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GOVERNOR OF  
HAWAII



**STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES**

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**SUZANNE D. CASE**  
CHAIRPERSON  
BOARD OF LAND AND NATURAL RESOURCES  
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**ROBERT K. MASUDA**  
FIRST DEPUTY

**M. KALEO MANUEL**  
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES  
BOATING AND OCEAN RECREATION  
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CONSERVATION AND COASTAL LANDS  
CONSERVATION AND RESOURCES ENFORCEMENT  
ENGINEERING  
FORESTRY AND WILDLIFE  
HISTORIC PRESERVATION  
KAHOOLAWE ISLAND RESERVE COMMISSION  
LAND  
STATE PARKS

**Testimony of  
SUZANNE D. CASE  
Chairperson**

**Before the Senate Committee on  
LABOR, CULTURE, AND THE ARTS**

**Tuesday, February 12, 2019  
3:30 PM  
Conference Room 224**

**In consideration of  
SENATE BILL 1394  
RELATING TO HISTORIC PRESERVATION**

Senate Bill 1394 proposes to amend Chapter 235, Hawaii Revised Statutes (HRS), creating a tax credit for certified rehabilitation of certified historic buildings. Tax incentives for rehabilitation of historic buildings have been proven to be enormously effective in preserving important buildings, ensuring their continuing economic viability, revitalizing communities, especially historic downtowns, preserving community character, and promoting heritage tourism. **The Department of Land and Natural Resources (Department) supports this measure and recommends amendments.**

In its 2018 report on the federal historic tax credit program, the National Park Service (NPS) prepared in collaboration with Rutgers University (copy attached for your reference), notes that NPS certified 1,035 completed historic rehabilitation projects. The report documents \$6.5 billion in rehabilitation investment during federal fiscal year 2017 (the last year for which figures are available), helped create 106,900 jobs, and \$6.2 billion of gross domestic product.

If Senate Bill 1394 is enacted, Hawaii will join the 38 states that already provide tax credits for the rehabilitation of historic structures. The nature of each state program is different, so it is difficult to extract information from them that could be directly useful in evaluating the effect of the program proposed in Senate Bill 1394. All states report that their programs are successful both in giving new life and continuing utility to significant historic structures, leveraging private investment at between \$4 and \$5

per tax credit dollar, contributing significant positive economic impact to affected communities.... At between 4 and 9 years, depending on the state and the level of the credit, generating revenue to the state exceeding the decrease in revenue due to the tax credit. Since the credit is paid out after the project is completed, the revenue payback begins from taxes on wages, goods, and services, before the credit is claimed.

To clarify that Senate Bill 1394 is intended to provide an incentive to promote rehabilitation of income producing historic properties and an additional, higher incentive to rehabilitation projects that provide affordable housing the Department recommends that:

**Page 1, lines 10** be amended to read “For each rehabilitation plan for a certified in the certified incoming producing historic property...”

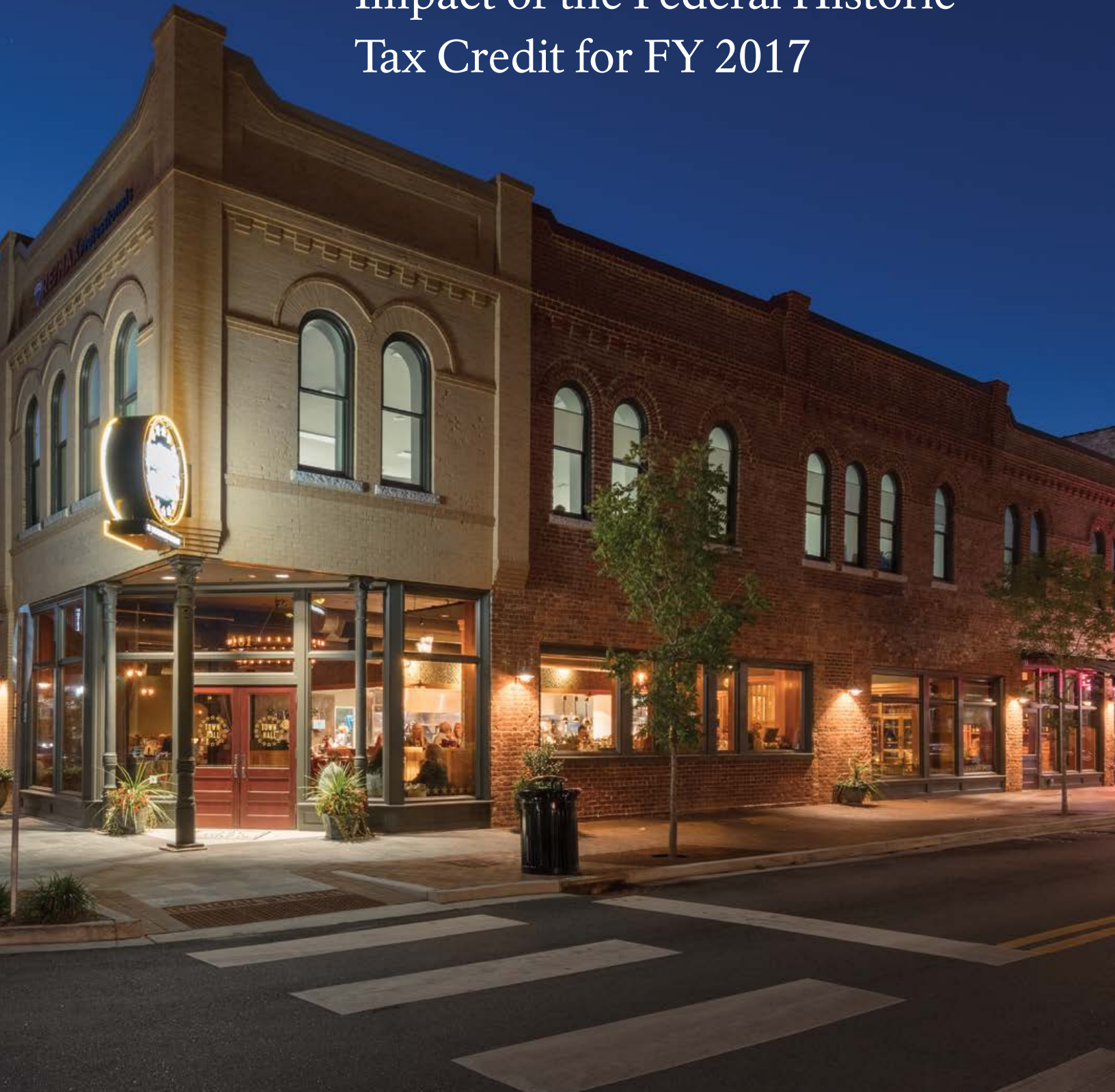
**Page 1, line 14** be amended to read “(1) twenty-five per cent of the qualified expenditures incurred in the rehabilitation of an incoming producing, ...”

**Page 1, line 16** be amended to read “(2) Thirty per cent of the qualified expenditure incurred in the rehabilitation of an incoming producing, in the event that:...”

The Department believes that tax credit programs such as this can make an important contribution to the comprehensive state historic preservation program established by Chapter 6E HRS.

Thank you for the opportunity to comment on this measure.

# Annual Report on the Economic Impact of the Federal Historic Tax Credit for FY 2017



**RUTGERS**

Edward J. Bloustein School  
of Planning and Public Policy



**National Park Service**

U.S. Department of the Interior  
Technical Preservation Services

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Florence, South Carolina

Photo: Lucas Brown, Kickstand Studio

# RUTGERS

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**Technical Preservation Services**

**National Park Service**

U. S. Department of the Interior

Washington, DC 20240

<https://www.nps.gov/tps/>

The executive summary is based on the findings of a National Park Service-funded study undertaken through a cooperative agreement with Rutgers University's Center for Urban Policy Research. Rutgers University is responsible for the content of the study. Some additional demographic analysis was provided courtesy of PolicyMap. The National Trust for Historic Preservation assisted the National Park Service in the preparation of the case studies.

September 2018

# *A Message from the National Park Service*

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**Beyond the National Park System, the National Park Service (NPS) 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 40 years, the NPS, in partnership with the State Historic Preservation Offices, has administered the Federal Historic Preservation Tax Incentives Program. The program provides a 20% Federal tax credit to property owners who undertake a substantial rehabilitation of a historic building in a business or income-producing use while maintaining its historic character.

Commonly referred to as the 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. Since the program's inception in 1976, the NPS has certified the rehabilitation of more than 43,000 historic properties throughout the United States, with the HTC leveraging over \$144 billion in private investment in historic rehabilitation and generating over 2.5 million jobs.

In Fiscal Year (FY) 2017, 1,035 completed historic rehabilitation projects were certified by the NPS, representing \$5.82 billion in estimated rehabilitation costs that qualify for the 20% Federal tax credit. (Another 1,501 proposed projects were also approved in FY 2017.) Many of these projects involved buildings that were abandoned or underutilized and in need of substantial rehabilitation to return them to, or for their continued, economic viability. The HTC is an important tool in helping to revitalize older, economically depressed communities. Based on project data provided by the NPS, PolicyMap (a web-based online data and mapping application) determined that 50% of the certified rehabilitation projects in FY 2017 were located in low- and moderate-income census tracts, and over 79% were located in economically distressed areas.

A common misconception about the HTC is that it only supports large projects and projects in large cities. Half of all projects in FY 2017 were under \$1 million, and 20% were under \$250,000. PolicyMap determined that a quarter of all certified rehabilitation projects in FY 2017 were located in communities with under 50,000 in population and over 15% in communities with under 25,000 in population.

The NPS 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 FY 2017 annual report is available on the NPS Technical Preservation Services website at <http://www.nps.gov/tps/tax-incentives.htm>, along with information on the HTC program in general.

For FY 2017, the NPS also turned to the Rutgers University's 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, 2017. This report highlights its main findings. An economic model originally developed by the Center under a series of grants from the NPS was utilized in the preparation of this report. The economic model was utilized by the Center for their eight 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 shows, the level and breadth of the positive economic impacts resulting from the Federal HTC in FY 2017 are quite striking. In addition, the report includes information on the cumulative economic impact of the Federal Historic Preservation Tax Incentives Program for the past 40 years, starting in 1977–1978 with the first completed rehabilitation project to be certified by the NPS under the program. Finally, the report includes four case studies of HTC projects certified in FY 2017. The HTC program remains the Federal government's largest and most effective program supporting historic preservation and community revitalization.

## **Technical Preservation Services, National Park Service**

September 2018

# 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 (a 20% credit since 1986) 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 Fiscal Year (FY) 2017, beginning October 1, 2016, and ending September 30, 2017, and for the period since the program's inception (beginning in FY 1978, with the certification of the first completed rehabilitation project under the program). The study utilizes the Preservation Economic Impact Model (PEIM), a comprehensive economic model development by Rutgers University's Center for Urban Policy Research for the National Park Service.

The current analysis applies the PEIM to both cumulative (FY 1978 through FY 2017) HTC-related historic rehabilitation investment (about \$144.6 billion in inflation-adjusted 2017 dollars) and single-year (FY 2017) HTC-related rehabilitation investment (about \$6.5 billion). It considers the effects of the cumulative \$144.6 billion rehabilitation investment as if it applied to one year (2017), rather than backdating the PEIM for each of the 40 years in the study period. It also considers the full rehabilitation investment associated with the HTC (e.g., \$6.5 billion in FY 2017), 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., \$5.8 billion in FY 2017).<sup>1</sup>

### PEIM results include many fields of data. The fields most relevant to this study include:

<b>JOBS</b>	Employment, both part- and full-time, by place of work, estimated using the typical job characteristics of each industry.
<b>INCOME</b>	"Earned" or labor income; specifically, wages, salaries, and proprietor income.
<b>WEALTH</b>	Value-added—the sub-national equivalent of gross domestic product (GDP).
<b>OUTPUT</b>	The value of shipments, as reported in the Economic Census.
<b>TAXES</b>	Tax revenues generated by the activity, which include taxes to the Federal government and to state and local governments.

<sup>1</sup>The HTC has a multi-step application process, encompassing Part 1 (evaluation of the historic significance of the property), Part 2 (description of the proposed rehabilitation work), and Part 3 (request for certification of completed work). Both Part 2 and Part 3 rehabilitation statistics include only costs considered "eligible" or "qualified" for the tax credit under the Internal Revenue Code (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 property owner. In practical terms, the total rehabilitation investment, including ineligible/nonqualified costs, helps pump-prime the economy. For example, in FY 2017, the Part 3 certified investment amounted to about \$5.8 billion, while the total rehabilitation outlay associated with the HTC was an estimated \$6.5 billion.

# National Economic Impacts

The following table summarizes the impacts of the HTC in inflation-adjusted 2017 dollars for each of these economic measures for the cumulative period FY 1978–FY 2017 and for FY 2017.

Federal HTC-Assisted Rehabilitation		
<b>National Total Impacts 2017 \$ billion</b>	<b>\$144.6 billion CUMULATIVE (FY 1978–2017)<sup>2</sup> historic rehabilitation expenditures results in:</b>	<b>\$6.5 billion ANNUAL FY 2017 historic rehabilitation expenditures results in:</b>
Jobs (person-years, in thousands)	2,548.0	106.9
Income (\$ billion)	\$116.4	\$4.6
Output (\$ billion)	318.0	12.2
GDP (\$ billion)	158.1	6.2
Taxes (\$ billion)	45.4	1.7
Federal (\$ billion)	32.4	1.1
State (\$ billion)	6.5	0.3
Local (\$ billion)	6.5	0.3

**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 2017 are illustrative. During that period, \$144.6 billion in HTC-related rehabilitation investment created 2,548,000 jobs and \$158.1 billion in GDP, about 30% of which (765,000 jobs and \$46.3 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 and trades. Other major beneficiaries were the service sector (465,000 jobs, \$20.9 billion in GDP), the manufacturing sector (532,000 jobs, \$41.5 billion in GDP), and the retail trade sector (369,000 jobs, \$11.4 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. (Exhibit 2.2).

The most recent economic benefits of the Federal HTC are also most impressive. In FY 2017, HTC-related investments generated approximately 107,000 jobs, including 38,000 in construction and 24,000 in manufacturing, and were responsible for \$6.2 billion in GDP, including \$2.0 billion in construction and \$1.8 billion in manufacturing. HTC-related activity in FY 2017 generated \$4.6 billion in income, with construction (\$1.7 billion) and manufacturing (\$1.1 billion) reaping major shares. (See Exhibit 2.1 for more details.)

<sup>2</sup>Changes in the official annual reported rates of inflation caused the Rutgers research team to make various changes in the calculations concerning the economic impacts of the impacts of the HTC over time. The changes are particularly notable over the past few years when job counts ensuing from the HTC had to be adjusted.



R. J. Reynolds Tobacco Company Building (now The Kimpton Cardinal Hotel and The Residences at the R. J. Reynolds Building), Winston-Salem, NC, Photos: Clear Sky Images

## The HTC National and State Economic Impacts

A breakdown by state of the national economic benefits, both for FY 2017 and cumulatively for the last five fiscal years, shows the benefits of the program on the national economy. (See Exhibits 1.1 and 1.2)

HTC-related historic rehabilitation benefits state economies as well as the national economy. For example, in New York State in FY 2017, Federal HTC-related rehabilitation activity totaled about \$1.138 billion. The national impacts of that investment included 18,818 jobs, an additional \$2.141 billion in output, \$811 million in income, \$1.083 billion in GDP, \$196 million in Federal taxes, and \$332 million in total taxes. In New York alone, the same \$1.138 billion in HTC-related spending resulted in 10,750 jobs, \$1.136 billion in output, \$505 million in income, \$623 million in gross state product (GSP), and \$183 million in total taxes.

## HTC Impacts Compared with those of Non-Preservation Investments

How does HTC-related historic rehabilitation perform as an economic pump-primer compared with other, non-preservation 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, GDP, 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.”

## 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% since 1986) applied to the Part 3 (“qualified for tax credit”) estimated investment.<sup>3</sup> Applying that calculation, the Federal HTC costs the U.S. Treasury approximately \$27.5 billion (in inflation-adjusted 2017 dollars) over the period of FY 1978 through FY 2017, while the cost for projects certified by the National Park Service in FY 2017 alone was about \$1.165 billion.<sup>4</sup> 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 rehabilitations and documented in this study. An important finding is that the HTC yields a net benefit to the U.S. Treasury, generating \$32.4 billion in Federal tax receipts over the life of the program, compared with \$27.5 billion in credits allocated.

<sup>3</sup>See footnote 1, on page 2.

<sup>4</sup>These estimates are based on the full utilization of the credits in cases of certified rehabilitations. For various reasons, not all completed projects certified by the National Park Service may ultimately utilize the credit. Their economic impact, nevertheless, remains.



# Fiscal Year 2017 Highlights



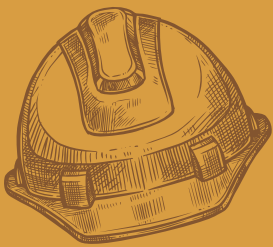
**\$6.5 billion**  
total in rehabilitation investment.

**2017 POSITIVE IMPACTS**  
on the national economy:  
\$12.2 billion in output,  
\$6.2 billion in GDP,  
\$4.6 billion in income, and  
\$1.7 billion in taxes, including  
\$1.1 billion in Federal tax receipts.

**50%** Projects in low- and moderate-income census tracts.\*

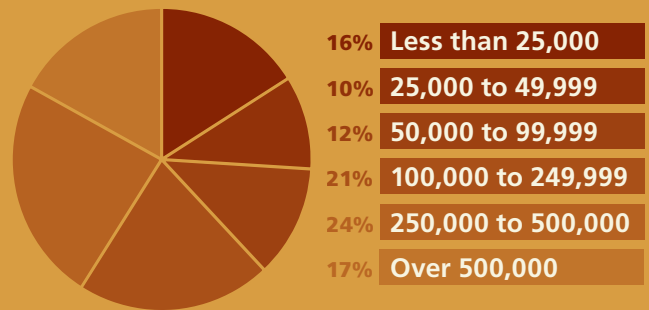
**79%** Projects in economically distressed areas.\*

**26%** Projects in communities of less than 50,000 people.\*



**107,000**  
New jobs created and billions of dollars in total (direct and secondary) economic gains.

Projects by Community Size (Population)\*



\*Courtesy of PolicyMap (County subdivision data, 2012-2016 U.S. Bureau of the Census American Community Survey, and New Markets Tax Credit eligibility data (not including severe distress and non-metropolitan areas), U.S. Department of the Treasury, 2011-2015).

## Fiscal Year 1978 — Fiscal Year 2017 Cumulative HTC Impacts

**\$144.6 billion**  
in cumulative rehabilitation investment.

An inflation-adjusted (2017 dollars) \$27.5 billion HTC cost encouraged a five times greater amount of historic rehabilitation, \$144.6 billion.

**CUMULATIVE POSITIVE IMPACTS**  
on the national economy:  
\$318.0 billion in output,  
\$158.1 billion in GDP,  
\$116.4 billion in income, and  
\$45.4 billion in taxes, including  
\$32.4 billion in Federal tax receipts.



**2.5 million**  
New jobs created and billions of dollars in total (direct and secondary) economic gains.

These leverage and multiplier effects support the economic argument that the Federal HTC is a strategic investment that works.

**Exhibit 1.1 Fiscal Year 2017  
National Economic and Tax Impacts of Federal HTC-Related Investment by State**

State	Total Rehabilitation Costs (in 2017 \$ millions)	National Economic Impacts (in 2017 \$ millions)				Tax Impacts (in 2017 \$ millions)			
		Employment (Jobs)	Income	GDP	Output	Local	State	Federal	Total
Alabama	\$44.5	822	\$28.2	\$53.1	\$73.1	\$0.8	\$1.2	\$6.8	\$8.8
Alaska	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arizona	19.3	333	11.4	14.7	37.1	18.3	11.8	3.2	33.3
Arkansas	7.5	156	5.2	7.8	13.9	0.1	0.3	1.3	1.7
California	85.5	1,274	61.9	80.9	167.2	2.2	3.4	15.7	21.3
Colorado	0.2	16	0.2	0.2	0.5	0.0	0.0	0.0	0.1
Connecticut	160.0	2,288	111.3	154.7	292.4	8.4	7.1	25.6	41.2
Delaware	15.0	238	10.6	14.4	28.0	0.7	0.7	2.4	3.8
District of Columbia	95.1	1,381	64.1	86.7	167.4	6.4	2.6	13.0	21.9
Florida	13.4	234	9.5	12.8	25.1	0.7	0.4	2.3	3.4
Georgia	50.0	985	34.6	50.9	91.3	2.4	2.3	8.4	13.1
Hawaii	1.1	15	0.7	1.0	1.9	0.0	0.0	0.2	0.2
Idaho	12.0	228	8.1	11.6	21.5	0.3	0.3	1.8	2.4
Illinois	420.0	6,192	305.8	394.6	820.3	13.3	12.1	73.6	99.0
Indiana	39.0	683	27.8	37.5	74.4	12.8	8.6	6.6	28.0
Iowa	269.9	4,877	182.8	272.8	474.8	9.0	8.0	42.3	59.4
Kansas	67.3	1,223	47.1	65.2	124.8	15.9	11.1	10.8	37.8
Kentucky	142.7	2,732	98.8	139.6	261.3	14.3	11.4	22.7	48.4
Louisiana	385.7	6,814	274.9	360.2	730.6	13.5	14.0	63.3	90.8
Maine	83.5	1,266	49.1	73.7	160.0	3.8	3.5	13.2	20.5
Maryland	85.3	1,318	59.9	80.6	158.3	2.8	2.5	13.7	18.9
Massachusetts	438.2	5,694	307.5	412.6	816.0	11.7	14.1	70.7	96.5
Michigan	176.3	2,802	124.9	167.4	332.7	5.2	6.4	29.1	40.7
Minnesota	360.5	5,678	253.1	341.0	673.2	12.7	14.3	58.1	85.1
Mississippi	1.8	36	1.2	1.7	3.2	0.1	0.1	0.3	0.5
Missouri	262.8	4,502	187.4	248.3	499.6	7.3	8.3	43.5	59.1
Montana	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nebraska	13.4	258	9.2	13.3	24.0	2.8	1.9	2.1	6.8
Nevada	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New Hampshire	1.1	16	0.7	1.0	2.0	0.0	0.0	0.2	0.2
New Jersey	1.2	18	0.9	1.1	2.3	0.0	0.0	0.2	0.3
New Mexico	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New York	1,137.5	18,818	810.5	1,082.5	2,140.5	73.7	62.5	195.5	331.7
North Carolina	86.2	1,615	60.7	86.4	161.5	2.1	3.0	14.7	19.8
North Dakota	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ohio	488.7	8,778	348.0	481.5	928.0	21.2	17.9	84.8	123.8
Oklahoma	47.3	933	33.7	47.3	90.3	1.1	1.6	8.1	10.9
Oregon	9.7	172	7.1	9.3	19.0	0.3	0.3	1.7	2.3
Pennsylvania	367.7	5,977	266.9	353.8	717.0	12.3	10.4	64.7	87.4
Rhode Island	39.1	596	26.7	40.0	70.3	1.4	1.2	6.1	8.8
South Carolina	159.2	2,976	110.5	161.5	291.0	4.6	5.1	26.5	36.1
South Dakota	1.4	29	1.0	1.3	2.7	0.0	0.0	0.2	0.3
Tennessee	38.1	673	26.7	36.9	70.9	1.1	0.8	6.2	8.1
Texas	180.1	2,909	130.5	170.6	352.7	6.2	3.6	32.1	41.9
Utah	15.2	281	10.6	14.9	28.2	0.4	0.5	2.5	3.4
Vermont	10.2	181	7.4	9.7	19.6	0.4	0.5	1.7	2.6
Virginia	380.3	6,401	272.2	367.8	724.7	9.9	12.8	65.1	87.8
Washington	53.8	862	38.6	52.3	103.4	2.5	1.9	9.3	13.7
West Virginia	22.5	431	15.6	22.6	41.1	0.7	0.8	3.6	5.1
Wisconsin	180.9	3,149	128.2	176.3	339.9	6.4	7.3	30.5	44.2
Wyoming	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Totals</b>	<b>\$6,470.3</b>	<b>106,861</b>	<b>\$4,571.9</b>	<b>\$6,214.3</b>	<b>\$12,177.9</b>	<b>\$309.6</b>	<b>\$276.7</b>	<b>\$1,084.6</b>	<b>\$1,671.0</b>

SOURCE: Technical Preservation Services, National Park Service. Calculations by Rutgers University.

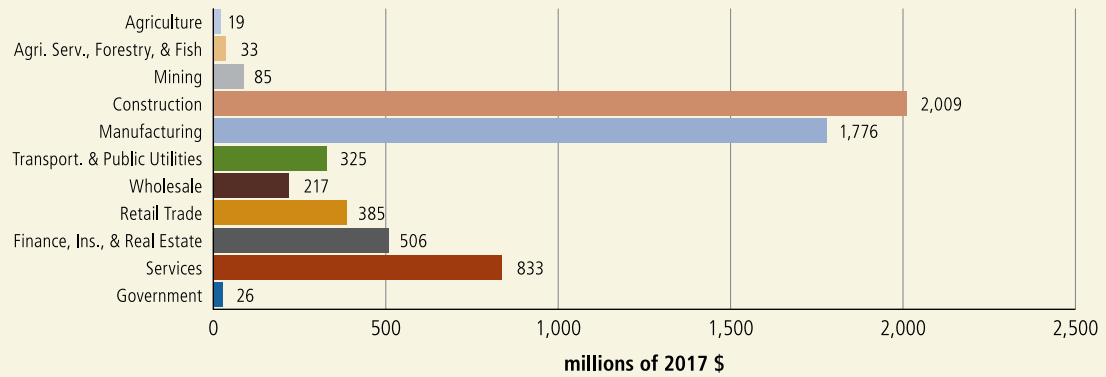
**Exhibit 1.2 Cumulative Fiscal Years 2013–2017  
National Economic and Tax Impacts of Federal HTC-Related Investment by State**

State	Total Rehabilitation Costs (in 2017 \$ millions)	National Economic Impacts (in 2017 \$ millions)				Tax Impacts (in 2017 \$ millions)			
		Employment (Jobs)	Income	GDP	Output	Local	State	Federal	Total
Alabama	\$140.7	2,545	\$89.2	\$167.9	\$231.0	\$2.4	\$3.7	\$21.4	\$27.7
Alaska	0.1	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arizona	80.0	1,351	47.2	60.8	153.8	75.8	48.9	13.3	137.8
Arkansas	101.2	2,034	70.4	105.1	187.2	2.0	3.7	17.0	22.7
California	1,078.3	15,275	781.7	1,021.0	2,109.7	27.3	43.5	198.0	268.8
Colorado	134.8	8,297	95.0	131.9	253.9	3.4	4.4	22.5	30.3
Connecticut	467.3	6,576	325.2	452.1	854.3	24.5	20.9	74.8	120.3
Delaware	57.0	868	40.3	54.9	106.7	2.6	2.8	9.0	14.4
District of Columbia	196.3	2,783	132.3	179.0	345.5	13.2	5.3	26.8	45.3
Florida	188.2	3,174	133.0	180.1	352.4	9.7	5.8	31.8	47.4
Georgia	207.1	3,965	143.6	211.2	379.0	9.8	9.6	35.0	54.2
Hawaii	1.7	23	1.1	1.6	3.0	36.3	42.8	157.4	236.5
Idaho	12.2	231	8.2	11.8	21.8	0.3	0.3	1.8	2.4
Illinois	2,035.8	29,007	1,482.0	1,912.6	3,975.8	64.5	58.6	356.6	479.6
Indiana	238.2	4,065	170.2	229.1	454.6	78.5	52.3	40.4	171.2
Iowa	719.3	12,647	487.0	726.8	1,265.1	24.0	21.3	112.7	158.3
Kansas	271.1	4,760	189.6	262.5	502.5	63.9	44.6	43.6	152.1
Kentucky	335.0	6,275	232.0	327.6	613.5	33.4	26.6	53.3	113.6
Louisiana	1,507.5	25,830	1,074.7	1,407.8	2,855.7	52.6	54.7	247.3	354.7
Maine	306.8	4,508	180.4	270.9	588.0	14.0	12.9	48.6	75.4
Maryland	715.2	10,701	502.1	675.3	1,326.9	23.2	21.0	114.5	158.7
Massachusetts	1,796.6	22,570	1,260.7	1,691.5	3,345.5	48.0	57.8	289.9	395.8
Michigan	891.6	13,699	631.6	846.2	1,681.8	26.5	32.1	147.2	205.9
Minnesota	1,289.0	19,649	905.0	1,219.2	2,407.0	45.4	51.1	207.8	304.3
Mississippi	94.9	1,898	66.0	93.7	174.7	7.2	5.7	15.3	28.2
Missouri	1,783.3	29,426	1,271.9	1,685.0	3,390.8	49.4	56.3	295.4	401.0
Montana	25.6	476	17.8	25.1	47.0	0.9	0.9	4.0	5.9
Nebraska	236.2	4,342	161.4	233.4	422.3	48.8	33.4	36.5	118.6
Nevada	1.3	19	0.9	1.2	2.4	0.0	0.0	0.2	0.3
New Hampshire	86.7	1,262	60.4	84.0	160.6	3.3	1.2	13.9	18.4
New Jersey	500.1	7,000	354.9	466.9	950.2	9.8	14.7	81.8	106.5
New Mexico	40.8	743	28.9	39.6	76.9	1.8	1.8	6.6	10.2
New York	3,339.8	53,978	2,379.7	3,178.3	6,284.6	216.4	183.5	574.2	973.9
North Carolina	790.8	14,434	557.1	792.1	1,481.3	19.2	27.7	135.1	182.0
North Dakota	17.2	291	12.0	15.9	31.8	0.6	0.4	2.5	3.5
Ohio	1,693.8	29,651	1,206.1	1,668.8	3,216.5	73.5	62.0	293.9	429.2
Oklahoma	373.5	7,133	266.1	373.2	713.3	9.1	12.8	64.1	86.0
Oregon	151.7	2,608	110.2	144.5	295.5	4.0	5.2	26.5	35.7
Pennsylvania	1,650.3	25,885	1,198.0	1,588.1	3,218.1	55.0	46.6	290.6	392.3
Rhode Island	392.0	5,774	267.3	401.3	704.9	14.2	12.3	61.1	87.8
South Carolina	288.6	5,327	200.3	292.8	527.5	8.3	9.3	48.0	65.6
South Dakota	13.1	255	9.3	12.0	24.5	0.3	0.2	2.0	2.7
Tennessee	131.0	2,247	91.9	127.2	244.2	3.7	2.9	21.3	27.9
Texas	508.1	8,022	368.2	481.4	995.3	17.4	10.1	90.6	118.4
Utah	36.5	661	25.5	35.8	67.7	0.9	1.2	6.0	8.1
Vermont	114.3	1,957	82.8	108.6	219.3	4.4	5.6	18.6	28.8
Virginia	1,564.3	25,535	1,119.4	1,513.0	2,980.7	40.6	52.6	267.9	361.1
Washington	253.1	3,957	181.6	246.0	486.4	11.8	9.1	43.8	64.5
West Virginia	50.1	938	34.7	50.3	91.4	1.5	1.9	8.0	11.2
Wisconsin	434.2	7,357	307.6	423.0	815.8	15.4	17.5	73.1	106.1
Wyoming	6.1	121	4.6	6.6	12.2	0.4	0.3	1.3	1.9
<b>Totals</b>	<b>\$27,348.5</b>	<b>442,132</b>	<b>\$19,367.2</b>	<b>\$26,234.9</b>	<b>\$51,650.8</b>	<b>\$1,299.0</b>	<b>\$1,200.0</b>	<b>\$4,753.2</b>	<b>\$7,253.0</b>

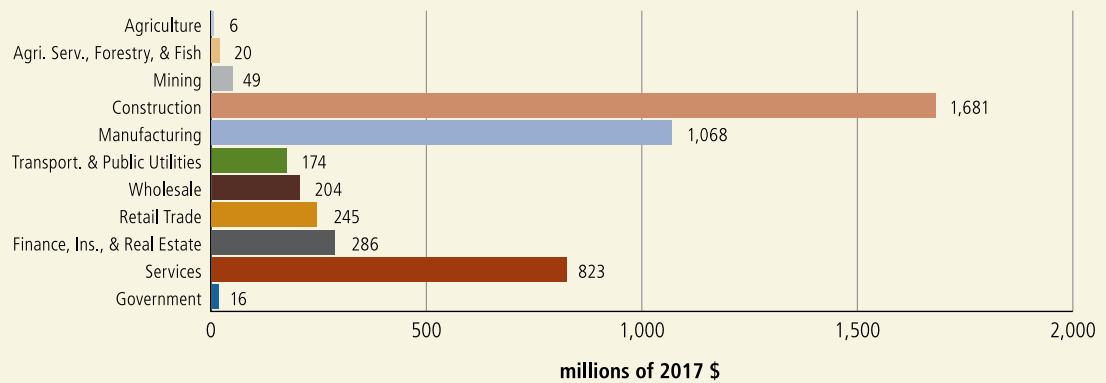
SOURCE: Technical Preservation Services, National Park Service. Calculations by Rutgers University.

**Exhibit 2.1 National Economic and Tax Impacts of Federal HTC-related Activity  
FY 2017 (HTC Investment: \$6.5 billion)**

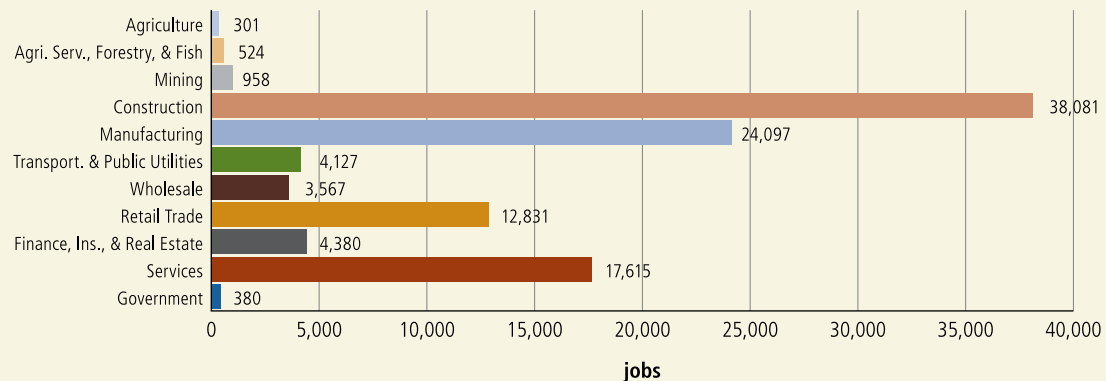
**Gross Domestic Product by Sector from Federal Historic Preservation Investment**  
\$6,214 million, FY 2017



**Income Created by Sector from Federal Historic Preservation Investment**  
\$4,572 million, FY 2017

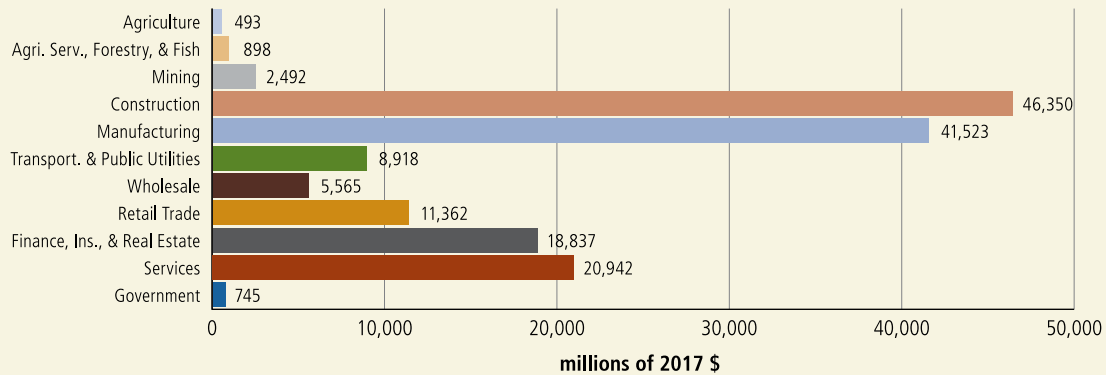


**Jobs Created by Sector from Federal Historic Preservation Investment**  
106,861 jobs, FY 2017

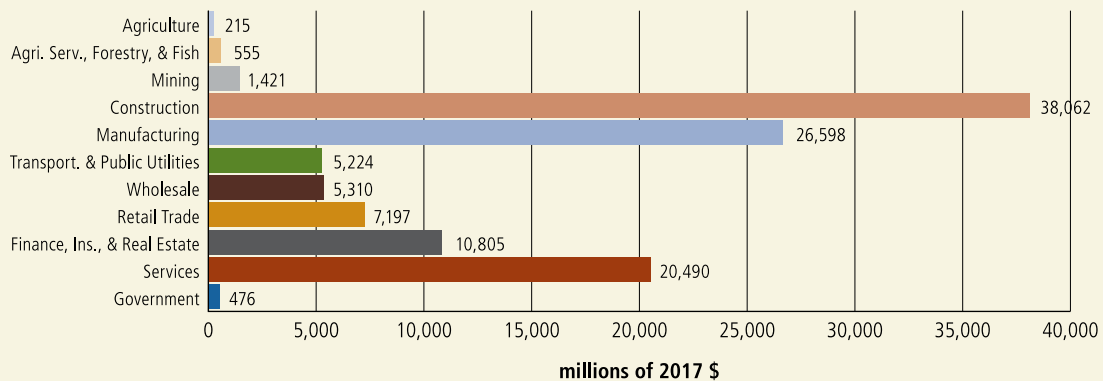


**Exhibit 2.2 National Economic and Tax Impacts of Federal HTC-related Activity  
FY 1978 through FY 2017 (HTC Investment: \$144.6 billion)**

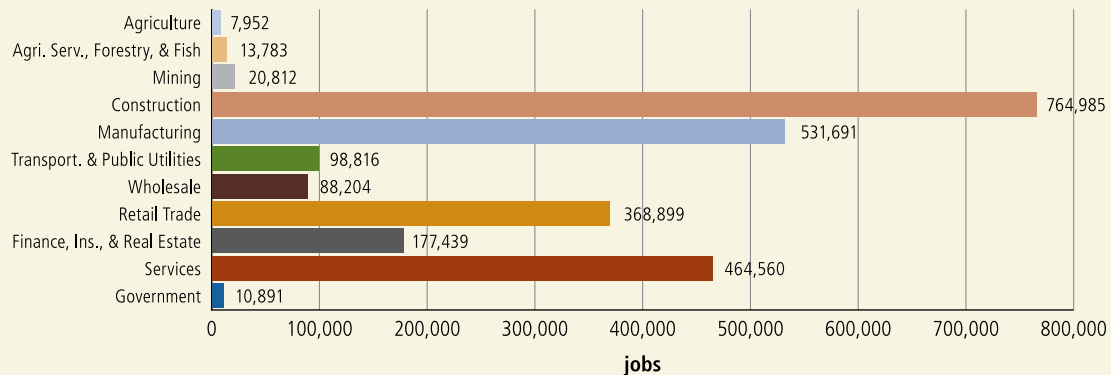
**Gross Domestic Product by Sector from Federal Historic Preservation Investment**  
\$158,124 million cumulative, FY 1978-2017



**Income Created by Sector from Federal Historic Preservation Investment**  
\$116,353 million cumulative, FY 1978-2017



**Jobs Created by Sector from Federal Historic Preservation Investment**  
2,548,033 jobs cumulative, FY 1978-2017



# Zeigler's Drug Store/Allen's Hall Florence, South Carolina

## PROJECT PROFILE

**Historic Name:** Zeigler's Drug Store/Allen's Hall  
**Current Name:** Town Hall Restaurant/Kress Corner  
**Original Construction Year:** 1876  
**Original Use:** General Merchandise Store, Drug Store, and Community Gathering Place  
**Rehabilitation Completed:** 2017  
**New Use:** Restaurant and Office Space  
**Total Project Cost:** \$3,839,986  
**Federal Historic Tax Credit Equity:** \$634,262  
**State Historic Tax Credit Equity:** \$569,483  
**SC Abandoned Building Tax Credit Equity:** \$569,483  
**City Grants/Incentives:** \$629,905



Photo courtesy: Ken Jackson



## ECONOMIC IMPACT ON FLORENCE

**“The Zeigler’s Drug Store historic rehabilitation into the Town Hall restaurant and upper-level office space is a key component that breathed new life into downtown Florence. The project provided momentum, attention and foot traffic to the development company’s neighboring apartment and rooftop bar historic redevelopment on the same block. Together with a handful of other historic tax credit redevelopments, a downtown renaissance is taking place in Florence. These historic projects are catalyzing investment and future development. Downtown Florence is becoming a regional destination, attracting both locals and travelers from the interstate, to the downtown area, for a unique but authentic experience.”**

— **Ray Reich, Florence Downtown Development Director**

## History and Downtown Context

This two-story, brick, corner building, constructed in 1876, features arched windows, a decorative band of corbeling, and a distinctive parapet. It was originally a general merchandise store operated by James Allen. On the second floor, Allen established Florence’s first civic gathering spot, Allen’s Hall, as it quickly became known. At one time the building also served as the office of a local newspaper. The YMCA, the Masonic Lodge, religious and political groups all met at Allen’s Hall, and it was also the scene of weddings and other community celebrations.

Devastating fires in both 1893 and 1896 gutted much of Florence’s commercial district. Although this building was damaged, it was not destroyed, and it was rebuilt several years later, at which time Zeigler’s Drug Store was established. Pharmacist R.H. Zeigler, who also served as Mayor of Florence, operated the drug store for more than 50 years. People gathered here every Saturday to listen to Pete Thornell’s live, Super X radio broadcast on WOLS.

Like many towns across the country in the last decades of the twentieth century, Florence’s downtown commercial district fell victim to suburban shopping malls. During this period a variety of tenants occupied the building, some of whom made alterations to the facade to “modernize” it, such as covering the building in pink stucco and replacing the arched windows with larger, rectangular ones. Eventually the building fell into complete disrepair and was vacant for many years until a group of local developers acquired it and several neighboring buildings in 2013.



Photo: Lucas Brown, Kickstand Studio

## Scope of Rehabilitation

After more than a year of planning, the New Florence Development Group began rehabilitation of the historic building. The stucco was removed to reveal the original brick façade that was repaired where necessary, cleaned, and restored. The original arched window openings were restored, and on the first floor the still extant cast-iron columns at the corner entrance were preserved and the storefront recreated based on historic documentation. On the interior, original pressed metal ceiling panels, hardwood floors, doors, and counters were refurbished. The lower level of the building was converted into Town Hall, a 5,800-square-foot restaurant, which specializes in serving locally grown ingredients and also has a large wood burning grill. The second level is occupied by a large real estate firm

## Role of the Historic Tax Credit

According to the developer, the cost of renovating the historic Zeigler's Drug Store, in comparison with the local rental market, would have been too risky. The tax credit equity was critical to the financing of the project. Equity investors were attracted to partner in the project by the ability to use the Federal HTC's, South Carolina HTC's and the South Carolina Abandoned Building Credit to offset their corporate tax liability.

### PROJECT BUDGET

Sources of Funds	Amount
Bank Loan	\$1,320,256
Federal Historic Tax Credit Equity	\$634,262
State Historic Tax Credit Equity	\$569,483
SC Abandoned Building Tax Credit Equity	\$569,483
City Grants/Incentives	\$629,905
Developer Equity	\$116,597
<b>Total</b>	<b>\$3,839,986</b>

Uses of Funds	Amount
Acquisition Costs	\$200,000
Construction Costs	\$2,569,345
Soft Costs	\$372,641
Deferred Developer Fee	\$698,000
<b>Total</b>	<b>\$3,839,986</b>

# Equitable Life Insurance Company of Iowa

Des Moines, Iowa



Photos: Mirza Kudic

## PROJECT PROFILE

**Historic Name:** Equitable Life Insurance Company of Iowa Building

**Current Name:** The Equitable Building

**Original Construction:** 1924

**Original Use:** Insurance Company Headquarters

**Rehabilitation Completed:** 2016

**New Use:** Residential and Commercial

**Total Project Cost:** \$38,627,762

**Federal Historic Tax Credit Equity:** \$6,251,283

**State Historic Tax Credit Equity:** \$6,483,563

## History and Downtown Context

The Equitable Building was constructed as the headquarters of the Equitable of Iowa Insurance Company. Built in 1924, the 19-story building stood for 49 years as the tallest building in Iowa. The Gothic Revival-style building's outstanding feature, the rooftop lantern, with elongated arched windows, terra-cotta ornament, and a spire-like roof, is prominent in the Des Moines skyline. The Equitable Building was named one of the "50 Most Significant Iowa Buildings of the 20th Century" by the Iowa chapter of the American Institute of Architects. The last large-scale retailer, which had been in the building since its opening 83 years before, vacated the building in 2007. Foutch Bros. and Block Real Estate purchased the property in 2012 out of foreclosure and began rehabilitation of the iconic building.

## Scope of Rehabilitation

The rehabilitation created 146 residential rental units on the upper floors and 26,000 square feet of commercial space on the first two floors. The building houses a Pot Belly Sandwich Shop, an office for an engineering company, a cell phone store, and other offices. On the exterior, the masonry was repaired and cleaned, and the entrance lobby with its original marble walls, staircase and floors, ribbed ceiling, and light fixtures was restored. The interior of the building was updated with new mechanical, electrical and plumbing systems. All the apartment units, which feature nine-foot-tall ceilings, have granite kitchen countertops, restored original terrazzo floors, and ceiling fans. Community amenities include a fitness room, community room, storage lockers, and a large rooftop patio, sometimes used for events and concerts. The building also provides direct access to the downtown skywalk on the second floor.





## Role of the Historic Tax Credit

Given the level of risk associated with rehabilitating the Equitable Building, the developer acknowledges the project would not have moved forward without the use of historic tax credits. Because of the deteriorated condition of the building and the needed remediation of hazardous materials and fire damage, without leveraging upfront equity through the state and Federal historic tax credits the project would not have been financially feasible.

## Economic Impact, Downtown Des Moines

The rehabilitation of the Equitable Building has had a noticeable economic impact on downtown Des Moines. The use of historic tax credits allowed the developer to transform a building, underutilized or vacant for almost a decade, into a vibrant place for hundreds of people to reside and work. The apartments in the rehabilitated building are in high demand in the multi-family rental market in downtown Des Moines. The rooftop is a popular gathering place for residents and the resurgence of foot traffic around the 600 block of Locust Street during and after business hours, as a result of the rehabilitation of the Equitable Building and other nearby historic buildings, is a catalyst for small businesses and other redevelopment in the neighborhood.

### PROJECT BUDGET

Sources of Funds	Amount
Bank Loan	\$19,694,500
Enterprise Zone Tax Credit Investment	\$1,565,777
Sales Tax Refund	\$589,257
Federal HTC Equity	\$6,251,283
State HTC Equity	\$6,483,563
Developer Equity	\$2,302,442
Deferred Developer Fee	\$1,740,940
<b>Total</b>	<b>\$38,627,762</b>

Uses of Funds	Amount
Working Capital and Reserves	\$1,132,263
Acquisition	\$1,872,522
Hard Costs	\$26,572,312
Soft Costs	\$4,960,665
Developer Fees	\$4,090,000
<b>Total</b>	<b>\$38,627,762</b>

# Owyhee Hotel

Boise, Idaho

## PROJECT PROFILE

**Historic Name:** The Owyhee Hotel

**Current Name:** The Owyhee

**Original Construction:** 1910

**Rehabilitation Completed:** 2016

**Original Use:** Hotel

**New Use:** Mixed Use - Residential, Retail, Office, Commercial and Event Space

**Total Project Cost:** \$22,205,000

**Federal HTC Equity:** \$2,250,000

**Local Redevelopment Agency Credits:** \$775,000



Photos: Laure Joliet

## History and Downtown Context

The Owyhee Hotel was well known regionally and a familiar resting place for travelers between Seattle, Portland, and Salt Lake City in the early part of the twentieth century. Located in the Lower Main Street Commercial Historic District in downtown Boise, the Owyhee's rooftop garden was a popular gathering place, and the ballroom, which could accommodate up to 300 persons, was a favorite location for large gatherings, weddings, and special events. The Owyhee was part of the wave of development in downtown Boise that resulted after the construction of the Oregon Short Line rail passenger and freight depot and the establishment of the Rapid Transit Company, which opened a street car line on Main Street in 1891.

The architectural firm of J.E. Tourtellotte and Company was retained for the design of the Owyhee and was later joined by R.T. Newberry of Chicago, a consultant with expertise in hotel design. The six-story Owyhee, with a brick and stone exterior, locally pioneered the use of the steel-frame construction and was credited with having inaugurated the "skyscraper era" in Boise. Until it was purchased by developers, Local Construct & Clay Carley, the Owyhee languished. It was converted to office and commercial space in the 1970s but operated at a fraction of its potential and sat mostly vacant.

## Scope of Rehabilitation

When Local Construct & Clay Carley acquired the building with the intent of rehabilitating it for residential use, the interior had been significantly altered in the 1970s remodeling of the hotel for new use. A goal of the rehabilitation was to uncover and restore as much as possible of the historic character, materials, and fixtures that had been diminished or covered by the prior remodeling. The rehabilitation work on the exterior included: restoring the historic sandstone that distinguishes the ground level of the building, installing a compatible new storefront based on historic photographs, replacing the windows that were too deteriorated to repair with compatible new ones, and reopening those windows that had been bricked in previously. Early in the project, during the removal of the 1970s interior alterations, historic features were uncovered, including original tiling, ornate columns in the hotel lobby, and a fireplace previously enclosed in drywall. All these features were retained and repaired as part of the rehabilitation, which converted the former hotel into 36 apartments, office, retail and commercial spaces, and a new ground-floor restaurant. The completed rehabilitation is a building with a beautiful exterior that reflects the Golden era of Boise's past and an interior that retains key historic features, while integrating contemporary needs and finishes, and that projects a bright future for Boise.



## Use of the Historic Tax Credit

The historic tax credit was instrumental in the economic viability of the Owyhee rehabilitation. Without the historic tax credit, it is unlikely the ownership group would have undertaken a project with such uncertainty and risk. For example, during the rehabilitation, the owner discovered that each floor was layered with asbestos, an original fireproofing treatment, which allowed the hotel to be advertised as “entirely fireproof” when it first opened. This hazardous material had to be removed at considerable expense. Many unforeseen challenges like this are common in the rehabilitation of older buildings, which can often significantly increase the cost and risk. Without the historic tax credit, such unexpected costs might not have been covered by the project budget.

## Economic Impact on Boise

Located in the west end of downtown, the hotel was in an area that had experienced little new investment in recent decades and was surrounded by many underutilized and undeveloped properties. The rehabilitation of the Owyhee, however, has enlivened this area and spurred significant new investment by neighboring property owners. Nearby, two 3-star hotels have opened and a new residential condominium project has been completed. In addition, an office complex has been proposed only a few blocks away. In total, the area has experienced over \$100 million of new investment since construction began on the rehabilitation of the Owyhee in 2014.

Not only has The Owyhee itself regained its stature as a premier community gathering space, but because it is now “home base” to Treefort Music Fest, a five-day music festival, it attracts more than 30,000 visitors and 400 bands to the city each year. The start-up technology firms, financial institutions, and other businesses that occupy office space in The Owyhee, and a restaurant that serves the downtown business community, also contribute to the resurgence of downtown Boise.

### PROJECT BUDGET

Sources of Funds	Amount
Limited Partner Equity	\$7,500,000
Bank Construction Financing	\$11,680,000
Federal Historic Tax Credit Equity	\$2,250,000
Local Redevelopment Agency Credit Equity	\$775,000
<b>Total</b>	<b>\$22,205,000</b>

Uses of Funds	Amount
Acquisition Costs	\$3,550,000
Direct Construction Costs	\$16,000,000
Indirect Construction Costs	\$2,355,000
Financing Costs	\$300,000
<b>Total</b>	<b>\$22,205,000</b>

# Houma Elementary School

Houma, Louisiana



Photos: Michael Palumbo Photography

## PROJECT PROFILE

**Historic Name:** Houma Elementary School  
**Current Name:** Academy Place Apartments  
**Original Construction Year:** 1931  
**Year Rehabilitation Completed:** 2017  
**Original Use:** Elementary School  
**New Use:** Mixed-Income Senior Housing  
**Total Project Cost:** \$19,739,366  
**Federal Historic Tax Credit Equity:** \$1,953,908  
**State Historic Tax Credit Equity:** \$2,028,025  
**Bank Loan:** \$2,700,000  
**LIHTC Equity:** \$7,406,550  
**Terrebonne Parish Council on Aging:** \$5,500,000

## History and Context

Constructed in 1931, Houma Elementary School last welcomed students in 1970, and then housed school district administrative offices until 2014. School officials conveyed the vacant building to the Terrebonne Parish Consolidated Government, which issued an RFP for redevelopment of the property. Renaissance Neighborhood Development Corporation (RNDC) was selected to rehabilitate the property into much-needed mixed-income housing for seniors. The New Orleans-based RNDC is a non-profit affordable housing developer and a collaboration between Volunteers of America National Services and Volunteers of America, Southeast Louisiana.

## Scope of Rehabilitation

The 103-unit rehabilitation project consisted of converting the school into 47 apartments, and constructing 56 new apartments in a compatible new addition at the rear of the property. The original nine-over-two windows were retained and repaired as part of the conversion of the building into apartments. The apartments were sensitively incorporated into the former classrooms that still have the original 11-foot-high ceilings. Important character-defining interior features and spaces were retained, most notably the corridors with their distinctive beaded-board wainscoting, over-the-door transoms, and glazed windows that supply borrowed light into the corridors. Historic stairs were retained, as well as the historic wood floors throughout the building. Mature live oak trees remain and highlight the site's new landscaping.



## Role of the Historic Tax Credit

The Federal historic tax credit was crucial to the success of the rehabilitation project. The state historic tax credit also figured prominently, as did the other sources of funding from Low-Income Housing Tax Credits (LIHTC), Terrebonne Council on Aging, Volunteers of America, and private bank loans. The developer, Renaissance Neighborhood Development Corporation (RNDC), referring to the importance of the historic tax credit to the outcome of the project, stated “We believe each project has its own opportunity to create a special living experience not found in the typical market for affordable or even market-rate housing. With its wonderful historic character and features, Academy Place provides such an experience, and is very much appreciated by the residents.”

## Economic Impact on Houma

The development of Academy Place Apartments has been a boon to the community, which was severely lacking in available senior housing. The project has returned a vacant building once again to active use in the Houma community. Several former teachers and students have come back to live in their old school and, like their fellow residents, enjoy the convenience and the walkability of the neighborhood, which is close to downtown Houma. The building is now individually listed in the National Register of Historic Places and has been returned once again to active use in the community. The project is also Enterprise Green Communities-certified.

### PROJECT BUDGET

Sources of Funds	Amount
Bank Loan	\$2,700,000
LIHTC Equity	\$7,406,550
Federal HTC Equity	\$1,953,908
State HTC Equity	\$2,028,025
Volunteers of America	\$25,000
Developer Equity	\$125,883
Terrebonne Parish Council on Aging	\$5,500,000
<b>Total</b>	<b>\$19,739,366</b>

Uses of Funds	Amount
Acquisition Costs	\$16,366
Construction	\$14,892,956
Equipment	\$205,871
Soft Costs	\$3,315,075
<b>Subtotal</b>	<b>\$18,430,268</b>

Financing and Perm Loan Costs	\$717,386
Total Tax Credit, Syndication Costs and Reserves	\$591,712
<b>Total Development Costs</b>	<b>\$19,739,366</b>

# RUTGERS

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September 2018



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To: The Honorable Brian T. Taniguchi, Chair  
and Members of the Senate Committee on Labor, Culture, and the Arts

Date: Tuesday, February 12, 2019

Time: 3:30 P.M.

Place: Conference Room 224, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: S.B. 1394, Relating to Historic Preservation

The Department of Taxation (Department) offers the following comments regarding S.B. 1394 for the Committee's consideration.

S.B. 1394 establishes a new refundable tax credit for taxpayers who rehabilitate historic structures pursuant to a rehabilitation plan certified by the Department of Land and Natural Resources' State Historic Preservation Division (SHPD). A summary of key provisions are as follows:

- Adds a new section to Hawaii Revised Statutes (HRS) chapter 235, creating a refundable tax credit for qualified expenses incurred as part of rehabilitation of a historic structure certified by the SHPD;
- Sets the amount of the credit at 25% of the qualified expenses or 30% if at least twenty percent of the units are for affordable rental housing or at least ten percent are sold for affordable homeownership under affordable housing guidelines;
- Requires the SHPD to develop rules for the approval of rehabilitation plans;
- Requires owners of certified historic structures to notify the SHPD when the rehabilitation has been completed and requires the SHPD to review the rehabilitation and verify that it has been completed in accordance with the approved rehabilitation plan;
- Creates an unspecified aggregate cap on the total amount of credits that may be claimed for qualified rehabilitation projects;
- Requires SHPD, in consultation with the Department, to determine the information necessary to enable a quantitative and qualitative assessment of the outcomes of the tax credit to be determined.
- Requires taxpayers to submit a written, certified statement to the SHPD containing their

qualified rehabilitation expenses and any other information the SHPD or the Department may require;

- Specifies that all information submitted in the statement to SHPD by taxpayers claiming the credit is public information.
- Provides for recapture of the tax credit if the projected expenditures do not materialize, the rehabilitation plans do not proceed in a timely manner or in accordance with the approved plan, or the amount of affordable units differs from the projected amount;
- Requires the SHPD, in consultation with the Department, submit an annual report to the Legislature;
- Authorizes the Director of Taxation to require proof of the claim for the tax credit; and
- Applies to taxable years beginning after December 31, 2019.

First, the Department notes that this credit is refundable. The Department prefers nonrefundable credits because refundable credits are more prone to abuse and improper claims.

Second, the Department notes that this credit does not contain a provision that disallows the credit if a deduction is claimed nor does it contain a provision that reduces the basis of the property by the amount of credit. Accordingly, the Department suggests that subsection (c) be amended to read as follows:

(c) In the case of a partnership, S corporation, estate, or trust, the tax credit allowable is for qualified expenses incurred by the entity for the taxable year. The cost upon which the tax credit is computed shall be determined at the entity level. Distribution and share of credit shall be determined pursuant to section 704 of the Internal Revenue Code.

If a deduction is taken under section 179 (with respect to election to expense depreciable business assets) of the Internal Revenue Code, no tax credit shall be allowed for that portion of the qualified expense for which the deduction is taken.

The basis of eligible property for depreciation or accelerated cost recovery system purposes for state income taxes shall be reduced by the amount of credit allowable and claimed. In the alternative, the taxpayer shall treat the amount of the credit allowable and claimed as a taxable income item for the taxable year in which it is properly recognized under the method of accounting used to compute taxable income.

Third, the Department notes that it appreciates the inclusion of a recapture provisions in subsections (i) and (j). However, the Department suggests placing all language relevant to



recapture in the same subsection. Further, the Department notes that it lacks the subject matter expertise to determine if any of the events allowing recapture in this bill come to pass. The Department recommends adding the following language to subsection in which recapture language is located:

Any credit under this section shall be recaptured following the close of the taxable year for which the credit is claimed if the department of land and natural resources notifies the department that the taxpayer has failed to comply with the requirements of this section or its related rules promulgated by the state historic preservation division.

Thank you for the opportunity to provide comments.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Historic Preservation Tax Credit

BILL NUMBER: SB 1394

INTRODUCED BY: MORIWAKI, S. CHANG, Nishihara, Shimabukuro, Taniguchi

EXECUTIVE SUMMARY: Establishes a refundable tax credit based on the qualified rehabilitation expenses of a historic structure. The adoption of this credit would provide tax relief to taxpayers regardless of their need for tax relief. It also would shift the burden of paying for government to the rest of us.

SYNOPSIS: Adds a new section to HRS chapter 235 to allow a credit for a rehabilitation plan or a certified historic property that is certified by the historic preservation division of DLNR.

The credit is to be 25% of the qualified rehabilitation expenditures, or 30% if (A) at least 20% of the units are rental units and qualify as affordable housing, or (B) at least 10% of the units are individual homeownership units and qualify as affordable housing.

The credit is available in the taxable year in which the substantially rehabilitated structure is placed into service. If completed in phases, the tax credit shall be prorated to the identifiable portion of the building placed into service during that taxable year.

Tax credits that exceed the taxpayer's income tax liability may be refunded.

For a partnership, S corporation, estate, or trust, the cost upon which the credit is computed shall be determined at the entity level and the distribution and share of the tax credit shall be determined pursuant to section 704(b) of the Internal Revenue Code.

Requires the director of taxation to prepare any forms necessary to claim a credit, may require a taxpayer to furnish reasonable information to validate a claim for the credit, and adopt rules pursuant to HRS chapter 91. Requires claims for the credit, including any amended claims, to be filed on or before the end of the twelfth month following the taxable year for which the credit is claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit.

The aggregate amount of tax credits claimed shall not exceed \$\_\_\_\_\_ for the 2020 tax year, \$\_\_\_\_\_ for the 2021 tax year, \$\_\_\_\_\_ for the 2022 tax year, \$\_\_\_\_\_ for the 2023 tax year, and \$\_\_\_\_\_ for the 2024 tax year and every year thereafter.

Provides that following the completion of rehabilitation of a certified historic structure, the owner shall notify the state historic preservation division that the rehabilitation has been completed. The owner shall provide the state historic preservation division with documentation of the costs incurred in rehabilitating the historic structure and shall submit certification of the costs incurred in rehabilitating the historic structure. The state historic preservation division shall review the rehabilitation and verify that the rehabilitation project complied with the rehabilitation plan. The administrator of the state historic preservation division shall certify in

writing that the rehabilitation has been completed in accordance with the approved rehabilitation plan, and provide that certification to both the project proponent and the director of taxation.

Provides that each taxpayer claiming this credit shall, no later than the last day of the taxable year following the close of the tax year in which qualified costs were expended, submit a written, certified statement to the state historic preservation division containing the qualified rehabilitation expenditures incurred by the taxpayer and any other information the state historic preservation division or department of taxation may require. If this information is not submitted, the taxpayer shall not be eligible to receive the tax credit for those expenses, and any credit already claimed for that taxable year shall be recaptured in total. A recaptured tax credit shall be added to the taxpayer's tax liability for the taxable year in which the recapture occurs.

Provides for recapture of a previously claimed tax credit if any of the following occur: (1) the projected qualified expenditures do not materialize; (2) the qualified rehabilitation plans do not proceed in a timely manner and in accordance with the approved plans; (3) in the case of the thirty per cent tax credit, less than twenty per cent of the units qualify as affordable rental housing; or (4) in the case of the twenty per cent tax credit, less than ten per cent of the units qualify as affordable homeownership units.

Defines "qualified rehabilitation expenditures" as any costs incurred for the physical construction involved in the certified rehabilitation of a certified historic structure; provided that for projects involving mixed residential and non-residential uses, at least thirty per cent of the total square footage of the rehabilitation is placed into service for residential use. "Qualified rehabilitation expenditures" shall not include the owner's personal labor.

Defines "rehabilitation plan" as any construction plans and specification for the proposed rehabilitation of a historic structure in sufficient detail for evaluation of compliance with the rules adopted by the state historic preservation division.

Defines "substantial rehabilitation" as the qualified rehabilitation expenditures of a historic structure that exceed twenty-five per cent of the assessed value of the structure.

EFFECTIVE DATE: Credit affects taxable years beginning after December 31, 2019.

STAFF COMMENTS: Lawmakers need to keep in mind two things. First, the tax system is the device that raises the money that they, lawmakers, like to spend. Using the tax system to shape social policy merely throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount. The second point to remember about tax credits is that they are nothing more than the expenditure of public dollars, but out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as generous about the expenditure of these funds when our kids are roasting in the public school classrooms, there isn't enough money for social service programs, or our state hospitals are on the verge of collapse?

If lawmakers want to subsidize the rehabilitation of certified historic buildings, then a direct appropriation would be more accountable and transparent.

Furthermore, the additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount. A direct appropriation may be a far less costly method to accomplish the same thing.

Finally, the credit is directed to persons who might have no need for financial assistance.

Technical changes that are needed in the bill as it is now drafted include the following:

- As drafted, the bill appears to allow for credit to be claimed for estimated rehabilitation costs, with recapture to occur later if the costs were not actually expended or the documentation is insufficient. Once money goes out the door, however, it may be difficult to recover.
- As drafted, the bill appears to contemplate certification of the costs by the historic preservation division before the credit can be claimed. This does not seem to be consistent with the parts of the bill contemplating allowing a credit claim based on estimated costs. We suggest that the credit claim be allowed only for actual costs that are certified by the historic preservation division.
- The bill does not clearly task either the historic preservation division or the department of taxation with keeping track of the aggregate cap on the credit, and does not provide direction as to what to do if the claims exceed the cap.
- The recapture condition in (j)(4) is not consistent with (a)(2)(B) because if 10% are individual homeownership units that qualify as affordable housing, a 30% credit is awarded. There is no 20% credit in the bill as now drafted.
- The definition of “substantial rehabilitation” as now drafted does not make sense. The following may have been intended: “Substantial rehabilitation” means that qualified rehabilitation expenditures of a historic structure exceed twenty-five per cent of the assessed value of the structure.

Digested 2/8/2019

# HISTORIC HAWAII FOUNDATION

**TO:** Senator Brian T. Taniguchi, Chair  
Senator Les Ihara, Jr., Vice Chair  
Committee on Labor, Culture and the Arts

**FROM:** Kiersten Faulkner, Executive Director  
Historic Hawaii Foundation

**Committee:** Tuesday, February 12, 2019  
3:30 p.m.  
Conference Room 224

**RE: SB 1394, Relating to Historic Preservation**

On behalf of Historic Hawaii Foundation, I am writing in **support for SB 1394**. The bill would establish a historic preservation tax credit for qualified construction expenses incurred in rehabilitation of historic structures, with a higher level of credit for historic rehabilitation projects that produce affordable housing units.

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

SB 1394 would provide this important incentive to developers, property owners and financial institutions involved in preserving historic buildings and providing affordable housing.

Tax credit programs for rehabilitation of historic properties have been used at the federal level and by almost two-thirds of the States. Some 31 states have adopted laws creating credits against state taxes to provide incentives for the appropriate rehabilitation of historic buildings. 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.

National studies have found that historic rehabilitation 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. HB 1533 would have the additional community benefit of incentivizing affordable housing.

Most programs include the following basic elements: Criteria establishing which buildings qualify for the credit; 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, generally involving the state historic preservation office and the state department of taxation.

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.

Since 1974, Historic Hawai'i Foundation has been a statewide leader for historic preservation. Its members and 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.

**Therefore, Historic Hawai'i Foundation supports SB 1394.**

To: Rep. Brian T. Taniguchi, Chair  
Rep. Les Ihara Jr., Vice Chair  
Committee on Labor, Culture and Arts

From: Mathew L. D'Ascoli  
Email: [mat@sunsetintl.com](mailto:mat@sunsetintl.com)  
Tel: 808-453-0803

Committee: Tuesday, February 12, 2019, 3:30p.m.  
Conference Room 224

Re: SB 1394, Relating to Historic Preservation

I am writing in support of SB 1394. In 2016 our family completed a restoration of a building in Chinatown, 75 N. King St., under the National Parks Service Tax Incentive Program. The tax credit enabled us to do a complete restoration including utility upgrades and emergency easement that were not available on the street front that allowed the fullest potential of the commercial property. With the Federal Tax Credit the project was not financially beneficial as an investment. Our passion for historic buildings is what was the deciding factor. Other property owners may not have the same passion however with the State also providing a tax credit the project would have been worth it as a financial investment.

Below are the numbers from our project. In addition which is not stated are the resulting employment from businesses being able to operate from a restored property that would not have been able to accommodate before restoration.

\$ 4,000. GET approximately \$4,700 generated from before property purchased

After purchase of property

\$273,343. Restoration materials/equipment  
\$618,584. Restoration professional services/labor  
\$891,907. Restoration total cost  
\$ 38,330.\* Restoration GET

\$375,000. Tenant Build-out materials/equipment  
\$225,000. Tenant Build-out professional services/labor  
\$600,000. Tenant Build-out total cost  
\$ 25,785.\* Tenant Build-out GET

\$ 5,035. 2017 GET from tenant's rent  
\$ 13,393. 2018 GET from tenant's rent  
\$128,185. Tenant 2017 GET from operation sales  
\$133,694. Tenant 2018 GET from operation sales

\$ 3,548.\* Tenant 2017 GET from operation vendor purchases  
\$ 3,713.\* Tenant 2018 GET from operation vendor purchases  
\$351,683. Total GET generated in 3 years.

\* Close Estimates.

With the states 25% tax credit for commercial property the return on investment is quick and substantial with longevity. It is important that the tax credit to be taken in one fiscal year as an incentive to do a proper build-out. Historic areas are most challenging due to the conditions of the building, access, surrounding area and in many historic areas lack of utilities.

We am currently restoring another property in the Capitol District with similar use and numbers. In my experience the GET and employment generated is not unique to one property but attainable with commercial properties within Historic Districts.



To: Rep. Brian T. Taniguchi, Chair  
Rep. Les Ihara Jr., Vice Chair  
Committee on Labor, Culture and Arts

From: Edmont P. D'Ascoli  
Email: edas@hawaii.rr.com  
Tel: 808-799-9135

Committee: Tuesday, February 12, 2019, 3:30p.m.  
Conference Room 224

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To: Honorable Brian Taniguchi, Chair of Senate Committee on Labor, Culture and the Arts  
From: Lorraine Minatoishi, Ph.D., AIA  
Hearing: 1<sup>st</sup> Hearing, Wednesday, February 12, 2019, 3:30PM, Conference Room 224  
Subject: Support for Senate Bill 1394, Relating to Historic Preservation

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Dear Chair Brian Taniguchi,

I am writing in **support of Senate Bill 1394** which supports historic preservation in Hawaii.

I am an owner of an architectural firm in downtown Honolulu specializing in historic preservation. I have been an advocate for preserving our cultural heritage for over 20 years and have a Ph.D. in historic preservation. Through my research and professional work in this field, I have seen the positive impacts of preserving historic buildings. Not only do owners see the value, but also the public appreciates the effort it takes to resist the urge to demolish buildings that are “old”. These older buildings preserve a town’s character, feel and give it a sense of place.

The profession of “historic preservation” started in the early 1970s when the federal government created Section 106 of the National Historic Preservation Act and the Secretary of Interior’s guidelines for preservation, as well as the Advisory Council on Historic Preservation that speaks directly with the President on historic preservation concerns. At that time, we as a nation agreed that we must protect our important cultural statements- buildings, sites, and landmarks that speak of our past. In the 1960s, America was undergoing huge post-war building boom and many of the early 1900 estates of the Vanderbilts, Rockefellers, and those who built America were being demolished. Two women in New York decided that laws had to be put in place to help curb demolition of important places, or very little of our past would remain. They succeeded on a federal level with establishing Section 106, and Hawaii followed suit by enacting Chapter 6E Hawaii Revised Statutes.

The economy of Hawaii is largely governed by tourism and the push to continually grow this economic engine is fierce. Small quaint one and two story bungalow hotels have been replaced with high-rise hotels. The quaint tiki bars and one story international market place of the past are now high-end shopping centers. The Waikiki of the 1960s is long gone, and what little was left has disappeared in the past few years. Not surprisingly, many tourists now go to Maui and Kauai to search for the “real” Hawaii, and it can still be found. In Feb. 6, 2019 Star-Advertiser newspaper, an article reads: “Kauai condo prices pop like fireworks.” It will only be a matter of time before these islands, too, lose much of their past and much of their character. When this happens, where will tourists go?

It is in the interest of our economy to preserve our small towns, and important cultural artifacts. It is good for our people and it is good for our visitors. Hawaii is a very special place, and we must cherish our immigrant forefathers built in the early part of the 1900s.

Senate Bill 1394 does just that- it encourages homeowners and commercial owners to save what they have and to restore their buildings. Most other states have already enacted tax credit programs for preservation. Hawaii must also; otherwise all of our quaint old towns, our important sites, and our residential neighborhoods will be altered beyond recognition. In Hawaii, historic preservation today is seen as a negative for development. Developers run away from preservation like the plague. They don't see any benefit; rather they see it as an impediment to their projects. Senate Bill 1394 also provides a higher tax credit for projects with an affordable housing component so the benefit will be two-fold- those historic plantation homes can be rehabilitated and serve as housing for local homeowners.

In most other states, using preservation tax credits and saving the old structures are the only way to make projects pencil out. Tax credits are used as leverage to finance development projects with the banks. And these projects have rehabilitated decrepit areas outside of Portland, Seattle, and others areas, spurring economic growth. When economies slow down, these tax incentives make projects viable.

I support Senate Bill 1394 as it will help Hawaii's economy, its tourism, will create affordable housing units, and will help to preserve the Hawaii that we cherish. Please support Senate Bill 1394.

Sincerely,

A handwritten signature in black ink, appearing to read 'Lorraine Minatoishi', written in a cursive style.

Lorraine Minatoishi, Ph.D., AIA

**SB-1394**

Submitted on: 2/11/2019 3:05:31 PM

Testimony for LCA on 2/12/2019 3:30:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Melodie Aduja	Testifying for O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai`i	Support	No

Comments: