Annual Report on the Economic Impact of the Federal Historic Tax Credit for FY 2012

EXECUTIVE SUMMARY



National Park Service
U.S. Department of the Interior
Technical Preservation Services

Rutgers
Edward J. Bloustein School
of Planning and Public Policy

This executive summary is based on the findings of a National Park Service funded study undertaken through a cooperative agreement with Rutgers University. The full report will be available in electronic form by early spring 2013. The University is responsible for the content of the report.

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U.S. Department of the Interior
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FEBRUARY 2013

A Message from the National Park Service

Beyond the National Parks, the National Park Service through its Cultural Resources, Partnerships and Science Programs is part of a national preservation partnership working to promote the preservation of historic resources in communities small and large throughout the country. For the past 35 years, the National Park Service, in partnership with the State Historic Preservation Offices, has administered the Federal Historic Preservation Tax Incentives Program.

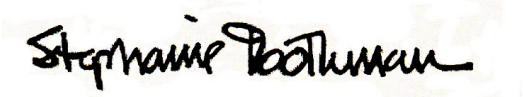
Commonly referred to the as the Federal Historic Tax Credit (HTC), the HTC is designed to not only preserve and rehabilitate historic buildings, but to also promote the economic revitalization of older communities in the nation's cities and towns, along Main Streets, and in rural areas. Targeted to income-producing buildings, the HTC program is the largest and most effective Federal program specifically supporting historic preservation. Since the program's inception in 1976, the National Park Services has certified the rehabilitation of more than 38,700 historic buildings throughout the United States.

In Fiscal Year (FY) 2012, 744 completed historic rehabilitation projects were certified by the National Park Service, representing $3.255 billion in estimated rehabilitation costs that qualify for a 20% Federal tax credit. (Another 1,020 proposed projects were also approved in FY 2012.) Many of these buildings were abandoned or underutilized, and all were in need of substantial rehabilitation to return them to, or for their continued, economic viability.

The National Park Service issues annual reports on the HTC program quantifying the number of historic rehabilitations certified each year, their reported costs, and other statistical information on the program. The annual and statistical reports are available on the National Park Service's Technical Preservation Services (TPS) website at http://www.nps.gov/tps/tax-incentives.htm, along with information on the HTC program in general.

For FY 2012, the National Park Service also turned to the Rutgers University Center for Urban Policy Research, through a cooperative agreement, to undertake and report on the economic impacts of the HTC for the fiscal year ending September 30, 2012. This executive summary highlights their report's main findings. The Center's full report on the Federal HTC will be available on the TPS website by early spring. An economic model previously developed by the Center under a series of grants from the National Park Service was utilized in the preparation of this report. The economic model was utilized by the Center for their three prior reports on the Federal HTC, as well as for a number of other economic reports for state governments and others.

As the Center's report identifies, the level and breadth of economic impacts resulting from the Federal HTCs in FY 2012 are quite impressive. In addition, the report includes information on the cumulative economic impacts of the Federal Historic Preservation Tax Incentives Program for the past 35 years, starting in 1977-78 with the first completed rehabilitation project to be certified by the National Park Service under the program. The program remains one of the Federal government's most successful and cost-effective community revitalization programs.



Stephanie S. Toothman

Associate Director, Cultural Resources, Partnerships, and Science
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ANNUAL REPORT ON THE ECONOMIC IMPACT OF THE FEDERAL HISTORIC TAX CREDIT FOR FY 2012

EXECUTIVE SUMMARY

OVERVIEW OF THE RUTGERS ECONOMIC ANALYSIS

The federal historic tax credit (HTC) is a federal income tax credit that promotes the rehabilitation of income-producing historic properties. This study examines the economic impacts of the HTC (currently at 20 percent) by analyzing the economic consequences of the projects it supports. This analysis focuses on the economic effects of these projects during construction, quantifying the total economic impacts (i.e., direct as well as multiplier, or secondary, economic consequences) for the fiscal year ending September 30, 2012, and for the period since the program's inception. The study utilizes the Preservation Economic Impact Model (PEIM), a comprehensive economic model developed by Rutgers University for the National Park Service.

The current analysis applies the PEIM to both cumulative (FY 1978 through FY 2012) HTC-related historic rehabilitation investment (about $106.1 billion in inflation-adjusted 2012 dollars) and single-year (FY 2012) HTC-related rehabilitation investment (about $3.5 billion). It considers the effects of the cumulative $106.1 billion rehabilitation investment as if it applied to one year (2012), rather than backdating the PEIM for each of the 35 years in the study period. It also considers the full rehabilitation investment associated with the HTC (e.g., $3.5 billion in FY 2012) and not the somewhat lower amount reported by the National Park Service based on estimated qualified rehabilitation costs indicated by property owners requesting certification of rehabilitation for purposes of the tax credit (e.g., $3.15 billion in FY 2012).[1]

1 The HTC has a multistep application process, encompassing Part 1 (evaluation of the historic significance of the property), Part 2 (description of the rehabilitation work), and Part 3 (request for certification of completed work). Both Part 2 and Part 3 rehabilitation statistics include only items termed "eligible" or "qualified" for the tax credit (Qualified Rehabilitation Expenditures, or QREs), as opposed to "ineligible" or "nonqualified" costs. While the ineligible/nonqualified expenses do not count for tax credit purposes, they are a component of the total rehabilitation investment or cost borne by the HTC-oriented developer. In practical terms, the total rehabilitation investment, including ineligible/nonqualified costs, helps pump-prime the economy. For example, in FY 2012, the Part 3 certified investment amounted to about $3.15 billion, while the total rehabilitation outlay associated with the HTC was about $3.50 billion.

The results of the PEIM include many fields of data. The fields most relevant to this study are the following:

JOBS: Employment, both part- and full-time, by place of work, estimated using the typical job characteristics of each industry.

INCOME: "Earned" or labor income; specifically, wages, salaries, and proprietor income.

WEALTH: Value-added—the sub-national equivalent of gross domestic product (GDP). At the state level, this is called gross state product (GSP).

OUTPUT: The value of shipments, as reported in the Economic Census.

TAXES: Tax revenues generated by the activity, which include taxes to the federal government and to state and local governments.

The following table summarizes the impacts of the HTC for each of these economic measures for cumulative period FY 1978-2012 and FY 2012.

National economic impacts

	Federal HTC-assisted Rehabilitation	
	$106.1 billion CUMULATIVE (FY 1978-2012) historic rehabilitation expenditures results in:	$3.5 billion in ANNUAL FY 2012 historic expenditures results in:
Jobs (person-years, in thousands)	2,351.3	57.8
Income ($ billion)	89.1	2.5
Output ($ billion)	245.2	6.6
GDP ($ billion)	121.2	3.4
Taxes ($ billion)	35.5	0.9
Federal ($ billion)	25.9	0.6
State ($ billion)	4.9	0.2
Local ($ billion)	4.8	0.1

The benefits of investment in HTC-related historic rehabilitation projects are extensive, increasing payrolls and production in nearly all sectors of the nation's economy. The cumulative effects for the period of FY 1978 through FY 2012 are illustrative. During that period, $106.1 billion in HTC-related rehabilitation investment created 2,351,000 jobs and $121.2 billion in GDP, nearly 30 percent of which (692,000 jobs and $34.3 billion in GDP) was in the construction sector. This is as one would expect, given the share of such projects that require the employment of building contractors. Other major beneficiaries were the service sector (418,000 jobs, $16.0 billion in GDP), the

manufacturing sector (480,000 jobs, $31.1 billion in GDP), and the retail trade sector (345,000 jobs, $9.1 billion in GDP). As a result of both direct and multiplier effects, and due to the interconnectedness of the national economy, sectors not immediately associated with historic rehabilitation, such as agriculture, mining, transportation, and public utilities, benefit as well. (Summary Exhibit 1.)

The recent economic benefits of the federal HTC are also most impressive. In FY 2012, HTC-related investments generated approximately 58,000 jobs, including 20,000 in construction and 13,000 in manufacturing, and were responsible for $3.4 billion in GDP, including $1.1 billion in construction and $0.9 billion in manufacturing. HTC-related activity in FY 2012 generated $2.5 billion in income, with construction ($0.9 billion) and manufacturing ($579 million) reaping major shares. (See Summary Exhibit 2 for more details.) These benefits were especially welcome in 2012, as the nation continued its recovery from a severe economic recession.

HTC Impacts at the State Level

HTC-related historic rehabilitation benefits state economies as well as the national economy. For example, in Missouri in FY 2012, federal HTC-related rehabilitation activity totaled about $449 million. The national impacts of that investment included 7,683 jobs, an additional $853 million in output, $320 million in income, $424 million in GDP, $74 million in federal taxes, and $101 million in total taxes. In Missouri alone, the same $449 million in HTC-related spending resulted in 4,290 jobs, $449 million in output, $199 million in income, $239 million in gross state product (GSP), and $52 million in taxes.

HTC Impacts Compared with Those of Nonpreservation Investments and Housing Contributions

How does HTC-related historic rehabilitation perform as an economic pump-primer compared with other, nonpreservation investments? In short, quite well.

Numerous studies conducted by Rutgers University have shown that in many parts of the country, a $1 million investment in historic rehabilitation yields markedly better effects on employment, income, GSP, and state and local taxes than an equal investment in new construction or many other economic activities (e.g., manufacturing or services). These findings demonstrate that historic rehabilitation, combined holistically with the many activities of the broader economy, delivers a commendably strong “bang for the buck.”

About half of all HTC transactions include housing. Often used in combination with programs such as the Low Income Housing Tax Credit (LIHTC), the HTC has produced powerful and very beneficial results in this area. From FY 1978 through FY 2012, the HTC has been involved in the creation of 466,047 housing units. Of that total, 243,607, or 52 percent, were existing housing units that were rehabilitated; 222,440, or 48 percent, were newly created housing units (e.g., housing resulting from the adaptive reuse of commercial space). In addition, 127,920, or 27 percent of

the total housing units produced (446,047), were affordable to low- and/or moderate-income (LMI) families. In FY 2012, 6,366 LMI units were produced under the federal HTC. The federal HTC's influence on housing, largely invisible to the general public, deserves much greater attention, given its production of housing in general and LMI housing units in particular.

The Cost of the HTC

The HTC is a tax expenditure and has a public cost. In the simplest terms, the federal cost of the HTC is equal to the credit percent (20 percent since 1986) applied to the Part 3 ("qualified for tax credit") investment.[2] Applying that calculation, we find that the federal HTC cost the U.S Treasury approximately $20.5 billion (in inflation-adjusted 2012 dollars) over the period of FY 1978 though FY 2012, while the cost for projects certified by the National Park Service in FY 2012 was about $630 million.[3] Weighing against these costs are the significant economic impacts (i.e., jobs, income, GDP, and output) and tax revenue (federal, state, and local) generated by HTC-aided rehabilitation and documented in this study. An important finding is that the HTC yields a net benefit to the U.S. Treasury, generating $25.9 billion in federal tax receipts over the life of the program, compared with $20.5 billion in credits allocated.

Summary of HTC Impacts

In short, the federal HTC is a good investment for local communities, individual states, and the nation. The cumulative impacts of the program to date (FY 1978 through FY 2012) support this conclusion.

- An inflation-adjusted (2012 dollars) $20.5 billion in HTC cost encouraged a five times greater amount of historic rehabilitation ($106.1 billion).
- This rehabilitation investment generated about 2.4 million new jobs and billions of dollars of total (direct and secondary) economic gains.
- The cumulative positive impacts on the national economy included $245.2 billion in output, $121.2 billion in GDP, $89.1 billion in income, and $35.5 billion in taxes, including $25.9 billion in federal tax receipts.
- The leverage and multiplier effects noted above support the argument that the federal HTC is a strategic investment that works.

2 See footnote 1.

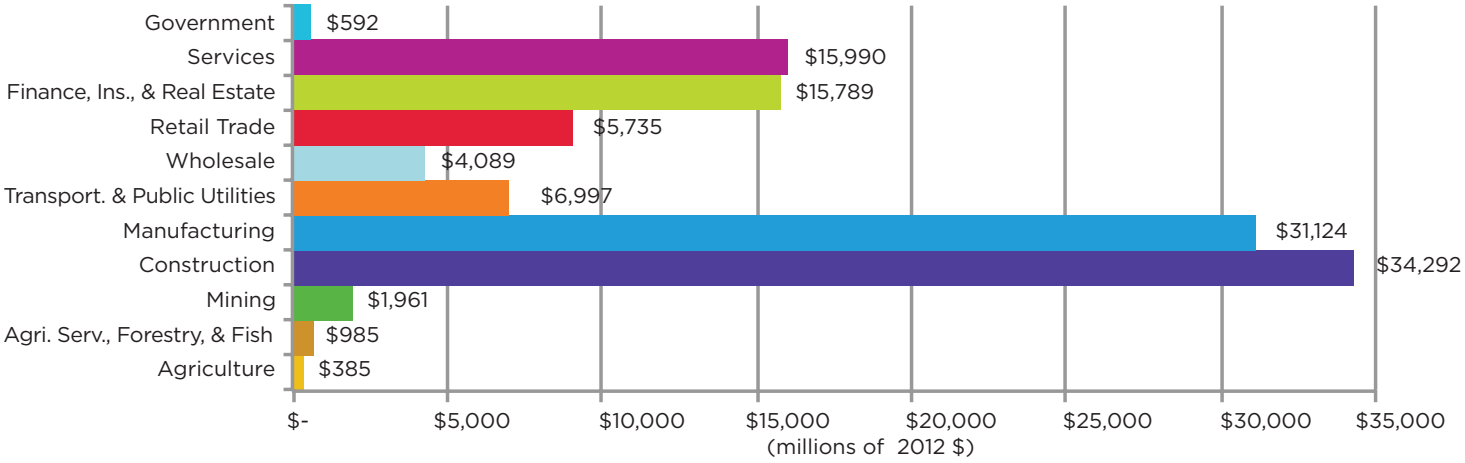
3 These estimates are based on full utilization of the credits in cases of certified rehabilitations. For various reasons, not all completed projects certified by the National Park Service ultimately utilize the credit. Their economic impact, nevertheless, remains.

SUMMARY EXHIBIT 1

National Economic and Tax Impacts of Federal HTC-related Activity FY 1978 through FY 2012 (HTC Investment: $106.1 billion)

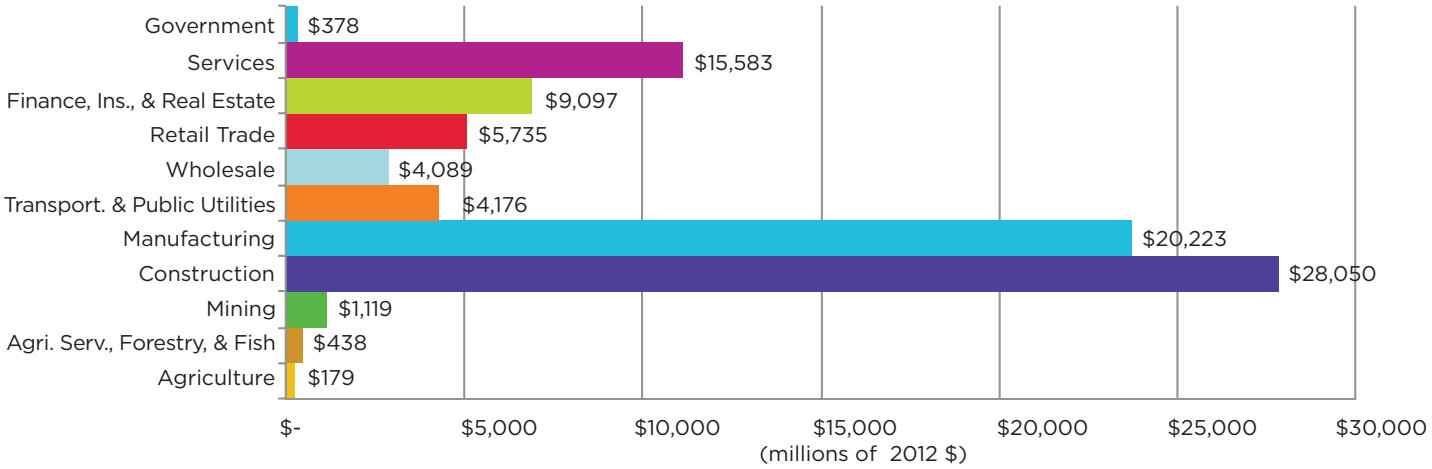
Gross Domestic Product, by Sector, Generated by Federal Historic Preservation Investment

($121,157 million, cumulative, FY 1978-2012)



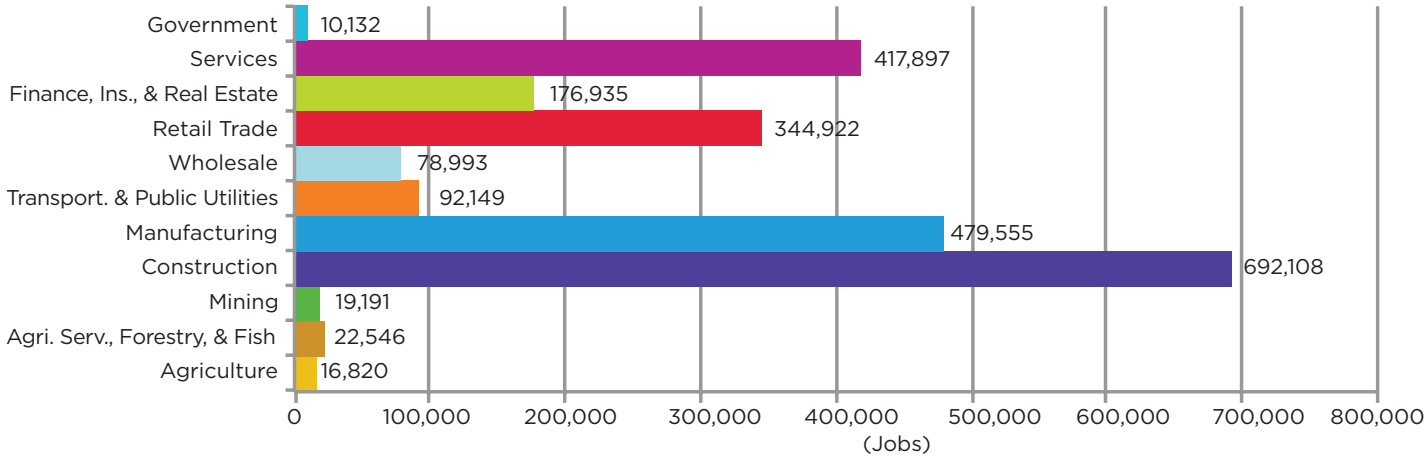
Income Created, by Sector, from Federal Historic Preservation Investment

($89,068 million cumulative, FY 1978-2012)



Jobs Created, by Sector, from Federal Historic Preservation Investment

(2,351,248 jobs cumulative, FY 1978-2012)

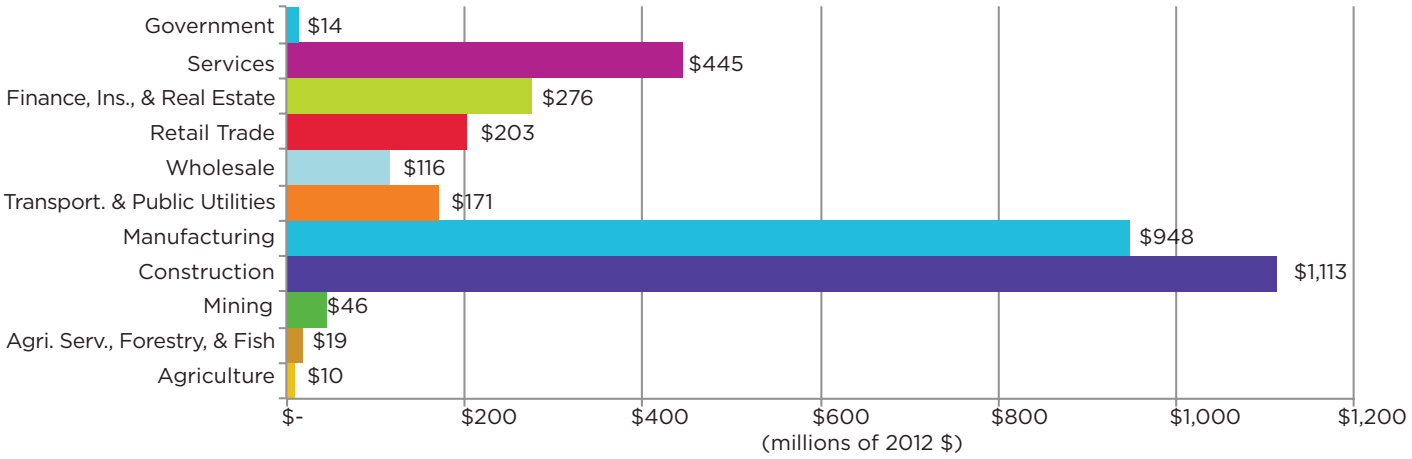


SUMMARY EXHIBIT 2

National Economic and Tax Impacts of the Federal HTC-related Activity FY 2012 (HTC Investment: $3.5 billion)

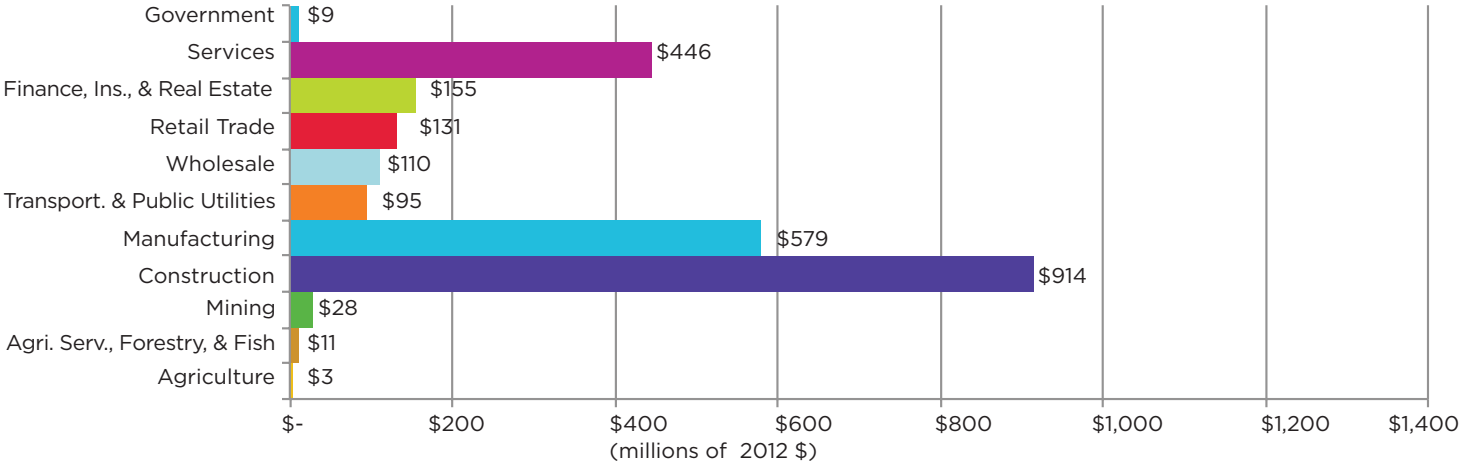
Gross Domestic Product, by Sector, from Federal Historic Preservation Investment

($3,361 million, FY 2012)



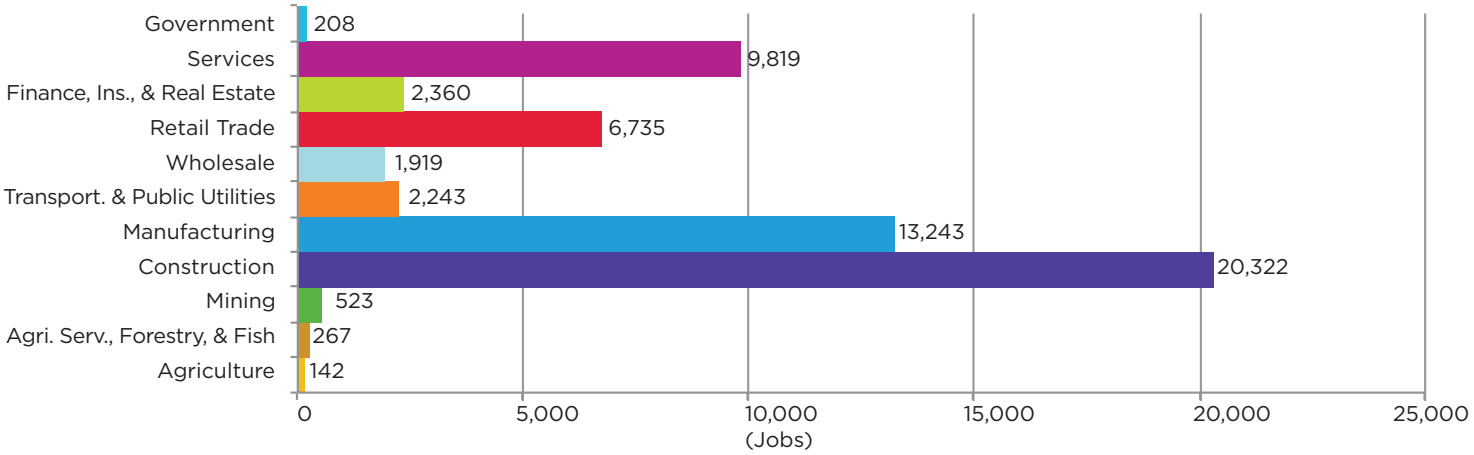
Income Created, by Sector, from Federal Historic Preservation Investment

($2,480 million, FY 2012)



Jobs Created, by Sector, from Federal Historic Preservation Investment

(57,783 jobs, FY 2012)



CASE STUDY: Oxford Mills
100 West Oxford Street, Philadelphia

Before (courtesy of Powers & Company, Inc.)

Rendering of completed project

PROJECT PROFILE

Historic name:	Quaker City Dye Works
Original construction date:	1873
Date of rehab:	2012-2014
Original use:	Factory producing cotton and woolen yarns, dye, and silk for the garment industry
New use:	Office space for education-related nonprofits, affordable apartments for public school teachers, and retail
Project cost:	$38.5 million
Federal HTC equity:	$6.3 million
Other financial incentives:	Federal NMTCs
Investment Partner:	TD Bank

Property and Project Details

Built in 1873 by the Quaker City Dye Works, this complex in Philadelphia's South Kensington neighborhood manufactured dye, cotton and woolen yarns, and silk for the garment industry. At one time the largest dye works in Philadelphia, the operation employed some 200 people. The historic facility, which later housed the Oxford Mills carpet company, now stands amid a mix of residential, commercial, and industrial properties and scattered vacant lots. South Kensington is located in a severely distressed census tract, which has an unemployment rate more than three times the national average.

The Oxford Mills project will redevelop the underutilized buildings into 38,000 square feet of office space for education-related nonprofits, a 1,300 square-foot café, and 114 apartments marketed primarily to teachers employed by the School District of Philadelphia. Twenty-three of the apartments will be rent-restricted to people earning less than 80 percent of the area median income. Teach for America will occupy 14,000 square feet of the new office space.

This rehabilitation project will create a vibrant, collaborative environment for educators and allied professionals—with easy access to commuter bus and rail lines--while catalyzing redevelopment in the surrounding neighborhood. Work is expected to be completed in time for the 2014 school year.

Project Budget

Sources of Funds	Amount
NMTC Equity	$10,210,200
Federal HTC Equity	$6,362,812
Loans	$18,105,988
Other	$3,786,332
Total	$38,465,332

Uses of Funds	Amount
Acquisition	$2,500,000
Hard/Construction Costs	$22,150,000
Soft Costs	$5,831,012
Other Financing Costs	$7,984,320
Total	$38,465,332

Community Benefits

- **250 Construction Jobs**
- **337 Permanent Jobs**
- **$947,600 state and local taxes**

Martinsville Lofts

900 Rives Road, Martinsville, Va.

Before

After

PROJECT PROFILE

Historic name:	Martinsville Novelty Corporation Factory
Original construction date:	1929
Date of rehab:	2010-2011
Original use:	Furniture factory
New use:	Affordable housing
Project cost:	$9.5 million
Federal HTC equity:	$1.3 million
Other financial incentives:	State HTCs, state and federal LIHTCs

Property and Project Details

Built in 1929 to house manufacturing operations for occasional and novelty tables and cabinets, the Martinsville Novelty Corporation complex comprises a three-story factory building, drying kilns, a wood-storage area, a one-story concrete-and-frame storage building, a former factory restaurant, and a Quonset hut that was added in the 1940s or 1950s. The property runs parallel to the former Norfolk and Western Railway; a rail spur and trestle lead into the wood-storage area.

Transforming a manufacturing plant into an inviting, affordable residential community presented a significant design challenge, but the Martinsville Lofts project ties the property's patchwork quilt of certified historic structures into a cohesive whole while

retaining much of the complex's original character. The result, which combines industrial charm with functionality, represents a first-class housing option for working families.

Martinsville Lofts' 60 units are reserved for families earning 60 percent or less of the area median income. Qualified residents attending an accredited college, university, community college, or vocational-technical school are eligible for scholarships of up to $2,000 per year. The project won the National Housing & Rehabilitation Association's 2012 J. Timothy Anderson Award for Most Innovative Adaptive Reuse.

Project Budget

Sources of Funds	Amount
Federal LIHTC Equity	$2,049,278
Federal HTC Equity	$1,338,838
State HTC Equity	$1,634,333
American Recovery and Reinvestment Act (ARRA) 1602 Exchange Funds (State LIHTC)	$3,401,537
Permanent Financing	$1,086,132
Total	$9,510,118

Uses of Funds	Amount
Acquisition	$400,000
Hard/Construction Costs	$6,600,553
Soft Costs	$1,345,967
Other Financing Costs	$1,163,598
Total	$9,510,118

Community Benefits

- **65 Construction Jobs**
- **83 Permanent Jobs**
- **$475,500 in state and local taxes**

SAENGER THEATRE

1101–1111 Canal Street, New Orleans

During post-Katrina flooding

Rendering of completed project

PROJECT PROFILE

Historic name:	Saenger Theatre
Original construction date:	1927
Date of rehab:	2012-2013
Original use:	Theater and movie house
New use:	Multipurpose performing arts facility
Project cost:	$51 million
Federal HTC equity:	$10 million
Other financial incentives:	State HTCs, Federal NMTCs
Investment Partner:	JPMorgan Chase & Co.

Property and Project Details

Built during the silent film era, the Saenger Theatre was the flagship of Julian and Abe Saenger's theater empire. With a 2,000-pipe Robert Morton organ and seating for 4,000, it presented movies, live theater, and musical performances by the Saenger Grand Orchestra. Converted to show only "talking pictures" in 1933 and subjected to various renovations and changes in ownership over the following decades, the Saenger remained in operation until 2005, when Hurricane Katrina struck New Orleans. The storm's floodwaters filled the building's basement and orchestra seating area, ultimately rising to a foot above stage level. The resulting damage rendered the building unusable for years afterward.

In 2009, New Orleans officials announced a public-private partnership to redevelop the property as a multipurpose performing arts facility. Slated for completion in 2013, the project will restore the façade's decorative masonry, terracotta elements, sidewalk canopies, and wrought iron work. The building's interior public arcades, foyers, lobbies, and auditorium will also be rehabilitated. When it reopens, the Saenger Theatre will host Broadway shows, music and dance performances, plays, films, corporate assemblies, lectures, and community events. Calling the Saenger Theatre "a crown jewel of our city," New Orleans Mayor Mitch Landrieu said its return to active use "will create tens of millions in annual economic impact for our economy and will anchor the continued revitalization of Canal Street."

Project Budget

Sources of Funds	Amount
Federal HTC Equity	$10,092,948
State HTC Equity	$15,432,014
Federal NMTC Equity	$11,889,526
Loans & Other	$12,743,617
Total	$50,158,105

Uses of Funds	Amount
Acquisition	$0
Hard/Construction Costs	$36,900,319
Soft Costs	$11,887,276
Other Financing Costs	$1,370,510
Total	$50,158,105

Community Benefits

- **388 Construction Jobs**
- **676 Permanent Jobs**
- **$2,566,900 in state and local taxes**

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