Preservation Economics

Community Strategies for leveraging historic resources

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Gen Y vs. LPs: Millennials were born between 1980 and 1995, making them anywhere between 18 and 33 years old today. Sound familiar?
There’s an awful lot of them: Millennials are the largest market in American history. 75 million strong, they are 28% of the U.S. population.
They’re perpetually plugged in: 75% of Millennials have social media profiles, and 83% sleep with their cell phones next to their beds.
They’re media snackers: Millennials are constantly consuming pictures, videos, and conversations, often at the expense of real depth.
You can’t fake it with them: Millennials care about optics and being real. When it comes to reaching out to them, you can’t phone it in.
It pays to show them a good time: 19 out of 20 Millennials are more likely to buy a product as a result of a good experience at an event.
They embrace **self-expression**: Millennials aren’t camera shy by any stretch of the imagination. They were raised telling people what they think and feel.
• Sustainable Development is critical for economic competitiveness
• Sustainable is more than just environmental
• Historic Preservation is sustainable development
• Development without a historic preservation component is not sustainable
TUCSON
Miracle Mile
City of Tucson 1925
population 20,292
Tropicana

Motor Hotel

Swimming Pool

No Vacancy
Education
Economic Development
Monterey Court
Public Art
Miracle Mile Historic
US Route 80 Historic Highway Designation
Social Services & Housing
Social Services & Housing
Special Events
New Economic Models
Arizona State

Commercial Investment  Historic Tax Credit
Current Economic Tools for Preservation

• Federal Investment Tax Credit Program
• State Historic Property Tax (STP) reclassification program for Owner Occupied Homes
• State Historic Property Tax (STP) for Commercial Properties
State Historic Property Tax Reclassification – Owner Occupied Homes

- Offers substantial reduction in the state property tax assessment for eligible owners. 15 year agreement requires maintenance of the property according to federal and AZ state Parks Board standards. The program reduces property taxes from 35% to 5%.
State Historic Property Tax Reclassification - Commercial

• Aids owners who rehabilitate underutilized historic commercial or industrial properties. This program offers a reduction in annual state property taxes.

• 10 year agreement during which the property is rehabilitated and maintained according to the Secretary of the Interior’s standards for Rehabilitation. During this period, the temporary tax classification set by the county assessor does not necessarily change the current base assessment, but those modifications intended to restore or rehabilitate the property are almost entirely tax free. (assessed at 1% of full cash value rather than 25%)
Federal Investment Tax Credit

- Governed by Section 43 of the Internal Revenue Code (26 U.S.C. 47) and Section 170 (h) of the Internal Revenue Code of 1986 (26 U.S.C. 170(h)).
- 20% income tax credit on the cost of rehabilitation.
- Must be a certified historic structure
- Rehabilitation must be certified as meeting the Secretary of the Interior’s Standards for Rehabilitation.
Federal ITC Eligibility

• Only projects involving certified historic structures
  – A structure individually listed in the NRHP
  – A structure certified by NPS as contributing to a registered district.
Developing a State Tax Credit

• 34 Stats in the country have adopted laws creating credits against state taxes to provide incentives for the appropriate rehabilitation of historic buildings. In most cases these credits take the form of the federal income tax credit.
• Criteria establishing what buildings qualify for the credit.
• Standards ensuring the rehabilitation preserves historic and architectural character
• Method for calculating the value of the credit awarded, reflected as a percentage of the amount expended on that portion of the approved rehabilitation work
• A minimum amount, or threshold of investment
• A framework for administrating the program. SHPO and Commerce Authority.
Not All Credits Created Equally

- Annual Aggregate Caps

Programs that have low statutory limit - fixed low figure fall short of intended objective.

Kentucky has a 20% credit but only a 5M annual cap.

Even if the annual limit is relatively high, the very act of imposing a cap can dilute the program rewarding projects that do not require an incentive while excluding projects that cannot proceed with our it.

States that have resisted capping have had an economic advantage in attracting capital for historic preservation.
In states where demand for credits exceeds the allocation applicants must compete for credits, participate in a lottery or use another arbitrary allocation system.
• Individual Project Capping
  – Some states have sought to ease concerns about cost of the credit by developing caps on the amount of credits that can be awarded to individual projects. If high enough this can work if to low it becomes ineffective.
• Transferability
  – A credit has value only to the extent that the credit holder has a sufficient tax liability
  – State Tax rate is far lower than federal income tax rates – as a result tax credits may wind be issued to a party unable to use it.
Creating a dynamic Credit

• Eligible Buildings
  – Buildings individually listed in the NRHP
  – Buildings located in NRHP districts that contribute to the district or in eligible districts
  – Individual buildings that have been locally designated as landmarks
  – Buildings located in local historic districts that contribute to the historic character.
• Rates
  – The percentage rate should be fixed at a high level to create a meaningful incentive 20 -30% of qualified rehabilitation expenditure.
  (rates that are lower have been ineffective)
• Geographic Distribution and Targeting
  – To insure that benefits are felt throughout the state – some states have experimented with geographic set-asides for rural areas, or limits on the percentage of the credits that can be claimed for metro areas.
Cost Benefit Analysis

- In Ohio state law requires a cost-benefit analysis for each historic building seeking a tax credit determining whether rehabilitation of the building and awarding the credit will result in a net revenue gain in state and local taxes once the building is used. The model takes into account tax revenues generated after the building is placed in service.
• Example

The market Block Building in Warren Ohio demonstrated that the 31% of the state's investment of $630,800 in historic tax credits was recovered before the tax credit was awarded. One-hundred percent of the state's investment will be recovered in new revenue by the fourth year of operation. By year 10 the building will have generated additional state and local tax revenues of $494K in excess of the amount of the credit, or a return on investment of 80%, and by year 15 the building will have generated ~839K in new tax revenues. 130% ROI.