NATIONAL TRUST **FOR HISTORIC PRESERVATION**

Economic Benefits of State Historic Preservation Tax Credits

Thirty states offer state rehab tax credits to spur more private and federal investment in the revitalization of their older communities. For a complete list and to learn why some programs work better than others, visit http://www.preservationnation.org/issues/rehabilitation-tax-credits/state-rehabilitation-tax.html. After tracking this issue for over 15 years, the National Trust has found that state historic preservation tax credits:

Create jobs at a time when we need it the most. Because it is labor intensive, rehab of historic buildings creates more jobs than new construction or manufacturing. While in new construction half of the investment goes to materials and half to labor, in historic rehab projects, 60 to 70% of the investment goes to labor.[1]

- Economist Donovan D. Rypkema found that in Missouri, *6.3 more jobs are created through rehabilitation than through manufacturing*.[2]
- Rhode Island's investment of *$1 in historic preservation tax credit leverages $5.35 in total economic output*.[3] The direct construction employment generated by historic rehabilitation tax credit projects over a two year period was 5,334 jobs[4].

Generate Tax Revenue. The rehabilitation of historic buildings starts to pay back the state's investment immediately through taxes on construction jobs and materials. Also, tax credits are not released by the state until the rehab work is complete. In Maryland, researchers found that almost one-third of the state's investment is paid down during the construction phase alone.[5]

- The skilled labor that is needed for a rehabilitation project is often found locally. When jobs are created for local electricians, carpenters, painters, etc., they, in turn, will be spending their earnings locally. Local stores will see the benefits as well as the county government, which will benefit from the increased tax revenue.[6]
- For commercial projects, the Maryland Governor's Task Force on the Tax Credit Program found that for every $1 paid out by the State, $0.34 was returned prior to any credit being paid out, $1.02 was returned in the first year, and $3.31 in the fifth year after the project's completion.[7]

Stimulate Private Investment.

- According to a recent report by the Abell Foundation, over $1.24 billion in total rehabilitation spending by owners and developers of both commercial and residential properties was assisted by approximately $255.5 million in state tax credits—a fourfold return on the state's investment.[8]
- A 2005 Missouri Department of Economic Development review of the program showed that in FY04, state credits of $101 million leveraged $269 million in private sector investment while creating 994 permanent jobs, not including the construction jobs generated by the rehabs.[9]

Leverage Federal Rehab Tax Credits. An effective state historic preservation tax credit will increase the use of the federal rehabilitation tax credit, bringing more federal dollars into the state.

- During the 5-year period preceding enactment of the state historic tax credit program (1996-2001), Rhode Island attracted less than $10 million in federal historic tax credit investment. For the 5-year period (2002-2007) since enactment of their state rehabilitation tax credit, more than $78 million dollars in federal historic tax credits have been awarded to Rhode Island projects - an increase of more than 700 percent.[10]
- This echoes Missouri's experience, where the number of projects using federal rehabilitation tax credits *doubled* after the introduction of the state credit.[11]

The "Greenest" Building Is One That Is Already Built. Because most older properties are located in walkable neighborhoods, the tax credits encourage more homes and jobs in these energy-efficient areas, helping people to save money on gas and reducing the state's oil consumption. But for historic preservation tax credits, many construction projects would be happening in greenfields and not revitalizing large and small downtowns, making use of infrastructure that's already in place. The Abell Foundation also found that historic preservation projects reduce vehicle miles traveled (VMTs) 30 to40% as compared to new suburban development.[12]

Brings Vacant Properties Back to Life. Rehabilitated buildings, once vacant and abandoned, help increase property values, decrease safety risks, and contribute to the improvement of a neighborhood. State rehab tax credits help bring buildings back to productive use and lead to higher property tax revenues.

Virginia's Numbers Prove the Points

Virginia's Historic Rehabilitation Tax Credit Program allows property owners to receive a 25% state tax credit on eligible expenses for approved rehabilitation work on certified historic, owner-occupied and income-producing properties.

In 2007, Virginia Commonwealth University's Center for Public Policy in partnership with the Department of Historic Resources analyzed the impact of the tax credit program on the economy of the Commonwealth of Virginia from 1997 through 2006.

They determined that of the total of $1.454 billion in private expenditures spent on rehab tax credit projects, $952 million was leveraged by the state tax credit—those projects for which the state's historic preservation tax credits were an essential driving force.

The study estimated that the $952 million in private expenditure spurred by the state tax credits created:

- $1,595 billion in total economic impact to Virginia;
- 10,769 full and part-time jobs from direct employment and indirect employment in other sectors of the economy;
- $444 million in labor income (wages and salaries); and
- $46 million in state tax revenue.

Prosperity through Preservation: Virginia's Rehabilitation Tax Credit Program, 2007.

Endnotes

[1] Donovan D. Rypkema, The Economics of Historic Preservation: A Community Leader's Guide (Washington: National Trust for Historic Preservation, 1994), page 14.
[2] Donovan D. Rypkema, *The Economics of Historic Preservation,* Sept. 11, 2008 speech for Missouri Preservation's Annual Meeting http://www.preservationnation.org/issues/rehabilitation-tax-credits/addtional-resources/RypkemaDKeynoteMissouriSep08withgraphs.pdf
[3] Lipman Frizzell & Mitchell LLC, *Rhode Island Historic Preservation Investment Tax Credit: Economic and Fiscal Impact Analysis* 2007 for Grow Smart Rhode Island, page 1
[4] Lipman Frizzell & Mitchell LLC, *Rhode Island Historic Preservation Investment Tax Credit: Economic and Fiscal Impact Analysis* 2005 for Grow Smart Rhode Island, page 1.
[5] The Abell Report, Vol. 22, No. 1, (The Abell Foundation, March 2009), page 2. http://www.preservationnation.org/issues/rehabilitation-tax-credits/addtional-resources/Abell-Report-2009.pdf
[6] Rypkema, page 14.
[7] *Final Report of the Governor's Taskforce on Maryland's Historic Structure Rehabilitation Tax Credit Program*, 2004, page 3. http://www.marylandhistoricaltrust.net/1.04tax_credit_report.pdf
[8] The Abell Report, Vol. 22, No. 1, (The Abell Foundation, March 2009) , pages 2-3.
[9] Report on Missouri Incentive Programs, (Missouri Department of Economic Development, Nov. 2005), page 42.
[10] Lipman Frizzell & Mitchell LLC, *Rhode Island Historic Preservation Investment Tax Credit: Economic and Fiscal Impact Analysis* 2007 for Grow Smart Rhode Island, page 3
[11] *Federal Tax Incentives for Rehabilitating Historic Buildings Annual Report for Fiscal Year 2004*, National Park Service, U.S. Department of the Interior, February 2005, page 4 http://www.dnr.mo.gov/shpo/NPS_report_2004.pdf
[12] The Abell Report, Vol. 22, No. 1, (The Abell Foundation, March 2009), page 5.