July 2, 2014

Mr. Reed E. Hall, Secretary and CEO
Wisconsin Economic Development Corporation
201 W. Washington Avenue
Madison, Wisconsin  53703

Re:  Wisconsin's Historic Rehabilitation Tax Credit

Dear Mr. Hall,

On behalf of the National Trust for Historic Preservation and the National Trust for Community Investment Corporation, we are writing to offer our assistance as your agency reviews the state's historic preservation tax credit.

For more than 20 years, the National Trust for Historic Preservation has been assisting states with their historic rehabilitation tax credits. The tremendous response to your state's historic tax credit (the state's investment of $35.9 million leveraging a $179 million investment in rehabilitating 26 of Wisconsin's historic buildings), is what we've seen happen in other states after they put effective tax credits in place.

According to Rutgers University, Missouri doubled their number of historic rehabilitations in the year after a 25% uncapped state tax credit was put in place. Kansas tripled the number of rehabilitation projects using the federal credit after adopting a 25% uncapped state historic tax credits. Assuming Wisconsin’s qualified rehabilitation costs are $179 million, we estimate that the state’s investment of $35.9 will be leveraged by an equal amount of federal 20% and 10% rehabilitation credits.

A for-profit subsidiary of the National Trust, the National Trust for Community Investment Corporation (NTCIC) is a tax credit syndicator that has closed several transactions in Wisconsin. More importantly for your purposes, NTCIC has also worked closely with economist David Listokin at Rutgers University to develop an economic model that measures impacts of rehabilitation projects, Preservation Economic Impact Model (PEIM). This model has been used to measure the economic impact the federal historic tax credit during the construction phase.

Regardless of which economic model is used, we typically advise state agencies to measure economic impacts in both construction and post-construction phases of a rehabilitation project.
and to calculate the increase in both state and local tax revenues. The Ohio Development Services Agency's economic model for the Ohio Historic Tax Credit, for example, measures both state and local revenues generated during and after a historic building is rehabilitated.

Interestingly, researchers have found that one-third of the state's investment is recouped during the construction phase alone -- before the state even issues the tax credit. According to the Governor's Taskforce on the Maryland Heritage Structures Rehabilitation Tax Credit program, "During their construction periods alone, the 407 projects generated an estimated $83.7 million ($2009) in state and local taxes—effectively paying down more than one-third of the state's total $213.9 million tax credit investment." Cleveland State University found that "While the pay out of the [Ohio Preservation Tax Credit Program] tax credits occurs only after the developer completes the redevelopment project, the State of Ohio recovered $0.31 of every dollar invested prior to the disbursement of any tax credits funds."

In addition to taxes paid on construction materials and labor, the economic model used should also calculate the economic benefits after occupancy. This requires knowing the end use of the proposed rehabilitation project. For instance, hotels, because of occupancy taxes and large numbers of staff, return the state's investment more quickly than apartment buildings, which only have one or two employees at the most.

Moreover, there are also catalytic impacts in the surrounding neighborhood that can be measured after the rehabilitation occurs. The National Trust recently released the first-ever study on the catalytic impacts a federal historic tax credit project has on the surrounding neighborhood. Donovan Rypkema of PlaceEconomics studied the neighborhoods surrounding six rehabilitation projects in Georgia, Maryland and Utah. He found that the historic tax credits increased the number of construction permits, business licenses, and property values in the study areas.

Despite the recession, we have seen six states adopt state tax credits in past 4 years (Nebraska - 2014, Alabama - 2013, Texas - 2013, Pennsylvania - 2012, Illinois - 2011, Minnesota - 2010). These states want to encourage the same economic development that Wisconsin is seeing with its historic tax credit.

We have found that states that have resisted capping their historic tax credits have had the most successful programs. For example, a recent report by the Virginia Commonwealth University about the 17-year, uncapped Virginia program showed that it has created more than 31,000 full and part-time jobs, generated an estimated $133 million in state and local revenues and rehabilitated 2,375 historic buildings in towns and cities across the Commonwealth.

Some states have placed per-project caps to control costs. Maine, with one-fifth the population of Wisconsin, places a $5 million per project cap on its very successful historic tax credit program.
New York State controls its historic tax credit program costs by limiting funding to transactions that are located in census tracts at or below 100% of area median income. We are attaching a policy brief written for the National Trust by Harry K. Schwartz that describes the components of a successful historic tax credit program that you may find helpful as you move forward.

The National Trust, NTCIC and our partners are working to ensure the federal historic tax credit remains in place during congressional tax reform discussions. State programs like Wisconsin's hugely popular tax credit are critical to showing congressional leaders that these tax incentives successfully leverage private investment and produce impacts that bolster state economic growth. Several studies have shown that historic rehab has considerably more economic impact dollar-for-dollar than other industries such as manufacturing.

Your letter of June 26 stated that you were preparing a report for the legislature. We are happy to travel to Wisconsin and share our expertise on economic impact models and how other states balance the cost of these state tax credit programs against their very tangible economic benefits.

Sincerely,

Thomas J. Cassidy, Jr.  
Vice President  
Government Relations and Policy  
National Trust for Historic Preservation

John Leith-Tetrault  
Chairman  
Historic Tax Credit Coalition