Tax Credits for Historic Preservation: A State-by-State Summary*, National Trust for Historic Preservation, 2007

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¹⁹ *Ohio Department of Development Announces Historic Preservation Tax Credit Awards*, News Release dtd. November 15, 2007, Department Website: www.odod.ohio.gov/newsroom/2007PR/releases/1833.asp

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