

lowen1-Kyli

From: Kiersten Faulkner [Kiersten@historichawaii.org]
Sent: Sunday, February 10, 2013 1:48 PM
To: lowen1-Kyli
Subject: FW: Testimony to WAL in support of HB1074
Attachments: HHFtestimony_WAL_HB1074_HistPresTaxCredit.pdf

Rep. Lowen,

Please see attached written testimony in support of HB1074 Relating to Taxation, establishing an income tax credit for preservation of historic structures.

The written testimony supplements my oral comments given to the Committee on Water & Land on Friday. I apologize for the late submittal.

Please let me know if you have any questions.

Aloha,
Kiersten Faulkner

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To: Rep. Cindy Evans, Chair
Rep. Nicole E. Lowen, Vice Chair
Committee on Water & Land

From: Kiersten Faulkner
Executive Director, Historic Hawai'i Foundation

Committee Date: Friday, February 8, 2013
8:30 a.m.
Conference Room 325

Subject: **HB 1074, Relating to Taxation**

On behalf of Historic Hawai'i Foundation (HHF), I am writing in support of HB 1074, which establishes an income tax credit for the rehabilitation or preservation of historic structures in the state..

Since 1974, Historic Hawai'i Foundation has been a statewide leader for historic preservation. HHF's 850 members and numerous additional supporters work to preserve Hawaii's unique architectural and cultural heritage and believe that historic preservation is an important element in the present and future quality of life, economic viability and environmental sustainability of the state.

Historic preservation tax credit programs have proved to be successful incentives for rehabilitating older structures and returning them to useful life. Preserving and using our historic buildings are ways to enhance community character, provide an alternative to sprawl, create jobs, provide affordable housing, encourage heritage tourism, and generally spur economic development in older neighborhoods and commercial districts.

Tax credit programs have been used at the federal level and by almost two-thirds of the States. While the details of the programs vary state by state, preservation tax credits have universally been shown to be effective, especially when coupled with the 20% federal historic tax credit available to income-producing historic properties, such as commercial, office, industrial and resort properties. At the request of the Legislature in 2007, Historic Hawai'i Foundation released a study into the economic benefits realized by states that use a rehabilitation tax credit. The study found that the tax credits spurred economic development and increased direct tax revenues that offset the tax credit expense. Through increased economic output, the state recovers its investment in rehabilitation tax credits through four sources: construction period taxes, real property taxes, post-construction sales and income taxes.

Some 31 states have adopted laws creating credits against state taxes to provide incentives for the appropriate rehabilitation of historic buildings. Most programs include the following basic elements:

- Criteria establishing what buildings qualify for the credit;

Historic Hawai'i Foundation

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Historic Hawai'i Foundation was established in 1974 to encourage the preservation of historic buildings, sites and communities on all the islands of Hawai'i. As the statewide leader for historic preservation, HHF works to preserve Hawaii's unique architectural and cultural heritage and believes that historic preservation is an important element in the present and future quality of life, environmental sustainability, and economic viability of the state.

- Standards to ensure that the rehabilitation preserves the historic and architectural character of the building;
- A method for calculating the value of the credit awarded, reflected as a percentage of the amount expended on that portion of the rehabilitation work that is approved as certified rehabilitation;
- A minimum amount, or threshold, required to be invested in the rehabilitation; and
- A mechanism for administering the program, general involving the state historic preservation office, and in some cases, the state department of revenue or of economic development.

HB1074 addresses each of these provisions, and also mirrors the qualifications and programs of the federal rehabilitation tax credit program. These technical elements help to ensure that the program can be administered with minimal new training or procedures, and that it is consistent with experience and best practices learned from other jurisdictions.

Many of the states that provide a historic preservation tax credit have conducted economic impact studies to determine the fiscal effect. All of them determined that the fiscal return was greater than the state's forgone taxes, often returning three to five times more revenue to the state in new taxes and significant new investment. The rehabilitation tax credit also was successful in creating new jobs, increasing loan demand and deposits in local financial institutions, enhancing property values and generating sales. In addition to these direct fiscal impacts, the tax credit also has proven benefits related to environmental sustainability, affordable housing, tourism and visitation, and neighborhood revitalization.

These tax credit programs help to return historic properties to tax rolls and generate employment and housing where they are needed most. State investments in tax credits can pay heavy dividends. For example, the Rhode Island historic preservation tax credit, passed in 2002, generated a total of \$795 million in economic activity from an investment by the state of \$145 million. The study, which was commissioned by Grow Smart Rhode Island, estimates that the state rehabilitation tax credit will add \$242 million to the tax base of local communities and to generate a present value basis of \$179 million in additional property tax revenue and \$42 million in sales and income tax revenue.

As an incentive for reinvestment in our neighborhoods and communities, the historic property tax credit program makes sense. As an economic development program, it also makes fiscal sense for the state.

Therefore, Historic Hawai'i Foundation urges the Legislature to support HB 1074.

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