

**Statement of Patrick Lally
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“Tax Incentives for Community Revitalization through Historic Preservation”

**U.S. House of Representatives
Saving America’s Cities Working Group**

**June 28th, 2005
2247 Rayburn House Office Building
10:00 A.M.**

Mr. Chairman, Members of the Working Group and the Advisory Committee, good morning. My name is Patrick Lally and I am the Director of Congressional Affairs for the National Trust for Historic Preservation. For more than 50 years, the National Trust has been helping to protect the nation's historic resources as a Congressionally chartered, private, nonprofit membership organization dedicated to protecting the irreplaceable. Recipient of the National Humanities Medal, the Trust provides leadership, education, and advocacy to save America's diverse historic places and revitalize communities. With over a quarter-million members and thousands of local community groups in all 50 states, the Trust is the leader of a vigorous preservation movement that is saving the best of our past for the future. Its mission has expanded since its founding in 1949 just as the need for historic preservation has grown. When historic buildings and neighborhoods are torn down or allowed to deteriorate, we not only lose a part of our past forever, we also lose a chance to revitalize our communities.

At the outset of this statement, the National Trust would like to recognize Chairman Turner and the Working Group for their leadership in calling attention to the public policies that affect the nation's urban areas and Congress' role in making our cities the best they can be. On behalf of the entire preservation community, thank you, Mr. Chairman, for your long-standing support for historic preservation and awareness of the value it has to revitalizing the places where we live, work, and play.

The National Trust for Historic Preservation has long recognized the links between historic preservation, community revitalization, and housing. America's older and historic neighborhoods already house record numbers of low- and moderate-income residents. Thirty-

two percent of households below the poverty line and 34 percent of renters whose household income is less than \$20,000 per year live in older and historic homes. Of the nation's over 12,000 historic districts comprising over a million contributing structures, 60 percent overlap census tracts in which the poverty rate is 20 percent or greater. In many parts of the country where abandoned buildings are located in some of the nation's most disinvested communities, there is a need for incentives to create housing and stabilize neighborhoods. Lastly, vacant or underutilized historic structures that were not built for housing, but no longer serve their intended purpose -- such as warehouses, factories, mills, and department stores -- can be adaptively re-used as catalysts for attracting new investment in the neighborhoods that need it most. So many of these historic and older buildings are located near existing infrastructure, transportation hubs, schools, and neighborhood-serving retail.

One of the principal federal incentives for rehabilitating older and historic buildings is the Historic Rehabilitation Tax Credit (rehab credit). President Reagan's 1981 economic recovery plan established in Section 47 of the Internal Revenue Code a 20 percent income tax credit for "qualified rehabilitation expenditures" incurred in connection with the "substantial rehabilitation" of a "certified historic structure" and a 10 percent credit for expenditures incurred in the rehabilitation of non-residential structures built before 1936. The rehab credit represents the federal government's largest historic preservation program.

Although it has been widely used as an effective tool for bringing vacant and abandoned buildings back onto the tax rolls – and in some cases providing safe, decent, and affordable places to live – it must be improved so that it can truly realize its full potential. So far, it has

been a catalyst for commercial re-use and re-investment in historic resources and since its enactment it has also helped build 170,000 housing units -- 60,000 of which were affordable. Congress also enacted a 10 percent credit for pre-1936, older, commercial, non-residential buildings that is specifically prohibited from housing production. The rehab credit should be easier to use, especially in projects that twin the incentive with the Low-Income Housing Tax Credit (LIHTC) and for smaller, more “main street”-oriented projects. Last year, Section 47 produced more than 15,000 units of housing across the country and nearly 40 percent of those fell into the affordable category. It can do a lot more.

The National Trust has worked with several teams of experts which have studied the potential for greater housing production and economic development through historic credits and have concluded that certain structural features of the rehab credit are actually impeding their expanded use – especially as tools for affordable housing. There was a symposium in 1998 cosponsored by the National Park Service and the Historic Preservation Education Foundation called “Affordable Housing, Combining the Tax Credits.” The NPS Symposium identified the myriad of minor discrepancies between the Section 47 Credits and the LIHTC, collectively, as a key impediment to increasing the number of historic buildings that are being rehabilitated into low-income housing. Utilizing a “One Set of Rules for Housing” slogan, the Symposium’s action plan proposed harmonizing many of these mismatches that drive up transaction costs and often act as traps, even for the wary.

Another event, the “City Building and The Historic Rehabilitation Tax Credit,” sponsored by the Urban Land Institute Policy Forum in 2001 reached many similar conclusions.

Participants in the ULI Forum concluded that even minor structural modifications would allow the rehab credit to achieve even greater results as a community revitalization and economic development tool.

It has been almost two decades since Congress has revisited Section 47 of the Code and the machinery of the federal government's historic preservation tax incentives. Nonetheless, both the ULI Forum and the NPS Symposium concluded that nothing short of Congressional action could effectuate most of the technical corrections and other modifications needed to boost the efficiency of the rehab credit. Largely with this end in mind, in 2001 the Historic Preservation Development Council ("HPDC") was formed as an affiliate of the National Housing & Rehabilitation Association, in partnership with the National Trust for Historic Preservation. This partnership produced an eleven point agenda of needed technical corrections and improvements to the rehab credit.

During the last Congress, the National Trust convened a working group of tax credit stakeholders to take a closer look at this universe of recommendations for making the tax credit work better with the goal. At the close of the session Reps. Portman and Jefferson introduced a bill that would make five substantial changes to the rehab credit so that it can more effectively in community revitalization, housing, and smaller "main street" type deals. With Rep. Portman's departure, H.R. 659, "The Community Restoration and Revitalization Act" will be reintroduced shortly by Reps. English and Jefferson. It now has 44 cosponsors – five of whom are members of this working group – and we are grateful for your support. I hope that every member of this

body would consider cosponsorship of H.R. 659 because of the tremendous value it would have to the urban agenda.

Lastly, this is just a first small step toward making the rehab credit work as effectively as possible for making our cities. I hope that the Saving America's Cities Working Group will endorse tax incentives like this as part of any of its recommendations and larger public policy goals. The Working Group's support for tax credits is particularly important at a time when the rehab credit, and other credits that work in conjunction with it to improve neighborhoods -- such as the New Markets Tax Credit and the Low-Income Housing Tax Credit -- may be vulnerable to proposed changes in the tax code and the tight budget climate. The private sector reinvestment alone represented in the historic credit -- \$31 billion leveraged into the economy since the credit was enacted in 1976 -- should continue to express Congress' vision for saving the places we value.

As I said, this legislative initiative is a first step toward a better, more-effective rehab credit and toward the goal of ensuring that tax incentives work better together in development projects that make a difference in the neighborhoods that need investment the most. I will conclude, however, by mentioning that the greatest need in America's historic and older neighborhoods is for an equivalent to the Section 47 historic rehab credit for owner-occupied homes. Some of the greatest erosion and decay in our cities and towns across the nation is the caused by the inability of average homeowners to afford the maintenance, upkeep, and renovations costs associated with the older and historic dwelling. I hope that our work may

someday lead toward Congress providing to homeowners an incentive that is similar to the one it now provides to commercial properties.

Thank you for inviting the National Trust for Historic Preservation to speak to you today and participate in this endeavor. The Trust stands ready to assist you as you move forward.