

Minnesota Historic Structure & Community Reinvestment Tax Credit

Strengthening Minnesota's Economy by Reinvesting in Historic Places

S.F. 2568 (Bakk) -S.F. 2167 (Metzen)-S.F. 1724 (Pogemiller)

H.F. 2695 (Lenczewski)-H.F. 1974 (Marquart)

A coalition of cities, property developers, construction industry representatives, and nonprofit organizations is actively promoting proposed legislation that would allow a credit on state income taxes equal to 25 percent of the qualified cost of a historic rehabilitation of residential or income-producing properties. The proposed legislation, similar to provisions in 30 other states, would encourage private investment in historic properties in both urban and rural Minnesota, generating jobs and stimulating economic development within existing communities.

How Does It Work?

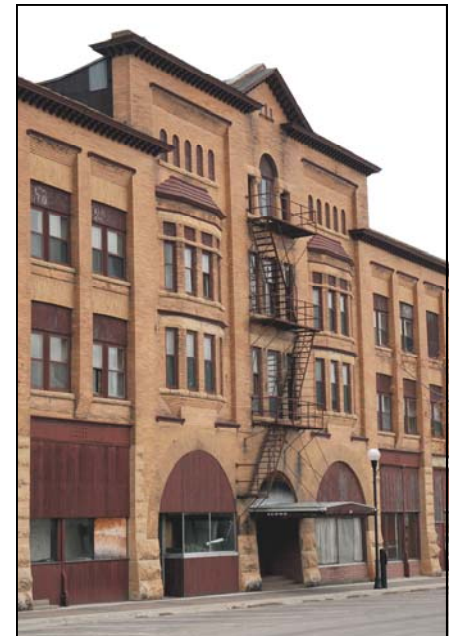
- Allows credit on state income taxes equal to 25% of the qualified cost of a historic rehabilitation.
- Parallels federal historic preservation 20% tax credit, creating more development opportunities in Minnesota and leveraging millions of dollars in federal monies not currently flowing into our state.
- Useful for both commercial and residential property, developers and homeowners. Federal credit is for income-producing properties only.

Economic and Social Benefits

- **Creates jobs and economic activity far beyond level of tax credit.**
 - ⇒ Historic rehab is more labor intensive than new construction with 60-70% of the investment in labor rather than materials.
 - ⇒ Increased labor costs creates more jobs than new construction resulting in greater income and sales tax revenue. In Missouri, the costs of the credit was recouped in additional payroll taxes alone.
 - ⇒ State tax credits have spurred more than \$1 billion in economic activity in states like Maryland, Missouri, and Virginia.
- **Replenishes tax base by increasing payroll, sales, and property taxes.**
 - ⇒ Encourages private investment in vacant or underutilized buildings putting neglected properties back on the tax rolls at a higher value and catalyzing investment in surrounding areas.
- **Leverages more federal resources for the state.**
 - ⇒ Minnesota ranks 22nd in the nation in leveraging federal rehabilitation tax credit funding (\$45M in FY2007); Missouri leads the nation (\$534M in FY2007) due to their strong state rehab tax credit.
- **Preserving historic structures is sustainable development.**
 - ⇒ Reusable natural resources, or “embodied energy,” invested in the building are not wasted by being thrown into a landfill. Encourages reinvestment in previously developed areas and infrastructure.
- **Rehabilitation creates affordable housing by:**
 - ⇒ Helping first-time and moderate-income buyers through the mortgage credit provision. A Lender uses the tax credit for CRA purposes and allows the owner to buy down their rate or mortgage.
 - ⇒ Encouraging development of low-income rental housing when partnered with the federal low-income housing tax credit.
- **Supports community efforts to capitalize on history as their unique identity to attract residents, businesses, and tourists.**

STATE REHAB TAX CREDITS AND JOB CREATION

- ⇒ In Minnesota, historic rehab projects would create 5.7 more jobs per \$1 million in output than manufacturing and 2 more jobs per \$ 1 million than new construction.
- ⇒ A total of 6,871 jobs and \$60 million in tax revenue was created in the first four years of Missouri's tax credit.
- ⇒ In Rhode Island, direct construction employment generated by rehab credit projects was 5,334 over two years.
- ⇒ Historic rehab employed 9,248 construction workers in Maryland over the past 12 years due to a strong state credit.



Palace / Wayne Hotel, Crookston
Vacant for over 20 years, the County-owned Palace Hotel is in pre-development by Metro-Plains at \$5 million cost. The state tax credit could move the project forward creating 76 construction jobs and 24 affordable housing units.

What is Eligible?

The tax credit would be available for a property that is any of the following:

- Listed on the National Register of Historic Places.
- Certified as a contributing element of a National Register Historic District.
- Certified as historic by local heritage preservation commission or Certified Local Government.

Proposed Legislation

The proposed legislation, based on a highly successful Missouri law passed in 1997, provides an income tax credit for expenditures for commercial and residential historic structure rehabilitation. A taxpayer who incurs costs for the rehabilitation of an eligible property may take a credit against the tax imposed in an amount equal to 25 percent of the total costs of rehabilitation. The costs of rehabilitation must exceed 50 percent of the total basis in the property at the time the rehabilitation activity begins, and the rehabilitation must meet standards consistent with the standards of the Secretary of the Interior for rehabilitation as determined by the State Historic Preservation Office of the Minnesota Historical Society.

- **S.F. 2568 (Bakk) / H.F. 2695 (Lenczewski)**—Mirrors federal tax credit
- **S.F. 2167 (Metzen)**—25% credit for income-producing and residential
- **S.F. 1724 (Pogemiller) / H.F. 1974 (Marquart)**—25% credit for income-producing and residential

Why Should We Act Now?

Minnesota is one of only 10 states in the nation without a state rehabilitation tax credit amongst states taxing income. We are the only such in the upper Midwest without this incentive, thereby losing development dollars to our neighbors.

In the past 30 years, we have lost scores of historic buildings to deterioration and neglect because rehabilitation costs did not make them attractive to development. Many of them are in older residential neighborhoods, small-town main streets, and urban commercial cores. Reinvesting in our historic properties creates more jobs, stimulates the local and state economy, and is sustainable growth promoting community vitality.

Although the federal preservation tax credit provides incentives for rehabilitation, most projects cannot be accomplished using federal credits alone. As a result, without a state credit, Minnesota receives lower federal tax credit investment per-capita than other states. **Now is the time to augment the federal historic tax credit with a state credit to stimulate jobs and grow our local tax base by reusing existing infrastructure.**

Fact Sources:

Donovan Rypkema, *The Economics of Historic Preservation*, 1994.

Minnesota State Historic Preservation Office.

National Trust for Historic Preservation website, www.preservationnation.org.

Taylor & Weber, *Historic Preservation Tax Credit Study*, Humphrey Institute of Public Affairs, University of Minnesota, 2004.

STATE REHAB TAX CREDITS AND RETURN ON INVESTMENT

- ⇒ A 2009 study by the Abell Foundation showed that in Maryland \$8.53 is returned for every \$1 invested through the state tax credit.
- ⇒ In Maryland, 1/3 to 1/2 of the state's tax credit investment is returned prior to the state releasing the funds.
- ⇒ Rhode Island leverages \$5.35 in total economic output for every \$1 invested.
- ⇒ In Missouri, \$4 .00 is returned to the state for \$1 invested.

STATE REHAB TAX CREDITS AND ECONOMIC IMPACT

- ⇒ A total of \$1.74 billion in total economic activity in the 12 years of Maryland's credit.
- ⇒ In Virginia, over \$1.454 billion in economic activity from 1997 to 2006.
- ⇒ In Missouri, \$1.373 billion in total economic activity in the 11 years of the state credit.
- ⇒ Rehab credit activity totaled \$484.91 million in the first two years of Rhode Island's credit.
- ⇒ State tax credits in Wisconsin, Iowa, and North Dakota incentivize moving development dollars out of Minnesota.



Renaissance Box, St. Paul

Vacant since 2006, a state tax credit would have shortened development time on Aeon's \$16 million rehab and returned the property to city and county tax rolls two years sooner.



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