

Investing in History: The Positive Economics of Federal and State Tax Credits



Historic Lykens Hotel and Israel Building redeveloped into 28 affordable rental apartments in Lykens Borough, Dauphin County



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Keppel Building, Lancaster, PA -
6 commercial spaces and 38 market rate
apartments

Federal Historic Tax Credits are a Preservation & Economic Development Tool


- A **20% federal income tax credit** for the rehabilitation of historic, income-producing buildings
- In PA, FFY 2017 figures were **39 completed projects** for a total rehab costs of almost **\$331 million**
- From 1977-2018, PA has **2,500 completed projects** for total rehab costs of almost **\$7 billion**




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Program Eligibility



"Certified historic structure"




Building must be **depreciable**




Rehabilitation must be **substantial**



Rehabilitation work must meet the **Standards**




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Federal Tax Credit Application Process


Part 1
Evaluation of Significance

Determines whether the building(s) is or is likely to be a Certified Historic Structure




Part 2
Description of Rehabilitation

Determines whether the proposed rehabilitation work will meet the Secretary of the Interior's (SOI) *Standards for Rehabilitation*




Part 3
Request for Certification of Completed Work

Determines whether the proposed rehabilitation work was completed as stated and meets the SOI *Standards*



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Pennsylvania Historic Preservation Incentive Tax Credits

Federal and State Program Similarities

1. Use same eligibility requirements
2. Adopts IRS tax code
3. Similar Part 1, 2 and 3 application process with PHMC
 - PHMC expedites state review by accepting prior federal application approval

Program Differences

1. State program is competitive as demand exceeds availability
 - Federal program is "by right" where all approved projects receive tax credits
 - DCED uses first-come, first served requirement and regional distribution requirement to determine allocations
2. State cap on total amount of credits - \$3M
 - No cap on annual allocation for federal program
3. State cap on credits per project - \$500,000
 - Most allocations are less than requested amount
 - No cap on per project for federal program
4. State program does not have a standardized application date
 - Federal is open application period
5. State is a "certificated" credit but "too little, too late, too slow"



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2013 – 2017 Pennsylvania Historic Preservation Incentive Tax Credit Usage

Data Source: DCED, 2018

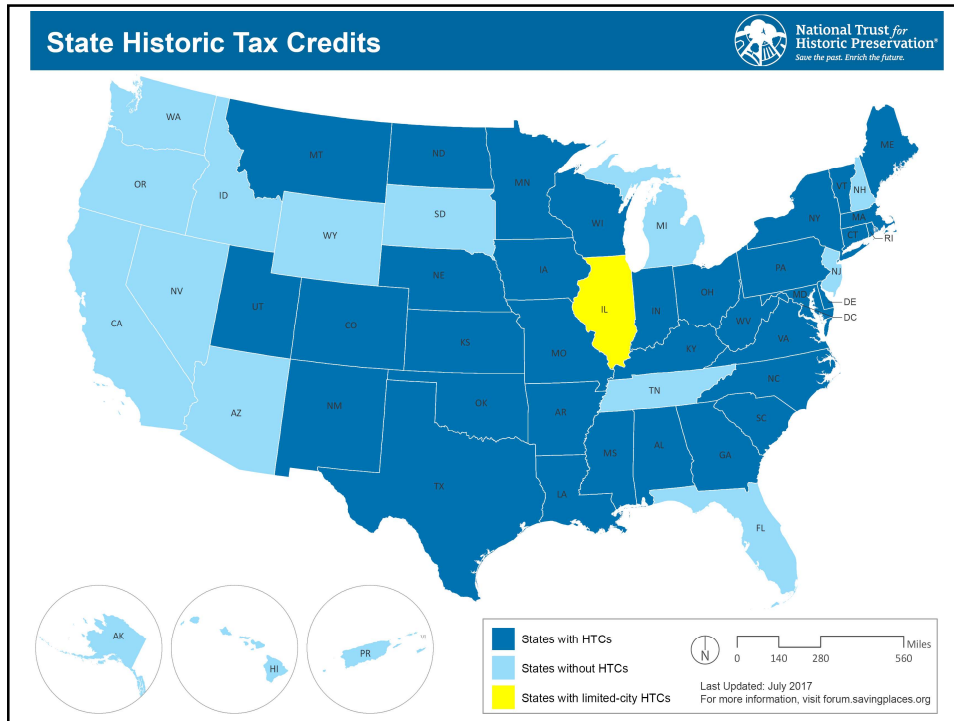
Year	# of Projects Applied	Amount Requested	# of Projects Awarded	Total Allocation
2013	36	\$14,498,598	15	\$3,000,000
2014	30	\$12,929,018	14	\$3,000,000
2015	23	\$11,537,047	16	\$3,000,000
2016	21	\$9,375,000	15	\$3,000,000
2017	73	\$28,557,439	Awaiting allocation	\$3,000,000
Totals	183	\$76,987,102	60 to date	\$15,000,000

- Average allocation per project is \$196,721.
- Even with per project cap, only 12 of 61 projects have received an allocation that matched requested amount.



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#1 – Effective State Tax Credits Increase Use of Federal HTCs


Data Source: National Park Service, 2017

FFY 2017	Pennsylvania	New York	Ohio	Virginia
Approved P1	85*	131	86	157
Approved P2	80*	135	100	95
Estimated rehab expenses	\$684,054,938	\$891,546,411	\$614,676,053	\$234,658,363
Approved P3	39	73	104	104
Completed rehab expenses	\$330,927,617	\$1,023,731,216	\$439,799,047	\$342,305,771
Total Projects over 5 Years	160	299	389	442
Total QREs over 5 years	\$1,433,265,432	\$2,936,551,317	\$1,485,540,078	\$135,559,617

**Pennsylvania FFY 2017 Part 1 and Part 2 numbers are higher than previous years.



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PA HTC program compared to other states

Data Source: National Trust for Historic Preservation

Pennsylvania	New York	Ohio	Virginia	West Virginia
\$3 million annual cap	No annual cap	\$60 million annual cap	No annual cap	\$30 million annual cap
\$500,000 per project cap	\$5 million per project cap	\$5 million per project cap	No per project cap	\$10 million per project cap
Geographic distribution required	Geographic targeting by census tracts	Funding priority to new communities	No targeting required	\$5 million set aside for small projects
Transferred by certificate	Refundable	Refundable and syndicated	Transferred by certificate	Transferred by certificate and syndication
Random application deadline	Standard application deadline	Standard application deadline	Standard application deadline	Standard application deadline



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#2 - Historic Tax Credits Create More Jobs Than New Construction



118 and 120 Northampton St., Easton, PA -
2 commercial spaces and 14 market rate apartments

- Costs of rehabilitation uses on average 65% labor and 35% materials
- Costs of new construction uses on average 50% labor and 50% materials
- State Tax Credits created more than **31,000 full and part-time jobs during a 17-year period** across the country
- ... and generated an estimated \$133 million in new state and local tax revenues



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#3 - State Historic Tax Credits Start “Paying Back” During Construction



Dickson Tavern, Erie, PA -
Kidder Wachter Architecture & Design

For every \$1 invested by the state are paid back during the construction phase and before the credit is issued.

Pay back rates in other states:

- \$.40 cents in Wisconsin
- \$.34 cents in Maryland
- \$.33 cents in Ohio



#4 – Puts Vacant Properties Back on Tax Rolls



Winters Music Store, Altoona, PA -
micro-brewery and dance studio

Percentage of properties vacant prior to HTC project:

- 67 % in Pennsylvania
- 60% in Wisconsin
- 82% in Ohio



The Pennsylvania Historic Preservation Incentive Tax Credit Sunsets in FY 2019-20

We encourage you to not only reauthorize this important economic tool but enhance it to benefit all of Pennsylvania's economy and preserve it's historic resources.



Lafayette Building, Butler, PA -
community center and 49 affordable rental apartments

Recommended improvements:

- Annual Allocation of \$30 - \$50 million.
- Increased per project cap up \$2.5 million
- Required collection of data for future impact analysis (use Maine as example)
- Investigate impact of federal tax reform on state program such as 5-year ratable credit (New York just did this)
- Two rounds per year with standard dates to avoid other DCED program deadlines such as EITC
- Additional 5% for affordable housing (Maryland did this)
- Funding priority given to an area without a prior project (Ohio did this)
- Fee determined by % of QRE to provide funding to SHPO and DCED to administer the program