The Economic Development and State Historic Tax Credit Act

AN ECONOMIC INCENTIVE WHOSE TIME HAS COME

The Economic Development and State Historic tax Credit Act (AB 1999) was introduced during the 2014 legislative session by Assemblywoman Toni Atkins (D-78) of San Diego. This bill will establish an incentive for economic development through the rehabilitation of historic buildings.

The 20% Federal Historic Preservation Tax Incentives program, currently available to California's income-producing historic properties, has generated *nearly 1.5 billion dollars in investment* during the last 10 years.

California would provide a state income tax credit equal to 20% of approved expenses on structures listed in the National Register of Historic Places or the California Register of Historical Resources, both income-producing and non-income-producing buildings. It could be used together with the 20% federal credit or separately, depending on the project and specific regulations. A 5% additional credit would apply for projects containing a majority of low-income housing units, involving surplus government properties, or located in economically distressed areas, Base Realignment and Closure Act zones or Transit-Oriented Development areas. The program will include an annual aggregate cap of $80 million. It would start January 2015, and sunset January 1, 2023.

A state historic rehabilitation tax credit program will enhance the economy through

- **Construction and building industry job creation**
- **State tax revenues through increased employment and wages**
- **Local property tax revenues through increased property values**
- **Local tax revenues through sales tax and heritage tourism**

More than thirty states have similar programs. These revenue-enhancing programs soon more than pay for the initial one-time economic cost of the rehabilitation credit. Studies show that a third of the initial cost of a credit is paid back during the construction phase, prior to the issuance of any credit. Missouri reported that one project generated enough in new sales and income taxes to repay the state for the tax credit within the first five years. The California program will include a project analysis to calculate the return on investment to the state.

The California program will be a powerful force: revitalizing economically depressed urban areas and local communities adjusting to the phase-out of redevelopment dollars; stimulating public and private investment; and building civic pride as we celebrate our heritage and preserve California's past.

CALIFORNIA HISTORIC TAX CREDIT COALITION

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Above: *A rehabilitated 1908 residential duplex, South of Campus Neighborhood National Register District, Chico.* Top right: *General Petroleum office building in Los Angeles, renamed The Pegasus, used tax credits in project financing.*

GARY LEONARD

DAVE ADAMS

Temple Art Lofts, Vallejo. Tax credits helped fund adaptive reuse of the historic Old City Hall and Old Masonic Temple as low-income apartments, art studios, performance hall, and retail.

Statewide rehabilitation incentives would—

1. **Stimulate local economies**
2. **Revitalize downtown areas and communities**
3. **Promote affordable housing**
4. **Demonstrate inherent sustainability**
5. **Support smart growth and new urbanism**
6. **Encourage owners to list their properties**
7. **Encourage property maintenance and rehabilitation**
8. **Leverage use of the federal rehabilitation tax credit**
9. **Benefit heritage tourism**
10. **Enhance California's leadership role in sustainability and protection of historic resources.**

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The Bank of Italy Building, Merced project involved removal of a non-historic facade, and rehabilitation of the 1928 bank building.

Historic State Tax Credits Nationwide

34 States have Rehabilitation Tax Credits.

Key ingredients of the proposed state historic tax credit include a clear definition of eligible buildings, the use of the Secretary of the Interior's Standards for Rehabilitation as the review criteria, the use of the credit for owner-occupied residences as well as commercial properties, transferability of the credit, the avoidance of any caps, and appropriate fees to offset the program costs.

Napa's 1887 Italianate-style Victorian Buford House makes up half of the Napa Inn, along with another historic building.

Statewide rehabilitation incentives could:

1. Stimulate local economies

- The rehabilitation of historic buildings starts to pay back the state's investment immediately through taxes on construction jobs and materials.
- Hard-pressed town and cities have the chance to put deteriorated property back on the tax rolls, to dispose of city owned tax-foreclosed properties, and to add new taxpayers to the local tax base.
- Statistics have shown that the loss of state income tax revenue has been offset by future gains.

Completed in March 2003, the San Francisco Ferry Building rehabilitation marks the return to public service of one of San Francisco's most renowned historic buildings, now a vital hub of civic and commercial interaction.

2. Revitalize downtown areas and communities

- Incentives can create jobs and leverage investments.
- Credits encourage growth and redevelopment, generating employment and housing where they are often most needed.
- Cities benefit from increased real property, sales, and income taxes.
- A 5% additional credit for projects involving local, state, or federal surplus properties (such as post offices), with a majority of low-income units, or in: Economically distressed areas; BRAC (Base Realignment and Closure Act) zones; or TOD (Transit-Oriented Development) areas.

The Lopez Adobe in San Fernando is on both the California and federal registers of historic places.

3. Promote affordable housing

- Additional state incentives for historic buildings could assist other funding, including potential housing credits, to bring historic buildings up to current code, boost energy efficiency, and provide accessibility while preserving the building's historic features.
- Historic homeownership credits could help low and moderate income tenants attain home ownership and enable existing homeowners in historic districts to rehabilitate their homes.

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The Grand Central Air Terminal, 1310 Air Way in Glendale is a currently active 20% Federal tax credit project.

4. Demonstrate Inherent Sustainability

- Restoring a historic building is usually more environmentally efficient than building a new one, especially after they are retrofitted with energy upgrades.
- In addition, the dense development and inherent walkability in many historic neighborhoods allows residents to be less dependent upon their vehicles, a distinct environmental advantage which reduces vehicle miles traveled (VMTs).
- Support for historic preservation in communities would significantly advance environmental goals as well.

5. Support Smart Growth and New Urbanism

- Counter to a sprawl mentality, the rehabilitation of historic properties can have direct links to community-based ideas, economic development, and pedestrian-based community planning to reduce greenhouse gas emissions all while creating a more sustainable model for cities and towns. Many preservation projects are already located in smart growth and energy efficient locations.

JAG ARCHITECTS, INC.

The rehabilitation of the Walker House restored possibly the last surviving Southern California railroad hotel of the 1880s, a two-story Queen Anne revival. The San Dimas project involved thorough structural, accessibility, building system, and finish upgrades and restaurant adaptive reuse.

6. Encourage owners to list their properties

- Financial incentives may encourage owners of historic properties to actively seek to list their buildings on the National or State Register of Historic Places in order to take advantage of rehabilitation credits.
- Incentives may help encourage owners to list when they might otherwise be reluctant to do so, by providing a financial reward to list a property.

7. Encourage property maintenance and rehabilitation

- Incentives can assist in bringing vacant properties back to productive use, and lead to higher property tax revenue.
- Incentives help to offset higher costs attributed to the rehabilitation of historic character-defining features.

RIEN VAN RIJTHOVEN

Charles Krug founded his winery in 1861. It is on the National Historic Registry, and the oldest continuously operating winery in Napa Valley. To take advantage of available tax credits, a $6 million (estimated) rehabilitation project kept the project running over a 10-year period. Work was completed in 2008.

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8. Leverage use of the federal rehabilitation tax credit

- An effective state credit can increase the use of the federal credit, bringing more federal dollars into the state. Missouri saw the number of projects using the federal rehabilitation tax credit double after the introduction of their state credit.

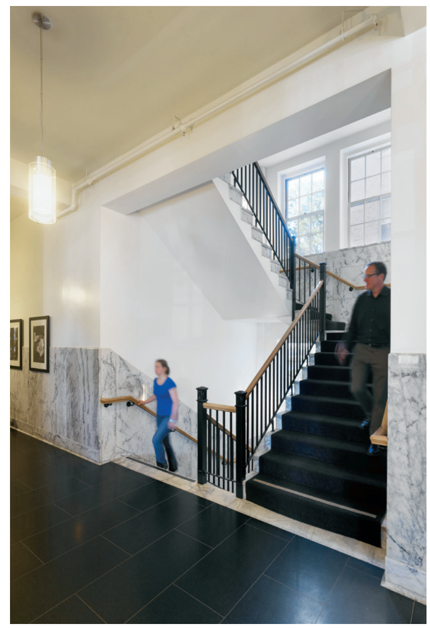
9. Benefit heritage tourism

- In state after state, analyses have shown that one of the major industries benefiting from preservation was tourism. Preservation visitors stay longer, visit twice as many places, and spend two-and-a-half times as much money as do non-preservation visitors. Historic preservation brings tourist dollars into California's economy.

10. Enhance California's leadership role

- State rehabilitation tax incentives are one of the most common legislative agenda items in the states.

- With the state leading the nation in many areas, including sustainability, California can also show its support for historic preservation by protecting and enhancing its historic and cultural properties for future generations.



In 2004 a private developer/design team was selected to rehabilitate and adaptively reuse this disused and vandalized San Francisco Presidio building, utilizing historic tax credits. This LEED Gold certified project is a model for sustainable historic preservation.

PERKINS AND WILL

At left: A Presidio Landmark—The Public Health Service Hospital

DAVID WAKELY

At the San Francisco Presidio, twenty-one buildings constructed between 1901 and 1941 were rehabilitated under the federal historic tax credit program.

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What have the Federal Historic Preservation Tax Incentives done for California?

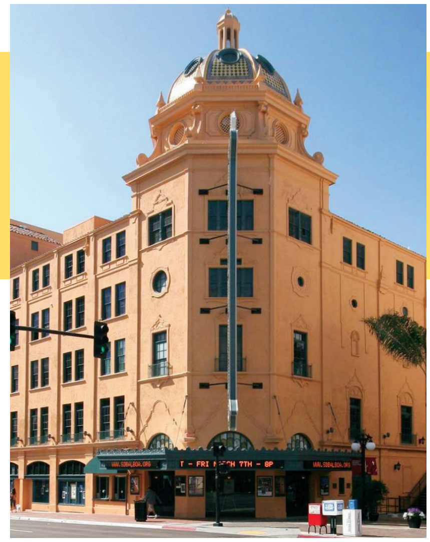
- Over the past 10 years, more than one billion dollars have been spent on certified historic tax projects (20% Historic Tax Credits) across California. The Certified Expenses from the 2003 Federal Fiscal Year through the 2012 Federal Fiscal Year added up to $1,477,672,334 (total project expenditures are even higher when all other non-eligible costs are added). In 2005, California was number one in the country with a high of $281,177,846 in Certified Expenses. That year, California even bested the states with state-level historic tax credits.
- The 129 tax projects in these years have been located in 20 counties, with these top county double-digit totals: Los Angeles (41), Marin (22), San Diego (18), and San Francisco (15). Other counties include Butte with 4 projects; Alameda, Contra Costa, Napa, Sacramento, and Yolo Counties with 3 each; Humboldt, Merced, San Luis Obispo, and Santa Clara Counties with 2 each; and Fresno, San Joaquin, Santa Cruz, Siskiyou, Solano, and Sonoma Counties with one each.
- The top California projects over $40,000,000 during the past 10 years:

2005	Ferry Building, San Francisco	$97,700,000
	General Petroleum Building, Los Angeles	$44,000,000
2007	Subway Terminal Building, Los Angeles	$55,175,744
2009	Ford Assembly Plant, Richmond	$54,900,000
	Pacific Electric Building, Los Angeles	$52,612,555
	Piers 1-1/2 & 3, San Francisco	$47,320,695
	Fort Baker, Sausalito (20 buildings)	$40,798,472
2010	Fox Oakland Theatre, Oakland	$79,500,000
2011	Presidio Public Health Service Hospital, San Francisco	$75,034,443

- Just as important are rural projects and smaller projects (in terms of certified expenses during the past 10 years) under $400,000:

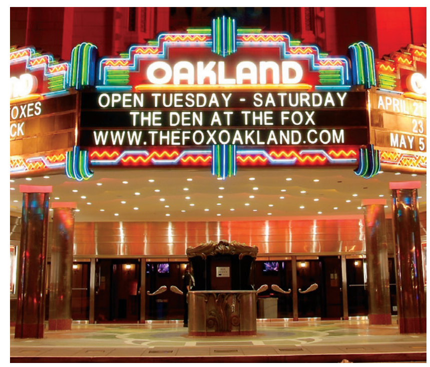
2003	417 Normal Avenue, Chico	$127,948
2004	429 Normal Avenue, Chico	$160,000
2006	429 W. Third Street, Chico	$69,474
2008	640 West 8th Street, Long Beach	$84,804
	Ah Louis Store, San Luis Obispo	$262,683
2010	CDW Historic Lawn Way Beach House, Capitola	$233,232
2012	529 Normal Avenue, Chico	$298,543

- The federal historic tax credits continue to stimulate their local communities and economies and enrich our lives in significant ways. They create jobs and are good for neighborhoods, the local economy, and the environment.
- Annual Reports and PowerPoint presentations of certified tax projects in California since 2005 are available at http://ohp.parks.ca.gov/?page_id=1074.



HERITAGE ARCHITECTURE AND PLANNING

Placed on the National Register of Historic Places in 1996, the 1924 Balboa Theatre in San Diego reopened in 2008. In 2012 it generated more than $1 million in operating revenues.



RUSSEL MONDY

Historic tax credits and New Markets credits made the restoration of the blighted Fox Oakland Theater possible, and helped create a revitalized neighborhood and tourist attraction.

Built in the early 1870s, Eureka's Vance Hotel was wired for electricity by 1885. Restored and seismically stabilized, it houses retail, office, and commercial spaces.

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What other states are doing: a simple summary

Thirty-four states have enacted tax credit programs as their primary tool for making the rehabilitation and reuse of historic buildings economically feasible. State Rehab Tax Credits allow a property owner to claim a percentage of their rehabilitation expenses against state income taxes and are usually designed to complement the Federal Rehabilitation Tax Credit. The Federal credit is 20% for buildings on the National Register of Historic Places and 10% for non-listed buildings built prior to 1936. Most State programs are administered by the State Historic Preservation Office, set a minimum expenditure, and must adhere to rehabilitation standards. The amount of the tax credit and other details vary from state to state.

State	Year Adopted	Eligibility	Commercial Credit	Annual Program Cap (Commercial)	Project Credit Cap (Commercial)	Transferable?	Owner-Occupied Residential Credit	Other Credit
Alabama	2013	National Register	25%	$20 million	$5 million	Yes	25%	25% for nonprofits; 10% for pre-1936 commercial
Arkansas	2009	National Register	25%	$4 million	$125,000	Yes	25%	
Colorado	1990	National Register	20%	No Cap	$50,000	No	20%	
Connecticut	2008	National Register	25%	$16.6 million	$5 million	Yes	30%	30% afford. housing
Delaware	2001	National Register	20%	$5 million	No Cap	Yes	30%	30% afford. housing
Georgia	2002	National Register	25%	No Cap	$300,000	Yes	25%	30% afford. housing
Illinois	2012	National Register*	25%	No Cap	No Cap	Yes	None	
Indiana	1999	National Register	20%	$450,000	$100,000	No	20%	
Iowa	2000	National Register	25%	$45 million	No Cap	Yes	25%	25% for barns
Kansas	2002	National Register	25%	No Cap	No Cap	Yes	25%	30% for nonprofits
Kentucky	2005	National Register	20%	$5 million	$400,000	Yes	30%	20% for nonprofits
Louisiana	2002	Downtown District	25%	No Cap	$5 million	Yes	25–50%	
Maine	2008	National Register	25%	No Cap	$5 million	Yes	None	30% afford. housing
Maryland	1996	National Register	20%	Varies	$3 million	Yes	20%	10% for pre-1936 commercial
Massachusetts	2004	National Register	20%	$50 million	No Cap	Yes	None	25% afford. housing
Minnesota	2010	National Register	20%	No Cap	No Cap	Yes	None	$.9 refund option
Mississippi	2005	National Register	25%	$60 million	No Cap	Yes	25%	
Missouri	1998	National Register	25%	$140 million	No Cap	Yes	25%	
Montana	1997	National Register	5%	No Cap	No Cap	No	None	
New Mexico	1984	National Register	50%	No Cap	$25,000–50,000	No	50%	
New York	2007	National Register*	20%	No Cap	$5 million	No	20%	
North Carolina	1998	National Register	20%	No Cap	No Cap	Yes	30%	
North Dakota	1999	National Register*	25%	No Cap	$250,000	No	25%	
Ohio	2006	National Register	25%	$60 million	$5 million	Yes	25%	
Oklahoma	2005	National Register	20%	No Cap	No Cap	Yes	None	
Pennsylvania	2012	National Register	25%	$3 million	$500,000	Yes	None	
Rhode Island	2013	National Register	20–25%	$34.5 million	$5 million	Yes	None	20% for nonprofits
South Carolina	1995	National Register	10%	No Cap	No Cap	Yes	25%	
Texas	2013	National Register	25%	No Cap	No Cap	Yes (franchise taxes)	25%	
Utah	1994	National Register	None	N/A	N/A	No	20%	
Vermont	2006	Downtown District	10–50%	$1.5 million	No Cap	Yes	None	
Virginia	1997	National Register	25%	No Cap	No Cap	Yes	25%	
West Virginia	1999	National Register	10%	No Cap	No Cap	Yes	20%	
Wisconsin	2013	National Register	20%	No Cap	No Cap	Yes	25%	

* with geographic restrictions. Note: some states also extend their tax credit to local landmark properties or targeted economic zones. Table from: *Restore Oregon Special Report: Revitalizing Main Street*