

# Louisiana Historic Rehabilitation Stakeholders

July 23, 2013

The Honorable Mary Landrieu  
United States Senate  
Washington, DC 20510

The Honorable David Vitter  
United States Senate  
Washington, DC 20510

Dear Senators Landrieu and Vitter,

As you consider your responses to Chairman Baucus and Ranking Member Hatch, we, the undersigned Louisianians from throughout the state, hope you will express support for preservation of the federal Historic Tax Credit (HTC). The HTC has created an impressive amount of economic activity across the country through historic property rehabilitation since Congress and President Reagan made it permanent in the Code in 1981, and reviewed and retained it in 1986. We believe that the HTC well serves the purposes that should be advanced by provisions in the Internal Revenue Code.

At the start, it is important to understand that historic rehabilitation would not happen without the HTC. Even if developers get a lower tax rate through tax reform, they will not undertake the less profitable option of historic rehabilitation instead of new construction without this incentive. Absent the HTC, which fills the financing gap, there will be a halt to the rehabilitation of historic commercial properties in Louisiana and across the United States.

The leadership of the Senate Finance Committee has laid out three factors to evaluate provisions in the code: (1) whether the provision grows the economy; (2) whether the provision makes the tax code fairer; and (3) whether the provision effectively promotes other policy objectives. The HTC meets all three prongs of this test.

## **Economic Benefit**

Rutgers University's Center for Urban Policy Research has been publishing reports on the economic impact of the federal HTC for the last four years. Its latest report, "The Economic Impacts of the Federal Historic Tax Credit-2012," documents that the HTC has leveraged more than \$106 billion in private investments over its 32-year history, more than five times the \$20.5 billion in credits allocated by the National Park Service. A total of 38,700 buildings have been put back into commerce with the assistance of the HTC.

Louisiana has been a leading beneficiary of the HTC. In Louisiana, 434 buildings have been rehabilitated with more than \$1.5 billion in private investment over the last 11 years alone. More than 27,000 jobs have been created in our state working on those projects over the same time period. In 2012, Louisiana ranked fifth in per capita usage of the HTC, and our state ranked third in the number of projects completed with the assistance

of the credit.

The HTC has also proven itself to be an efficient use of federal dollars. The cumulative cost of the credit has been \$20.5 billion over the life of the program. However, according to the study done by Rutgers for the National Park Service, the federal HTC has generated nearly \$26 billion in direct federal tax revenue primarily from income taxes on wages paid to workers at construction sites, materials manufacturers, and in the retail and service sectors as historic rehab expenditures ripple through the economy.

These and related statistics below are generated by the Preservation Economic Impact Model (PEIM), developed for the National Park Service by Rutgers University in 2004 to measure the economic benefits of historic rehabilitation. PEIM measures the impact of historic rehab on national and state economies from the beginning to the end of construction. The model's outcomes are therefore understated because PEIM's estimates do not include the economic ripple effect of building operations, nor does it measure the impact of tourism or the value of any additional rehab activity that often occurs around an initial project as confidence in the historic area's future increases.

HTC-assisted rehabilitations have been remarkably consistent in their ability to promote private economic investments in surrounding buildings, leading to the creation of historic districts that become destinations, driving tourism and bringing people back downtown to enjoy new entertainment, recreation, residential, and office facilities. Because of the additional cost of historic rehab and the lower rents these "Class B" buildings can command, initial historic rehabs in a commercial area generally cannot be fully financed without the federal HTC. However, once the first HTC-assisted projects have been completed, property values rise, and investor confidence in a historic area has been established, there is often less need for federal, state, and local financing incentives for the second generation of transactions. The HTC is a proven pump primer.

The National Park Service economic impact report estimates that the federal HTC has created more than 2.3 million full-time equivalent construction and permanent jobs.

Historic rehab generates high-skilled, good-paying, local jobs that include specialty trades such as plastering, paint restoration, historic floor and roof restoration, fine woodworking and refinishing, historic window repair, and wallpapering.

Historic rehabilitation generates more jobs than new construction. Research by economist Donovan Ripkema in "Dollars and Sense of Historic Preservation found that in the typical new construction project, 50% of the costs are generated by materials and 50% are attributable to labor. He found that historic rehabilitation projects are more labor intensive with 60% to 70% of the costs generated by labor and 30% to 40% by the purchase of materials. Rutgers research for the National Park Service indicates that local and home state economies capture an exceptionally high 75% of the economic benefits of historic rehab because labor and materials are more often purchased locally than with the typical new construction project.

HTC-assisted projects have an admirable success rate. The recapture study done by

Novogradac and Company for the National Trust for Historic Preservation concludes that, over a 10-year measuring period (2001-2011), the recapture rate of the credit by the Internal Revenue Service was .78% on a cumulative basis, indicating an economic success rate of over 99%. Recapture for the HTC occurs when there is a transfer of ownership, typically triggered by a foreclosure on conventional debt, during the first five years of operations. The study's measuring period includes the recession years of 2008-2011 in which commercial loan default rates were in the 7% to 8% range. The Novogradac study indicates that historic rehab outperformed other forms of real estate development by a wide margin.

Any program that generates this kind of economic activity and more than pays for itself deserves to stay in a post-reform tax code.

### **Fairer Tax Code**

As a result of some of the incentives for new construction and the economic advantages of building new – lower costs, cheaper materials, higher rent, and greater profit – the HTC has leveled the playing field for rehabilitation. Without this credit, very little rehabilitation would be undertaken by developers and new construction would reign, mostly in suburban locations leaving historic properties in city and town centers vacant and abandoned. This disparity continues the outflow of population from urban centers and increases sprawl. The HTC helps balance the flow of real estate capital more evenly between new communities built on vacant land and the revitalization of older, existing neighborhoods.

The 1981 law was retained as part of the 1986 Tax Reform Act. The report of the Ways and Means Committee stated the reasons for its continuing support of the historic tax credit:

“The Congress concluded that the incentives granted to rehabilitations in 1981 remain justified. Such incentives are needed because the social and aesthetic values of rehabilitating and preserving older structures are not necessarily taken into account in investors' profit projections. A tax incentive is needed because market forces might otherwise channel investments away from such projects because of the extra costs of undertaking rehabilitations of older or historic buildings.”

This leveling of the tax code for new construction and rehabilitation is an important virtue of the HTC.

### **Other Policy Goal**

In addition to the foregoing, this credit accomplishes the federal public policy goal set forth in the National Historic Preservation Act of 1966 of preserving the nation's architectural heritage by rehabilitating the historic structures that tell America's story.

The federal HTC is far and away the most significant investment in preservation made by the federal government. It benefits communities throughout the nation where thousands of iconic historic buildings, instantly recognizable to residents and visitors alike, have been brought back to life as contributors to the local economy.

**Keep the HTC**

We urge you to keep this essential credit in place. We understand the rationale behind fundamental tax reform, and we support the broad policy goal of lowering both the corporate and individual rate while broadening the base of taxpayers. HTC-assisted historic property rehabilitation is the essential federal incentive that underpins the preservation of America’s architectural and historic heritage. It is also catalyzing strong and targeted community revitalization strategies in cities and towns throughout Louisiana and the nation.

Thank you for giving us the opportunity to make the case for the HTC. We also want to thank you for the time your staff has taken to discuss the credit in the context of tax reform efforts. We look forward to working with you to help bring the tax reform process to a successful conclusion.

Sincerely,

Name  
Organization  
City

Name  
Organization  
City