SPECIAL SENATE COMMISSION TO STUDY THE CHALLENGES FACING COMMERICAL DEVELOPMENT AND THE REDVELOPMENT OF HISTORIC BUILDINGS

FINAL REPORT

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__Members__

Daniel A. Baudouin
The Providence Foundation
Greater Providence Chamber of Commerce

Senator William J. Conley, Jr.
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(East Providence, Pawtucket)

Scott Duhamel
Rhode Island Construction & Building Trades

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Member of the Public, appointed by the Senate President

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R-District 35
(East Greenwich, North Kingstown South Kingstown, Narragansett)

Senator Joshua Miller
Chairman

D-District 28
(Cranston, Providence)

Allison Rogers
Rhode Island Department of Administration

Edward F. Sanderson
Rhode Island Historical Preservation and Heritage Commission

David M. Sullivan
Rhode Island Division of Taxation

Commission Meetings and Agendas

The Senate Commission held three hearings between January and March 2015. The hearing dates and agenda for each meeting were as follows:

JANURARY 22, 2015

- Organizational Meeting
- Presentation by the Rhode Island Division of Taxation
- Handout from Rhode Island Historical Preservation and Heritage Commission

FEBRUARY 6, 2015

- Public Testimony

MARCH 11, 2015

- Ms. Renee Kuhlman, Director of Special Projects, Government Relations and Policy for the National Trust for Historic Preservation

Executive Summary

Senate Resolution 2014 S-3137 created a nine-member Senate commission to conduct a comprehensive study regarding the challenges facing commercial development and the redevelopment of historical buildings in Rhode Island. The Commission heard testimony from local and national historic preservation officials, developers and labor representatives.

The majority of the commission supports the following recommendations from Preserve Rhode Island and GrowSmartRI:

Recommendation 1: Keep key provisions in 2013 Historic Tax Credit revisions

- Only issue credits when a project is completed
- The Division of Taxation manages the queue of projects in the pipeline
- A significant non-refundable fee keeps project "real"
- Private social clubs and most single family homes ineligible for the program
- Option to partner with a non-profit organization and claim the credit as a refund

Recommendation 2: Expand the "refund option" to eliminate the need for brokers and reduce "leakage"

How the current system works: HTC is wisely structured so the credit is only available at the end of the project when the property has been rehabilitated and placed in service. Thus, the state does not pay even one penny for incomplete or substandard projects. However, upfront cash is required in order to finance the construction and accomplish each rehabilitation project.

Ultimately, when the project is complete, credits may be claimed by entities that have Rhode Island tax liability. Currently, the provisions for "transferability" allow project developers to sell the credit to generate needed construction financing. Based on a Rhode Island taxpayer's commitment to purchase the credit upon completion, the project developer can secure a bridge loan. However, the pool of investors who have Rhode Island tax liability and are also willing to enter into a purchase agreement today for a credit they will not be able to claim for two or three years (when the project is complete) is limited. Few HTC project developers either have the tax liability themselves or know entities that would be in the market for credits. (Just as in a real estate sale, the buyer and seller are usually unknown to each other.)

HTC projects therefore employ brokers to make the match between a particular HTC project and an investor with tax liability, and to structure these financing arrangements. The major portion of the discount on the sale price of the transferable credits, or "leakage," is attributable the market conditions – the supply and demand of entities seeking tax credits – not brokerage fees.

Recommendation: Nine states have made credits refundable under various circumstances, giving the holder of a state tax credit the option of claiming a refund (i.e., a direct payment) from the state. Rhode Island adopted this model in the 2013 revisions that allows a non-profit organization to receive a direct refund. A similar provision, although not limited to non-profit organizations, exists in the successful Maine State HTC program (Maine Historic Preservation Tax Credit).

Preserve Rhode Island and GrowSmartRI are recommending an expansion of the refund provision to give all holders of state tax credits the choice of claiming a refund rather than a credit. The refund option eliminates the need for a broker since any entity can claim the refund – it removes the need for a broker's most important role of making a match with an entity who has RI tax liability. The refund makes arranging for construction financing a straightforward lending arrangement because it is lending against a future payment, not a future commitment that depends on tax liability. While a refund will likely be viewed as taxable income for federal income tax purposes, the more straight forward lending arrangement would reduce leakage and help offset that cost.

Recommendation 3: Reduce the size of the non-refundable fee

Issue: The 2013 revisions to the HTC include a provision paying a non-refundable fee when signing a contract with the state that is 3% of QREs. This fee structure is an outlier in the nation – the majority of states have fees of $10,000 or less. In contrast, RI at 3% of QREs, the state fee can be as high as $600,000. In New England, neither Maine nor Massachusetts charges a fee; Connecticut's maximum fee is $10,000.

Rhode Island's fee is due upon signing a contract for the credits and is non-refundable. The benefit of such a fee early in a HTC project process is that it is earnest money serving the useful purpose of ensuring that only projects that are "real" are assigned credits. However, because of the burdensome cost of the RI fee, several otherwise viable projects in the queue had to relinquish their place in line because they were unable to risk the large non-refundable payment. Thus, the fee is sometimes a barrier to a good project going forward rather than a way of eliminating highly speculative ventures. Often times the concern about the fee is its timing – the fee is required on the state's tax credit management schedule which often precedes by months local permitting decisions. And 3% of QREs is a sizeable piece of any redevelopment project, proportionally burdensome to both the large projects and the small projects.

Preserve Rhode Island and GrowSmartRI recommend reducing the size of the fee, including a parallel reduction in the size of the credit, to keep the net impact of RI's HTC as the status quo, and creating a window within which time a part of the fee is refundable so projects can complete their local permitting. Even at this reduction, Rhode Island's fee will be by far the largest in our region, perhaps in the country. The recommended restructuring will continue to serve the desired outcome to keep projects "real."

1. Reduce the size of the fee from 3% to 1% of QREs. Include a parallel reduction in the size of the credit from the current 25% down to 23%, and the current 20% down to 18%.

2. Create limited windows for partial fee-refundability:
   a. a 6-month period within which 90% of the fee is refundable; and
   b. a 12-month period within which 75% of the fee is refundable.

This will provide time for projects of varying size and complexity to secure local permits.

Recommendation 4: Commit to funding for a significant length of time

Rhode Island's start/stop of its HTC program has interrupted the flow of benefits to the state in terms of both jobs and economic investment. HTC projects are complicated, requiring a long lead time that includes architectural, engineering and financial planning before construction starts. Both pre-development and development activities stimulate construction jobs and generate a positive impact on state tax receipts long before the state spends its HTC dollars. Studies in Maryland (Maryland Governor's Task Force) and Ohio (Cleveland State University) have indicated 33 or 34 cents on every dollar committed to HTC is returned in the form of payroll and sales tax before the state issues the credit. In Rhode Island, the HTC Fiscal and Economic Impact Study commissioned in 2007 by Grow Smart Rhode Island indicates that about 24 cents was returned for each dollar committed before the state issues the credit.

Ohio's HTC provides an interesting model for RI to consider (Ohio Historic Preservation Tax Credit, Round 14 Program Policies, 2015): It has an annual cap of $60M from which each year one "catalytic project" may be selected for an award of up to $25M. Otherwise, HTC projects are capped at $5M annually. Ohio documents the impact of its HTC program by requiring an analysis of return on investment.

Rhode Island is a part of a regional economy and we should be attentive to constructing an HTC that competes favorably with our neighboring states. Following is a chart that compares Rhode Island to New England states (note that since New Hampshire has no state income tax, they do not have an HTC).

State	%	Fee	Cap	Transfer-ability	Refund option
Connecticut	25% (30% for housing)	Up to $10,000	$50M over 3 years, $5M per project cap	Yes	No
Maine	20% (25% for housing)	No	No annual cap, $5M per project cap	Yes	Yes
Massachusetts	20% (25% for housing)	No	$50M annual, no per project	Yes	No
Rhode Island	20% (25% for commercial)	3% of QREs (up to $600,000)	No available funds, $5M per project cap	Yes	Yes
Vermont	10% added to federal tax credit, 25% façade; 50% for code improvements	No	$1.5M annual, $25-50K per project	May be transferred to bank for cash or loan reduction	No

When Rhode Island re-opened the HTC in 2013 to new projects, the program was immediately over-subscribed. The Division of Taxation conducted a lottery and put projects in queue.

Today, twenty-six (26) projects for $28.4M credits are under contract representing $146M in private investment.

Seven (7) projects are in the process of being qualified for $14M in credits representing $67.4M in investment.

These projects consume all currently available HTC funding.

Twenty-seven (27) projects remain in the queue totaling $33.3M in credits. However, since the waiting list is so extensive and there are no credits available, this list understates the need and opportunity for Rhode Island.

The HTC is structured to take advantage of the time-value of money. A contract for an HTC in 2015 will stimulate pre-construction and construction jobs today, with payment due only when the project is complete. The time lag between award of the credit and the date when the credit is actually issued has allowed the state to plan for its obligations and manage its borrowing under the existing authority. However, there is no funding for new credits to continue this orderly cycle.

We recommend the state refuel this economic pump in a way that will produce the best boost for Rhode Island's economic future. We need a level of sustained funding that allows these projects to have their desired stimulus effect.

Commit to funding Rhode Island's HTC at $25M per year for at least five years.

Addendum 1:
Resolution Establishing the Commission

2014 -- S 3137

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LC006018
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STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2014

SENATE RESOLUTION

CREATING A SPECIAL LEGISLATIVE COMMISSION TO STUDY THE CHALLENGES FACING COMMERCIAL DEVELOPMENT AND THE REDEVELOPMENT OF HISTORIC BUILDINGS IN RHODE ISLAND

Introduced By: Senators Miller, Ruggerio, and Goodwin

Date Introduced: June 20, 2014

Referred To: Placed on Senate Calendar

RESOLVED, That a special legislative commission be and the same is hereby created consisting of nine (9) members: three (3) of whom shall be members of the Senate, not more than two (2) from the same political party, to be appointed by the President of the Senate; one of whom shall be the Director of the Department of Administration, or designee; one of whom shall be the Administrator of the Division of Taxation, or designee; one of whom shall be the President of the Rhode Island Building and Construction Trades Council, or designee; one of whom shall be the President of the Greater Providence Chamber of Commerce, or designee; one of whom shall be the Deputy Director of the Rhode Island Historical Preservation and Heritage Commission, or designee; and one of whom shall be a member of the general public with an expertise in commercial real estate development of historic buildings, to be appointed by the President of the Senate.

The purpose of said commission shall be to make a comprehensive study and issue findings regarding the challenges facing commercial development and the redevelopment of historic buildings in Rhode Island; the benefits of rehabilitating these buildings; and the best ways to spur the buildings' reuse when it is in the best interest of the state.

Forthwith upon passage of this resolution, the members of the commission shall meet at the call of the President of the Senate who shall select a chairperson.

Vacancies in said commission shall be filled in like manner as the original appointment. The membership of said commission shall receive no compensation for their services. All departments and agencies of the state shall furnish such advice and information, documentary and otherwise, to said commission and its agents as is deemed necessary or desirable by the commission to facilitate the purposes of this resolution.

The Joint Committee on Legislative Services is hereby authorized and directed to provide suitable quarters for said commission; and be it further

RESOLVED, That the commission shall report its findings and recommendations to the Senate on or before February 15, 2015, and said commission shall expire on April 30, 2015.

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LC006018
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EXPLANATION

BY THE LEGISLATIVE COUNCIL

OF

S E N A T E   R E S O L U T I O N

CREATING A SPECIAL LEGISLATIVE COMMISSION TO STUDY THE CHALLENGES FACING COMMERCIAL DEVELOPMENT AND THE REDEVELOPMENT OF HISTORIC BUILDINGS IN RHODE ISLAND

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This resolution would create a nine (9) member special legislative commission whose purpose it would be to make a comprehensive study regarding the challenges facing commercial development and the redevelopment of historic buildings in the state, and who would report back to the Senate on or before February 15, 2015, and said commission would expire on April 30, 2015.

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LC006018
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2015 -- S 1022

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LC002968
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STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2015

SENATE RESOLUTION

REINSTATING THE LIFE AND EXTENDING THE REPORTING AND EXPIRATION DATES OF THE SPECIAL LEGISLATIVE COMMISSION TO STUDY THE CHALLENGES FACING COMMERCIAL DEVELOPMENT AND THE REDEVELOPMENT OF HISTORIC BUILDINGS IN RHODE ISLAND

Introduced By: Senator Joshua Miller

Date Introduced: June 25, 2015

Referred To: Placed on the Senate Consent Calendar

RESOLVED, That the special legislative commission created by Resolution No. 371 passed by the Senate at its January session, A.D. 2014, and approved June 20, 2014, entitled "SENATE RESOLUTION CREATING A SPECIAL LEGISLATIVE COMMISSION TO STUDY THE CHALLENGES FACING COMMERCIAL DEVELOPMENT AND THE REDEVELOPMENT OF HISTORIC BUILDINGS IN RHODE ISLAND" is hereby reinstated and the same members are hereby reappointed, and it is authorized to continue its study and make a report to the Senate on or before September 30, 2015, and said commission shall expire on November 30, 2015; and be it further

RESOLVED, That the time for reporting and date of expiration authorized by resolution No. 371, passed by the Senate at its January session, A.D. 2014, and approved June 20, 2014, be and the same is hereby rescinded. That the special legislative commission created by Resolution No. 371 passed by the Senate at its January session, A.D. 2014, and approved June 20, 2014, entitled "SENATE RESOLUTION CREATING A SPECIAL LEGISLATIVE COMMISSION TO STUDY THE CHALLENGES FACING COMMERCIAL DEVELOPMENT AND THE REDEVELOPMENT OF HISTORIC BUILDINGS IN RHODE ISLAND" is hereby reinstated and the same members are hereby reappointed, and it is authorized to continue its study and make a report to the Senate on or before September 30, 2015, and said commission shall expire on November 30, 2015; and be it further

RESOLVED, That the time for reporting and date of expiration authorized by resolution No. 371, passed by the Senate at its January session, A.D. 2014, and approved June 20, 2014, be and the same is hereby rescinded.

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LC002968
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EXPLANATION

BY THE LEGISLATIVE COUNCIL

OF

S E N A T E   R E S O L U T I O N

REINSTATING THE LIFE AND EXTENDING THE REPORTING AND EXPIRATION DATES OF THE SPECIAL LEGISLATIVE COMMISSION TO STUDY THE CHALLENGES FACING COMMERCIAL DEVELOPMENT AND THE REDEVELOPMENT OF HISTORIC BUILDINGS IN RHODE ISLAND

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This resolution reinstates the life and extends the reporting date of the Special Legislative Commission to Study the Challenges Facing Commercial Development and the Redevelopment of Historic Buildings in Rhode Island from February 15, 2015, to September 30, 2015, and the commission shall expire on November 30, 2015.

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Addendum 2:
Presentations and Written Testimony

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

HISTORICAL PRESERVATION & HERITAGE COMMISSION
Old State House 150 Benefit Street Providence, RI 02903

Telephone 401-222-2678
TTY 401-222-3700

Fax 401-222-2968
www.preservation.ri.gov

To: Special Legislative Committee to Study Commercial Development and Redevelopment of Historic Buildings in Rhode Island

From: Edward F. Sanderson, Executive Director
Deputy State Historic Preservation Officer

Re: Rhode Island State Historic Preservation Tax Credits 2001 - Present

Date: January 22, 2015

$1.5 Billion has been invested in 258 COMPLETED Historic Rehabilitation Projects and phases of projects

$455 Million will be invested in 56 ACTIVE Historic Rehabilitation Projects and phases of projects

TOTAL PRIVATE INVESTMENT of **$2 BILLION** STATEWIDE

- State Sales Taxes paid on construction materials
- State Income Taxes paid on construction wages and new permanent jobs
- Vacant and Deteriorated properties returned to local tax base
- Housing Gain: 6,224 apartments (15 percent for low-income residents)
- Brownfields Remediation in two-thirds of all projects
- Revitalization of Distressed Communities and Neighborhoods

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

HISTORICAL PRESERVATION & HERITAGE COMMISSION
Old State House 150 Benefit Street Providence, RI 02903

Federal Historic Preservation Tax Credit Projects Completed 1991 to 2000

Year	Projects/phases	$ Project Value (millions)
1991	3	2.085
1992	14	13.949
1993	3	0.535
1994	7	5.171
1995	18	19.319
1996	12	1.610
1997	12	15.211
1998	2	1.205
1999	3	1.525
2000	5	19.791
TOTAL	**61**	**$80,401,000**

Federal & State Historic Preservation Tax Credit Projects Completed 2001 to 2010

2001	7	8.062
2002	6	17.039
2003	46	77.039
2004	36	132.041
2005	35	317.933
2006	30	140.872
2007	41	351.434
2008	28	176.151
2009	14	138.181
2010	14	46.874
TOTAL	**257**	**1,406,580,000**

Increase in investment 1,749 percent.

Department of Revenue
Division of Taxation

Special Legislative Commission to Study the Challenges Facing Commercial Development and the Redevelopment of Historic Buildings in Rhode Island

January 22, 2015

Department of Revenue
Division of Taxation

Agenda

- Original Program – 2001 Program
- 2008 Amendment
- 2013 Historic Tax Credit Program
- Historical Data

Department of Revenue
Division of Taxation

Original Program – 2001 Program

- Created in 2001
- Credit equal to 30.0% of Qualified Rehabilitation Expenditures
- Credits may be transferred or assigned to other individuals or entities
- Unused credits may be carried forward for ten years

Department of Revenue
Division of Taxation

Original Program – 2001 Program (cont…)

- Credits can be used to offset the following taxes:
  - Business Corporations Tax
  - Franchise Tax
  - Public Service Corporations Tax
  - Taxation of Banks
  - Taxation of Insurance Companies
  - Personal Income Tax

Department of Revenue
Division of Taxation

2008 Amendment

- Applies to certified historic structures not placed in service as of January 1, 2008
- Credit Amount & Processing Fee

Credit Amount	Fee (percentage of QREs)
25.0%	3.0%
26.0%	4.0%
27.0%	5.0%

Department of Revenue
Division of Taxation

2008 Amendment (cont...)

- Processing Fee Due Date:
  - May 15, 2008 – 2.25% of the qualified rehabilitation expenditures
  - March 5, 2009 – remaining balance of processing fee due (payments made after March 5, 2009 shall accrue interest as set forth in §44-1-7)
  - Projects failing to pay the 2.25% processing fee by May 15, 2008 were disqualified from the program
  - Upon receipt of the fees due on May 15, 2008, the Division of Taxation entered into a contract, on behalf of the State of Rhode Island, guaranteeing the tax credits to the project

Department of Revenue
Division of Taxation

2008 Amendment (cont…)

- In 2008, 84 Projects paid the processing fee to remain in the Historic Tax Credit Program
- Since 2008, 23 Projects elected to abandon the project and were issued a refund of their processing fee

Department of Revenue
Division of Taxation

2008 Amendment (cont…)

- The General Assembly authorized the State to borrow up to $356.2 mil ($299.9 mil for all credits) to guarantee all obligations incurred under the contracts. The funds are deposited in the historic preservation tax credit fund and used to reimburse the state for lost revenue
- Projects approved under this program must obtain substantial construction by May 15, 2013 to qualify. Substantial Construction means the owner has expended ten percent (10%) or more of its qualified rehabilitation expenditures, estimated in the contract entered into with the Division of Taxation for the project or its first phase of a phased project. Projects that fail to meet substantial construction were deemed abandoned and disqualified under the program

Department of Revenue
Division of Taxation

2013 Historic Tax Credit Program

- General Assembly authorized the Division of Taxation to reissue any abandoned tax credits. Total credits for the 2008 and 2013 programs cannot exceed $299.9 mil plus any processing fees collected under the 2013 program
- Credit amount:
  - 20.0% of the qualified rehabilitation expenditures; or
  - 25.0% of the qualified rehabilitation expenditures provided that either:
    - At least twenty-five percent (25%) of the total rentable area of the certified historic structure will be made available for a trade or business; or
    - The entire rentable area located on the first floor of the certified historic structure will be made available for a trade or business.
- Credit amount for any one project or phased project cannot exceed $5.0 million

Department of Revenue Division of Taxation

2013 Historic Tax Credit Program (cont…)

- Processing fee is equal to 3.0% of the qualified rehabilitation expenditures. The fee is payable prior to signing the contract with the Division of Taxation and is non-refundable
- Credits may be transferred or assigned to other individuals or entities. Credits may be allocated to partners, members or owners that are exempt from taxation under section 501(c)(3), section (c)(4) or section 501(c)(6) of the U.S. Code and these partners, members or owners must be treated as taxpayers for purposes of this section. Credits allowed to partners, members or owners that are exempt from taxation under section 501(c)(3), section 501(c)(4) or section 501(c)(6) of the U.S. Code, and only said credits, shall be fully refundable.

Department of Revenue
Division of Taxation

2013 Historic Tax Credit Program (cont…)

- New Provisions in 2013 Program:
  - Must commence substantial construction within 12 months
  - Cannot remain idle for more than six months
  - Apprenticeship requirements: A project with hard construction costs at $10.0 mil or more shall have an apprenticeship program for all contractors and subcontractors
  - Enhanced reporting requirements for each project and the Division of Taxation (§44-33.6-9)
- Sunset - No credits shall be authorized to be reserved pursuant to this chapter on or after June 30, 2016 or upon the exhaustion of the maximum aggregate credits, whichever comes first

Department of Revenue
Division of Taxation

Historical Data – Project Completion Date Compared to Tax Credit Usage

CY	Assigned Amount	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	Unused Amount
12/31/2002	4,009,053	63,718	619,044	2,987,264	150,976	27,878	5,842	3,396	-	-	-	-	-	-	150,935
12/31/2003	16,405,127	-	5,937,230	8,587,964	809,077	319,094	63,813	119,179	13,546	37,125	10,671	4,254	-		503,174
12/31/2004	33,491,701	-	-	9,489,908	22,127,759	607,291	263,911	492,448	37,092	47,276	15,223	8,633	8,264	436	393,458
12/31/2005	66,254,680	-	-	155,000	20,780,745	34,654,920	6,390,909	2,222,645	510,039	419,749	129,667	75,501	25,670	8,316	881,519
12/31/2006	40,088,489	-	-	-	10,000	7,899,175	24,738,788	2,606,745	239,638	78,724	153,275	3,623,983	-	1,069	737,092
12/31/2007	67,553,706	-	-	-	-	-	8,565,475	46,100,204	5,671,795	1,584,921	378,546	2,122,576	124,875	332,119	2,673,196
12/31/2008	30,409,212	-	-	-	-	-	-	8,171,202	19,332,386	1,832,090	272,206	144,508	55,913	78,893	522,013
12/31/2009	26,833,621	-	-	-	-	-	-	-	20,631,780	4,380,282	859,576	398,999	78,395	12,145	472,444
12/31/2010	8,003,127	-	-	-	-	-	-	-	-	5,809,475	1,669,412	93,952	326,509	-	103,780
12/31/2011	7,801,145	-	-	-	-	-	-	-	-	-	3,069,576	2,509,361	1,534,844	547,592	139,773
12/31/2012	7,418,579											12,793	5,441,485	272,142	1,692,159
12/31/2013	4,671,066												21,504	23,496	4,626,066
12/31/2014	1,672,896													-	1,672,896
	314,612,402	63,718	6,556,273	21,220,136	43,878,557	43,508,358	40,028,739	59,715,819	46,436,275	14,189,642	6,558,152	8,994,560	7,617,458	1,276,208	14,568,505

Department of Revenue
Division of Taxation

Historical Data – Credit Usage By Tax Type

Tax Type	Amount Assigned	Amount Used	Amount Unused
Income	219,894,658	213,721,002	6,173,657
Corporate	9,430,602	8,075,364	1,355,239
Financial	15,741,573	15,724,104	17,469
Insurance	34,309,747	29,501,727	4,808,020
Insurance - HMO	33,442,389	33,021,701	420,688
Unassigned	1,793,432	-	1,793,432
	314,612,402	300,043,897	14,568,505

Department of Revenue
Division of Taxation

Historical Data – 2013 Tax Credit Program

- Total Projects Applied:
  - 80 for $99,516,094
  - 18 for $17,294,055 withdrew from program
- Projects that have entered into Contracts:
  - 25 for $28,168,514
- Project in qualification process:
  - 10 for $16,854,200
- Projects still in queue:
  - 27 for $33,272,112

Questions?

Rhode Island State Historic Tax Credit

Local and National Impact Analysis

HR&A Analyze. Advise. Act.

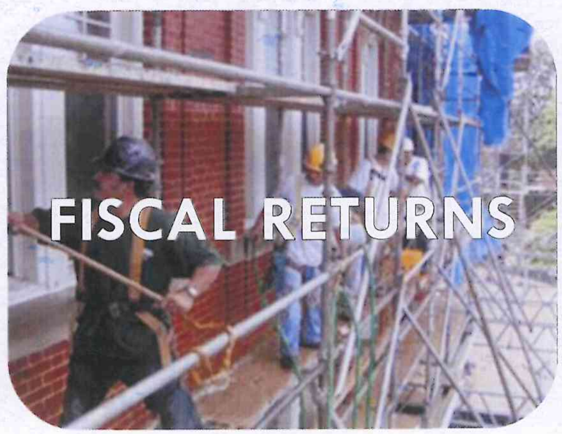
February 6, 2014



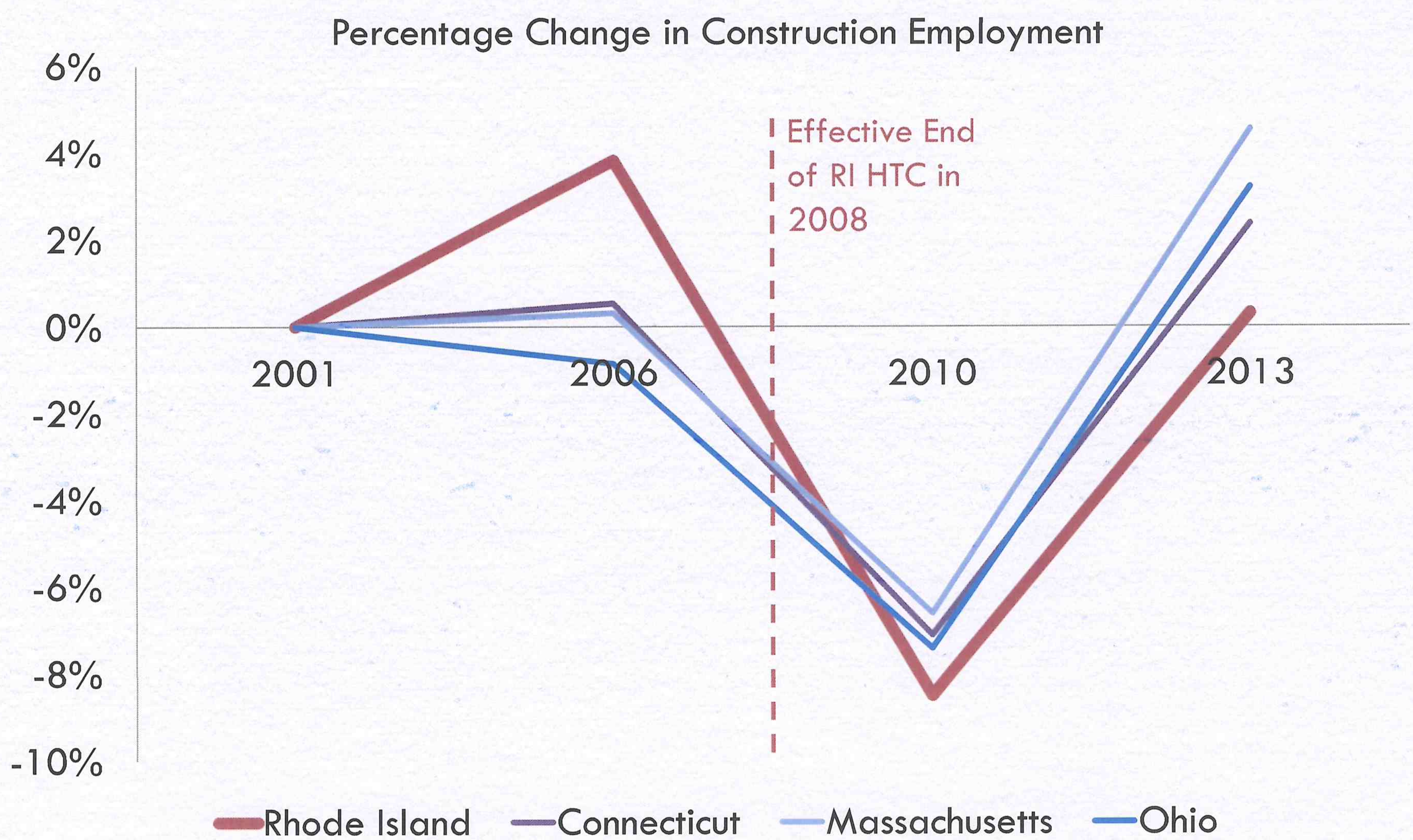
HR&A Advisors Inc. (HR&A) works at the intersection of public and private sectors to provide strategic advisory services for some of the most complex development projects around the world. We understand the importance of linking accretive private investment with public resources to support investors and communities' responsibilities and aspirations.



State Historic Tax Credit (HTC) programs provide significant and well-documented economic benefits to states across the country.



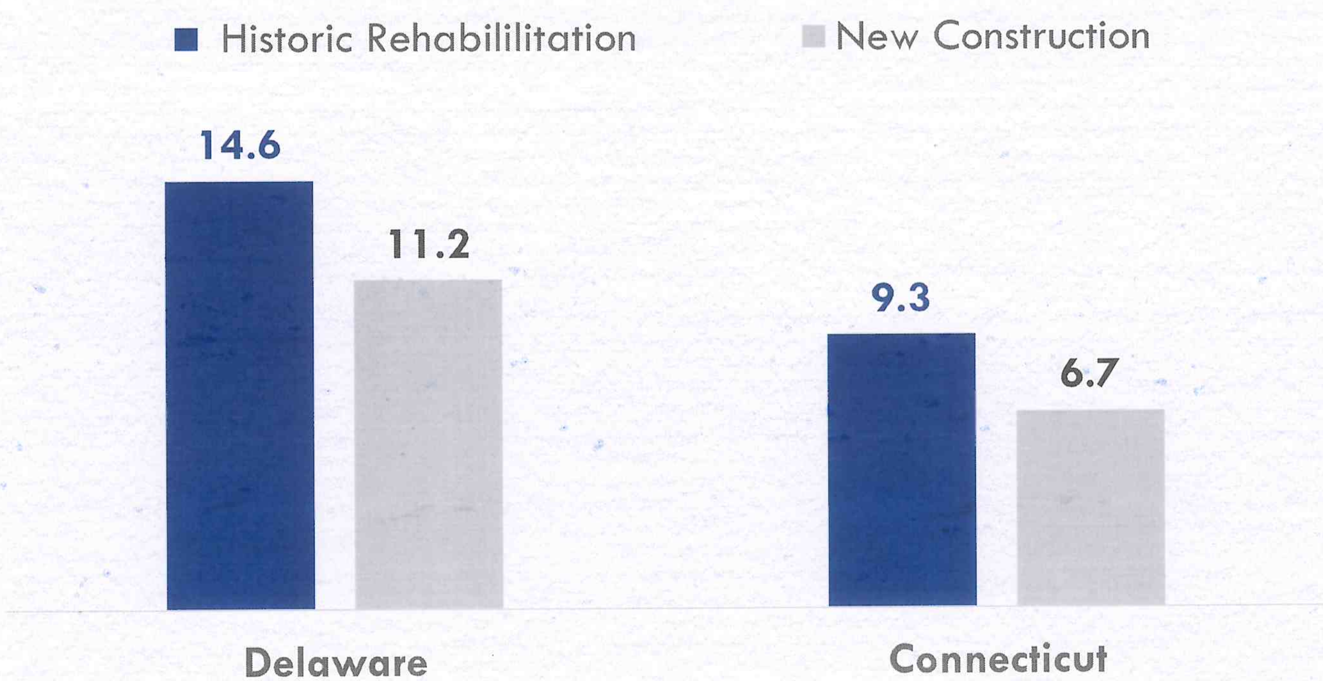
Rhode Island's construction trade was hit harder by and recovered more slowly from the Recession vs. comparable states with HTC benefits.



Source: Bureau of Labor Statistics

Historic rehabilitation is more labor intensive than new construction, generating more jobs and salary for people who live and work in RI.

Jobs Created per $1 Million of Project Costs
(Equivalent to $200K-$250K in State credits)



Sources: Delaware Historic Tax Credit Program Economic Impact Study, Investing in Connecticut: The Economic Benefits of Historic Preservation

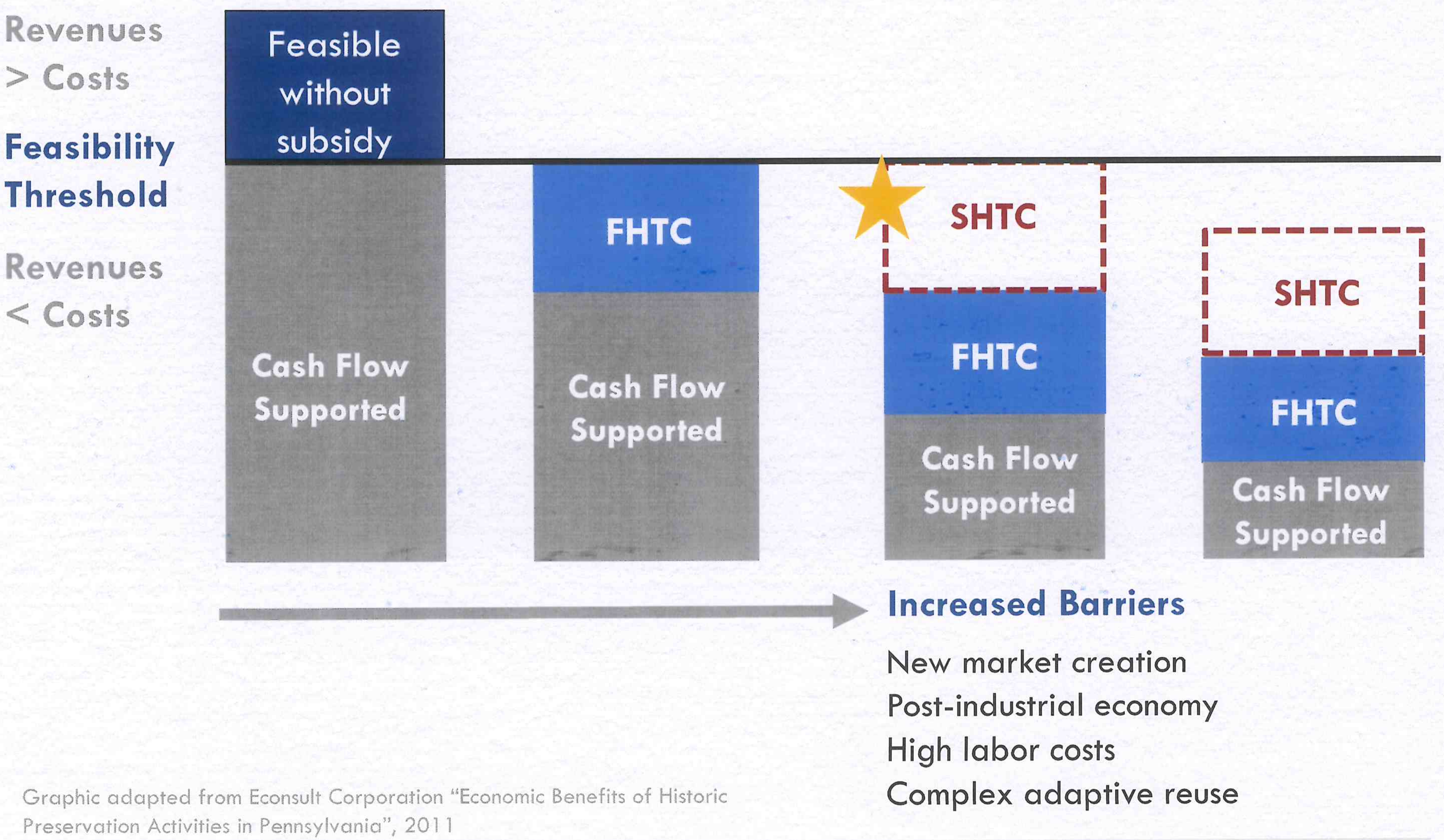
Historic rehabilitation is more labor intensive than new construction, generating more jobs and salary for people who live and work in RI.

Every $1 million in output from historic rehab projects results in:

Delaware		Connecticut
$540,000	In household income	$830,000
12.5%	More income than new construction	14.2%

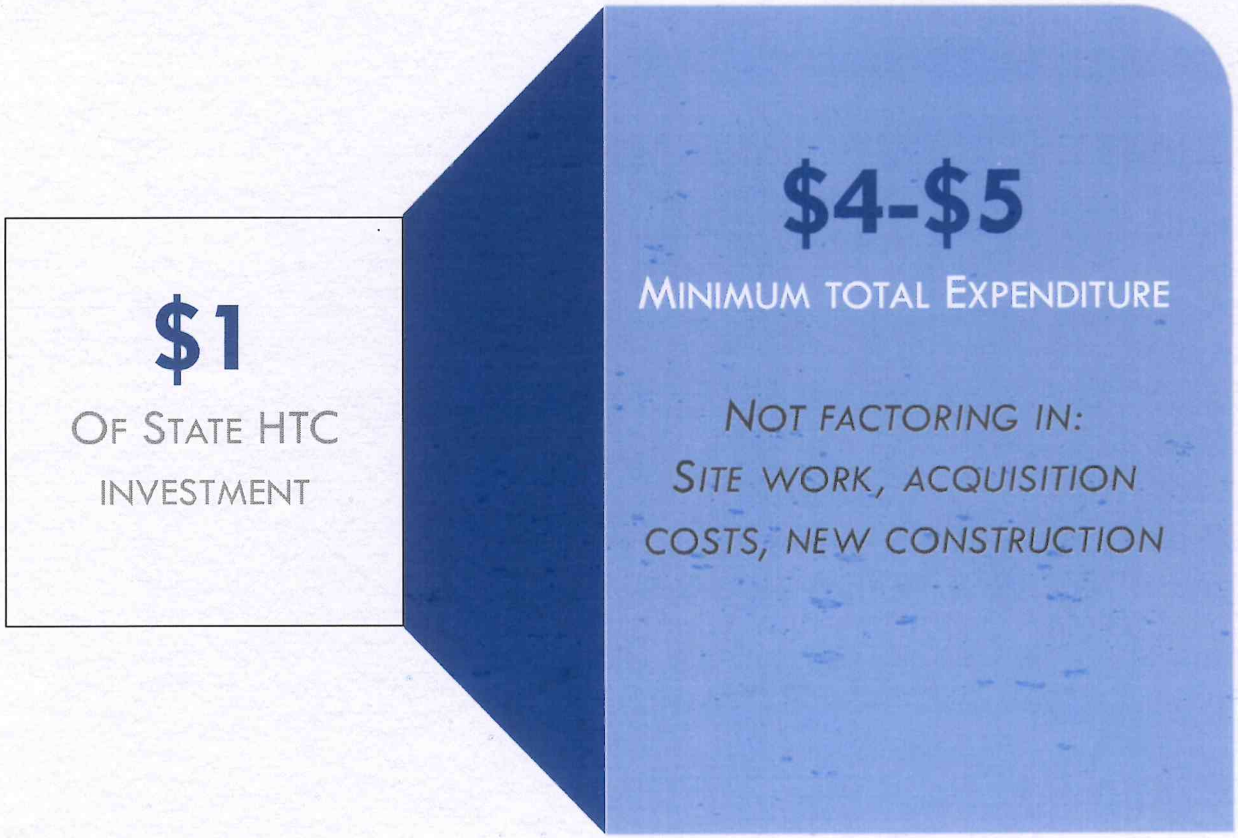
Sources: Delaware Historic Tax Credit Program Economic Impact Study, Investing in Connecticut: The Economic Benefits of Historic Preservation

State HTC programs make projects feasible that would not be financeable with the federal subsidy alone.



Graphic adapted from Econsult Corporation "Economic Benefits of Historic Preservation Activities in Pennsylvania", 2011

State HTC investments yield a significant multiplier for private investment, often well beyond spending requirements for program participation.



Source: HR&A analysis

State HTC programs substantially increase the number of federally subsidized historic rehabilitation projects within the state.

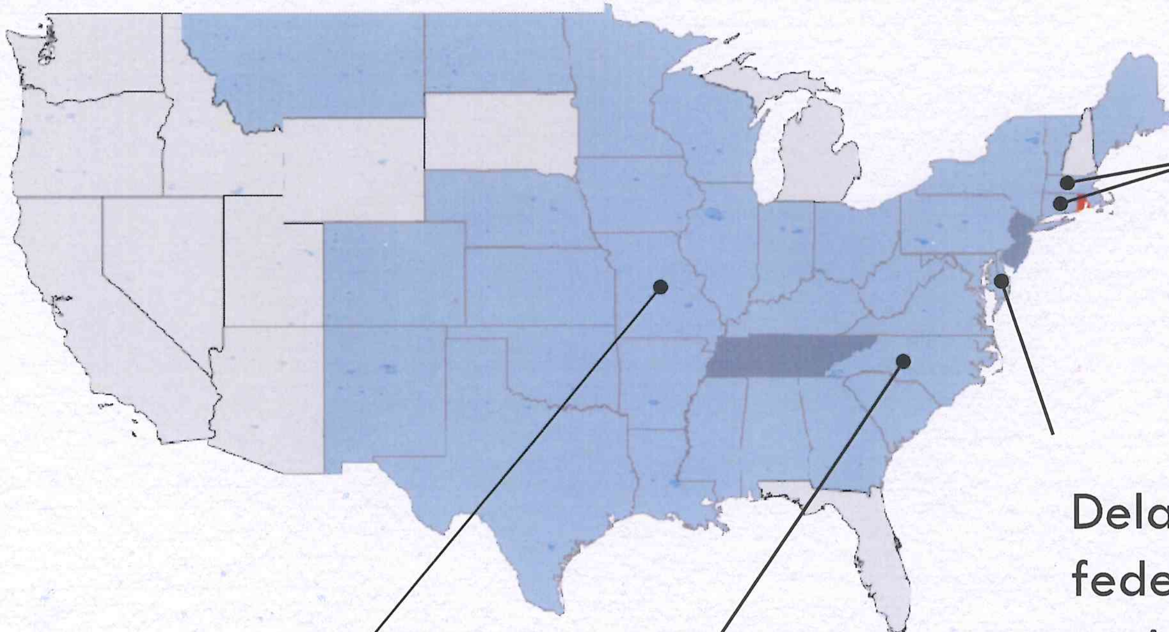
States with HTC programs have brought in **$3 to $7 million more** in federal HTC investment than states without HTC programs on average.

From 1993 to 2004, the introduction of state HTC programs contributed to a **125% increase** in the number of federal HTC projects nationwide.

By **2010, 47%** of total federal HTC projects also used state HTC compared to **30% in 2004**.

Source:
Leveraging Federal Economic Development with State Rehab Tax Credits by Jeffrey Oakman and Marvin Ward, Washington, DC Office of Revenue Analysis, 2012
Federal Tax Incentives for Rehabilitating Historic Buildings Annual Report for Fiscal Year 2004, National Park Service, U.S. Department of the Interior, February 2005

While the federal HTC began in 1976, states saw dramatic growth in federal HTC awards after enacting state HTC programs.



Massachusetts' and Connecticut's federal HTC $ awards per year both increased by over **2.5 times.**

Delaware's federal HTC projects increased over **4 times.**

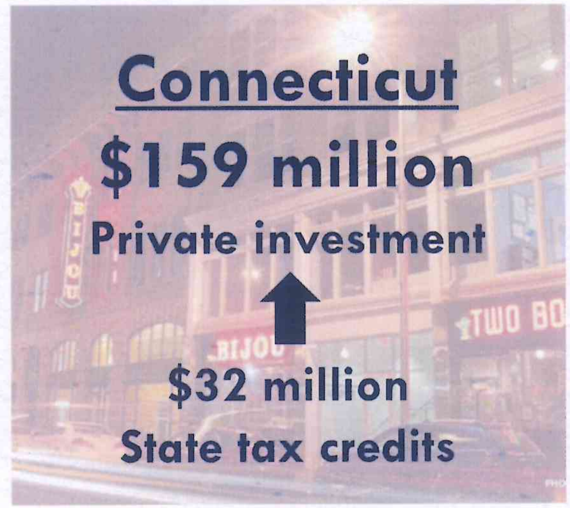
Missouri's number of federal HTC projects **doubled.**

North Carolina federal HTC $ awards per year increased by over **7 times.**

Rhode Island
Active SHTC
Proposed SHTC
No SHTC

*Increases measured by pre and post SHTC enactment in various state impact studies. Time periods vary.

Economic studies in other states have found that every $ of state HTC investment leverages between $3-$5 of private investment.



Source: Delaware, Missouri, Connecticut, Massachusetts state historic tax credit economic impact studies

States gain tax revenue from rehabilitation activities *before* incurring any costs, as HTCs are claimed only *after* the project is delivered.

Construction Period Fiscal Returns

$55.0 million
Direct tax revenue
In North Carolina
31%
Of State HTC investment

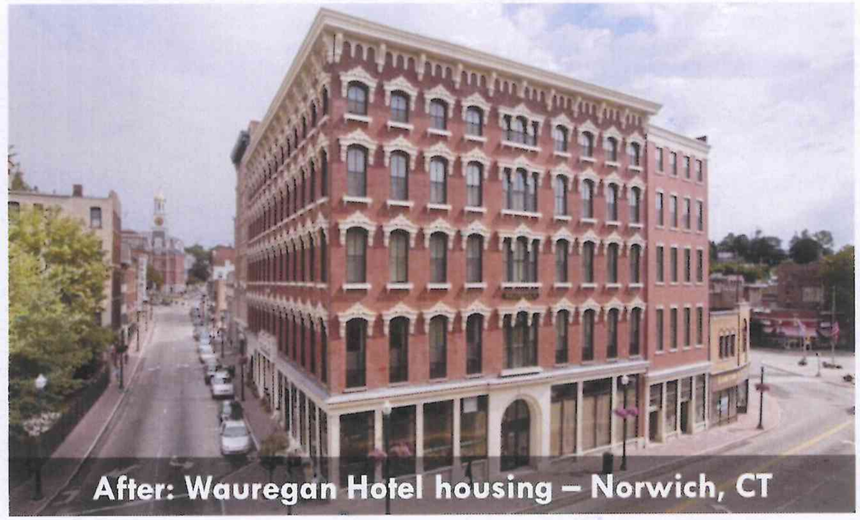
$83.7 million
Direct tax revenue
In Maryland
39%
Of State HTC investment

$9.9 million
Direct tax revenue
In Connecticut
30%
Of State HTC investment

Sources: The Abell Report, "Heritage Tax Credits: Maryland's Own Stimulus to Renovate Buildings for Productive Use and Create Jobs….."; Preservation North Carolina; Investing in Connecticut Economic Impact Study

While states book HTCs as budget expenses, in the long run, HTCs create net revenue gains by transforming urban blight into taxable assets.

Before: Damage by neglect and fire



After: Wauregan Hotel housing – Norwich, CT

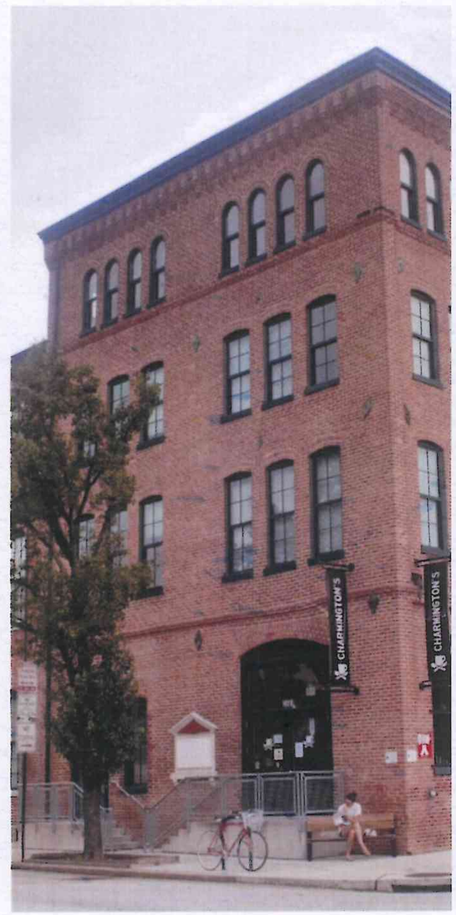
- Massachusetts: **$1.21 in fiscal returns per dollar invested**
  - Comparatively, the federal HTC program returns $1.26 in tax revenue per federal dollar invested historic tax credits
- Maine reported a ***net revenue gain* of $1.5M** two years after enacting its program.
- Within a **nine year period**, Missouri issued $832.5 million of tax credits and **recouped 80% of this cost in tax revenue,** from increased sales/use and income taxes.

Source: Urban land Institute Boston, "State Historic Tax Credit - Cost / Benefit Analysis," 2012.; Maine Preservation; Missouri Growth Association

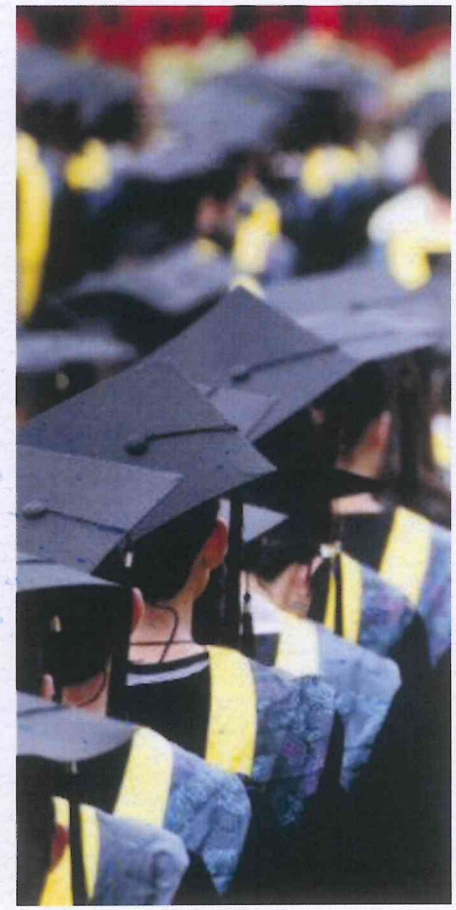
Historic preservation creates amenities that attract young creative types and start-up companies that prefer occupying historic buildings.

Tourism/Arts & Culture Districts

Character-rich Communities



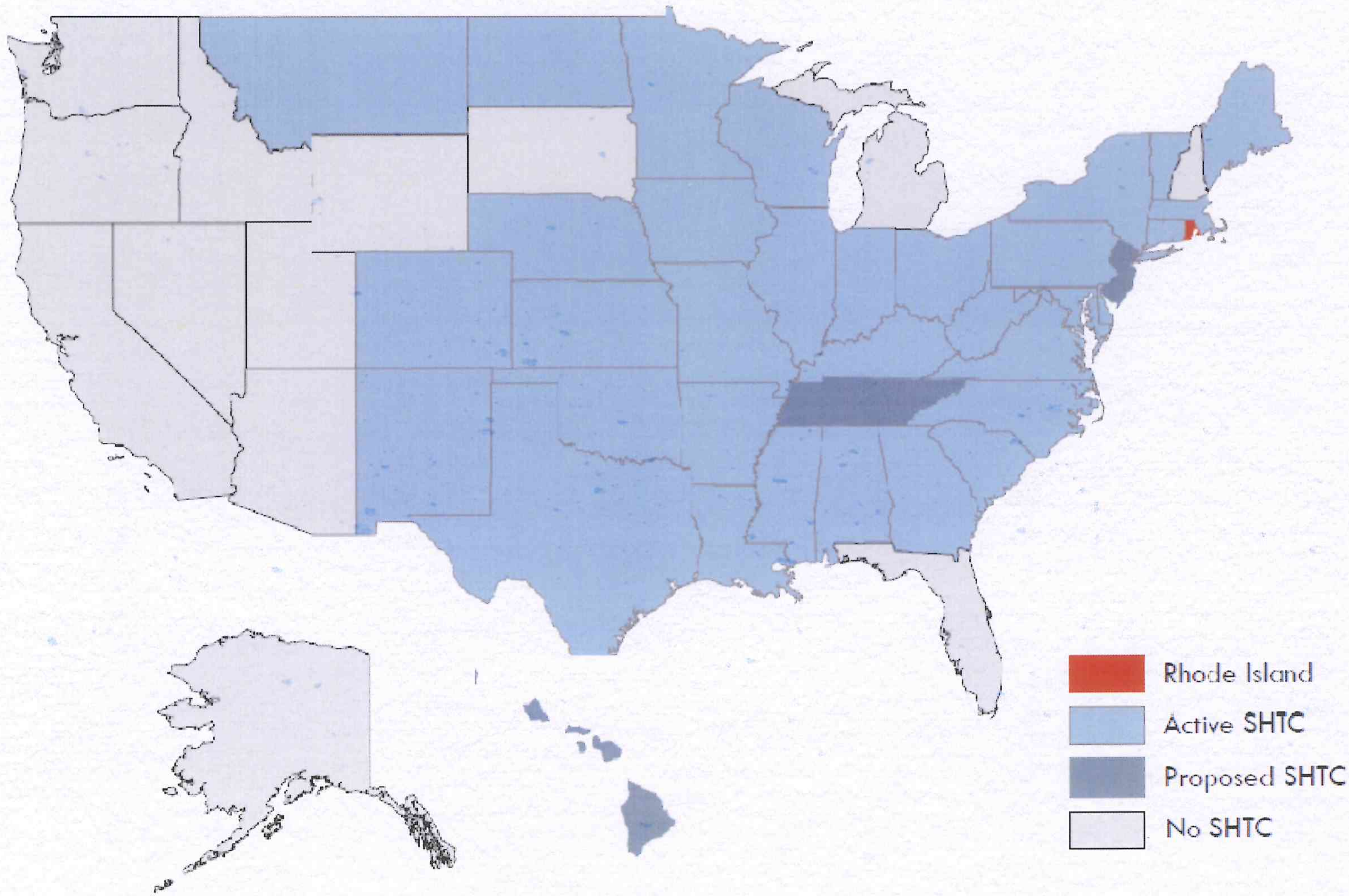
Creative Jobs & Start-up Space



College Grad Retention

Rhode Island and the
State Historic Tax Credit Program

34 states have active state HTC programs that enable them to compete with the Ocean State for private and federal investment.



*Some programs set to begin over the next two years, Utah was not included because it only has a homeowner's tax credit

Since Rhode Island first enacted its HTC program in 2001, changes to the program have impacted its effectiveness.

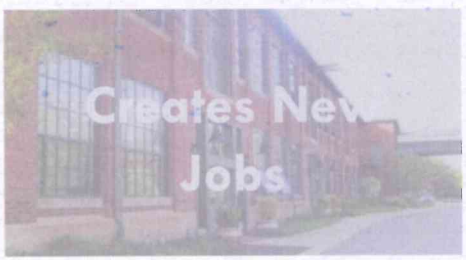
- Between 2002-2006 the program incentivized **increased rehabilitation activity.**
- After cancellation in 2008 and the subsequent reinstatement in 2013, the $34.5 million budgetary allotment was **immediately oversubscribed**.
- Funding for the Rhode Island HTC program has not been renewed, **hindering valuable developments** from occurring in the Ocean State.
- Future challenges to development activity include:
  - **Uncertainty** of future funding availability
  - **Competition** from neighboring states
  - **High application fees**

Source: National Trust for Historic Places

Rhode Island's 2007 HTC impact report demonstrated that the state's HTC program produced widespread economic returns.

From 2002-2006, the program attracted **$535M of private investment**

Rhode Island's 2007 HTC impact report demonstrated that the state's HTC program produced widespread economic returns.



From 2002-2006, the program attracted **$535M of private investment**

Every dollar Rhode Island invests in historic tax credits generates **$5.35 in total state economic output**

Rhode Island's 2007 HTC impact report demonstrated that the state's HTC program produced widespread economic returns.

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The program created **6,185 total jobs** between 2002 and 2006

Rhode Island's 2007 HTC impact report demonstrated that the state's HTC program produced widespread economic returns.

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Every dollar Rhode Island invests in historic tax credits generates **$5.35 in total state economic output**

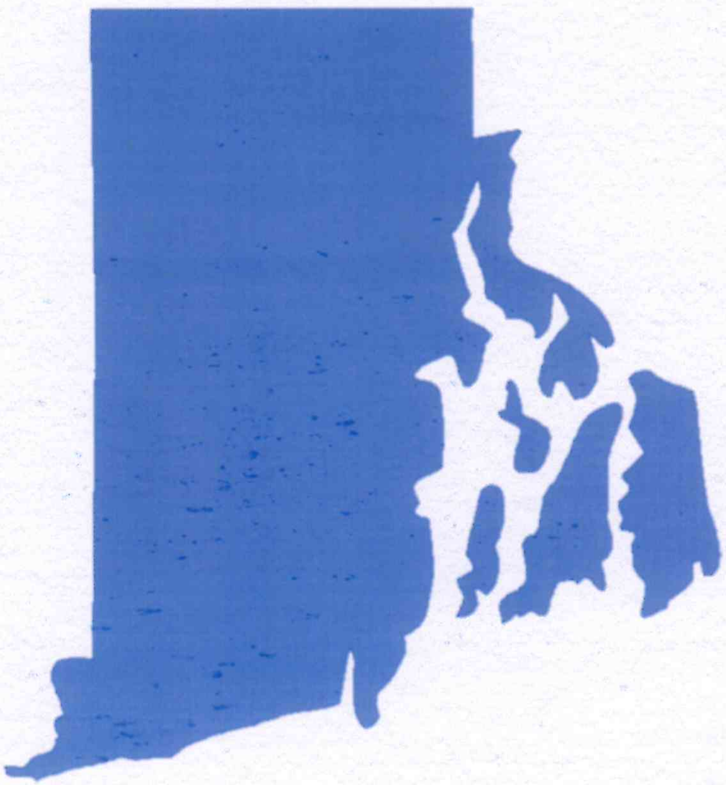
The program created **6,185 total jobs** between 2002 and 2006

Federal historic tax credit funds flowing to Rhode Island increased by **over 700% between 2002 and 2006**

Many states have programs with funding structures that enable them to compete with Rhode Island for development activity.

FACTORS THAT AFFECT IMPACT:	Consistent annual allocations, 20-25% credits, high caps, low fees and easily transferrable credits
29 STATES HAVE CREDITS BETWEEN 20-25%	Massachusetts, New York and Delaware have the 20% credit. *17 states have the 25% credit* including Connecticut, Maine, Pennsylvania, Ohio, and Missouri
18 STATES HAVE UNLIMITED STATEWIDE CAPS	Including New York, Maine, and Colorado
16 STATES HAVE UNLIMITED PER PROJECT CAPS	Including Delaware, Massachusetts, and Missouri
10 STATES HAVE NO CAPS OF ANY KIND	Including Illinois, Virginia and Minnesota

At present, the state HTC's erratic funding weakens developer confidence and contributes to an unstable development climate in the state.



- The 2013 **$34.5 million budgetary allotment** was immediately oversubscribed with **$82.2 million worth of applications.**
- According to the Division of Taxation, as of January 2015, an additional 27 projects are on the waiting list, representing a **potential loss of over $133.2 million in direct construction activity**.

Rhode Island’s maximum fee is the highest of all the state programs at 3% of QREs; the majority of state programs have fees under $10k.

Top Fee States	Maximum Fees for Commercial Projects
Rhode Island	**$600,000**
Maryland	$450,000
Alabama	$200,000
Minnesota	$33,000
Iowa	$30,000
Texas	$18,000
Connecticut	$10,000
Ohio	$10,000
North Carolina	$7,750
Missouri	$6,500
Louisiana	$5,000
Nebraska	$5,000
New York	$5,000

- **The federal HTC fee is $6,500**
- **9 states have fees <$5,000**
- **12 states have no fees including Massachusetts and Maine**

Note: State HTC policies change on an annual basis for some states, the maximum fee was taken in instances of tiered fee structures

Conclusion: State HTC programs have demonstrated effectiveness as an economic development and job creation strategy.

- **Historic tax credit projects:**
  - Create greater employment opportunities
  - Catalyze revitalization of cities and towns
  - Generate significant new sources of revenue to the state from income, sales/use, property, and construction taxes

- **States typically recoup more than their costs from construction period and long term revenue gains.**

- **Together, state and federal historic tax credit programs incentivize higher rates of private investment.**

- **Effective programs provide developers with certainty of long term funding.**

Rhode Island State Historic Tax Credit

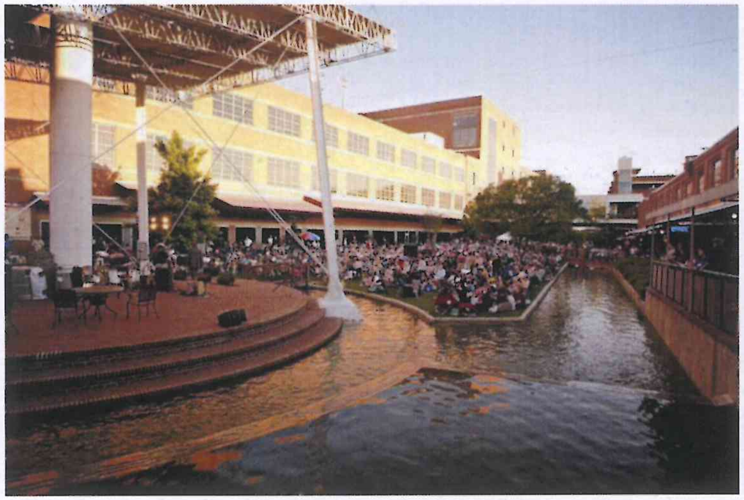
Local and National Impact Analysis

HR&A Analyze. Advise. Act.

February 6, 2014

DRAFT – For Discussion Purposes Only

American Tobacco Complex in Durham, NC



Total Investment: $261.2 million
NMTC: $103.7 million
SHTC (Historic Mill Credit): ~30% of QREs

City and County of Durham special allocation: $36.4 million
Public Support: >50%
Completed: 2007

- *Remained vacant for decades*
- *Redeveloped for mixed residential, office and entertainment uses*
- *Enabled by public subsidy, the project is North Carolina's largest historic rehabilitation*
- *Catalyzed further redevelopment of the CBD and adjacent neighborhoods*

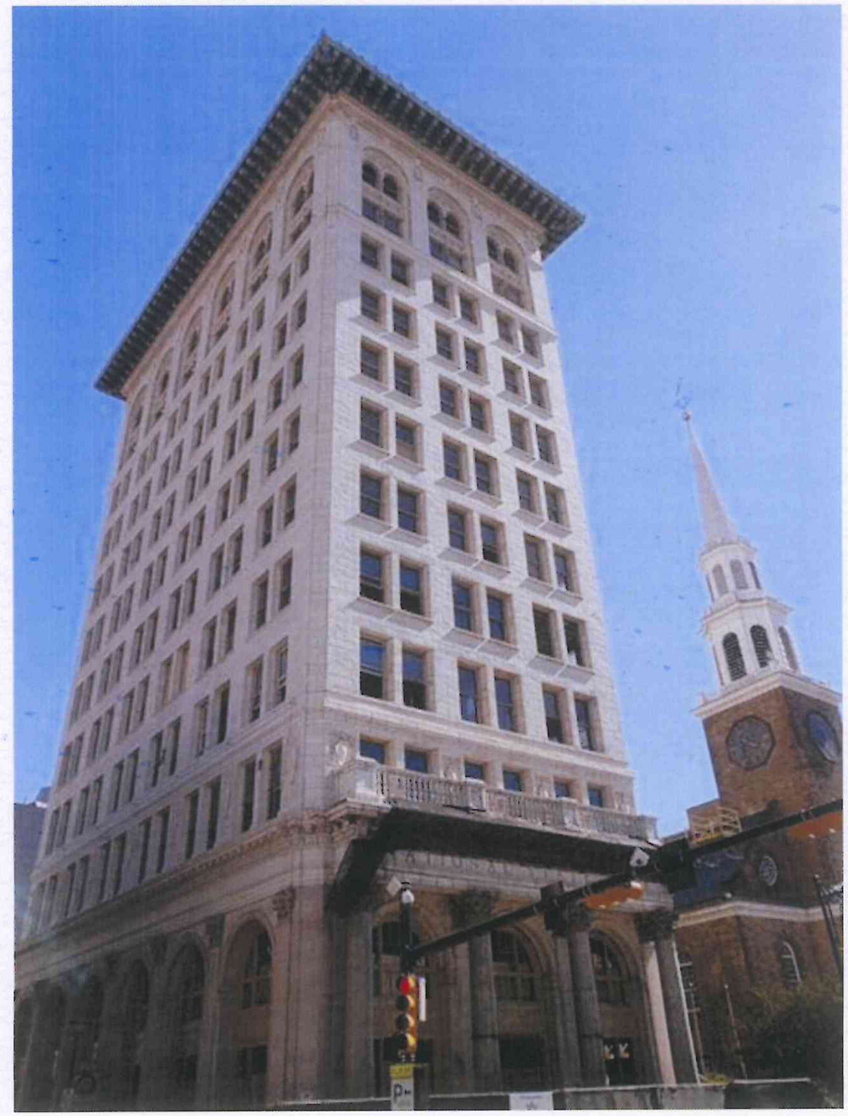
Source: New Markets Tax Credit Impacts: A Case Study in Durham,

The redevelopment of Newark's First National Bank building constituted one of the city's first new hotel developments in 40 years.

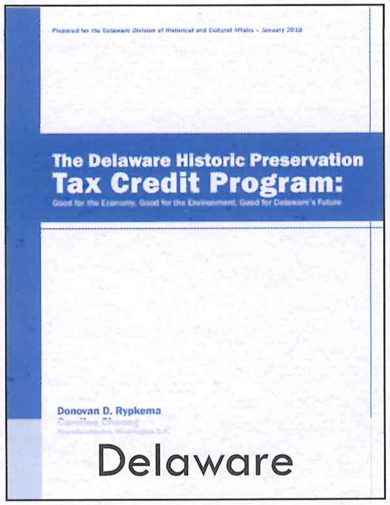
Hotel Indigo

Total Investment: $30 million
Rehabilitation investment: $22 million
FHTC: $3 million
NMTC: $10 million
Public Support: 45-50%
Completed: 2014

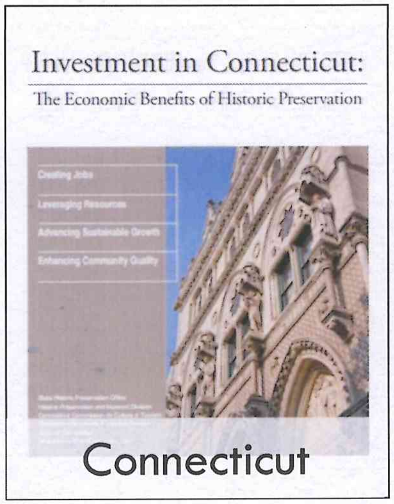
- **Provides 108 new hotel rooms**
- **Serves as one of several new hotel developments enhancing Newark's downtown and Ironbound districts**



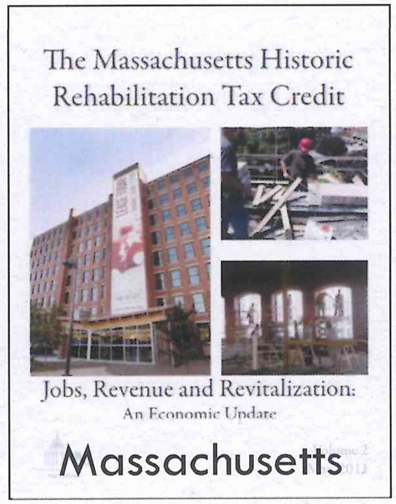
Economic impact reports from over 8 comparable states to R.I. revealed that the credit has created statewide benefits across the country.



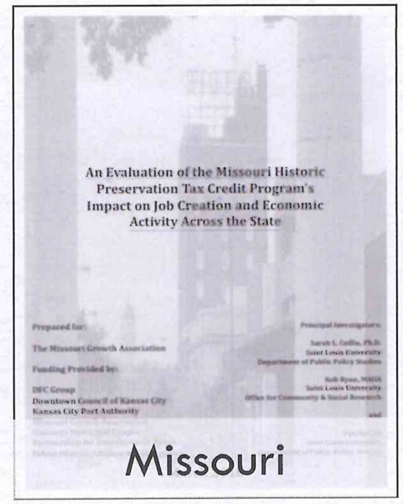
Delaware



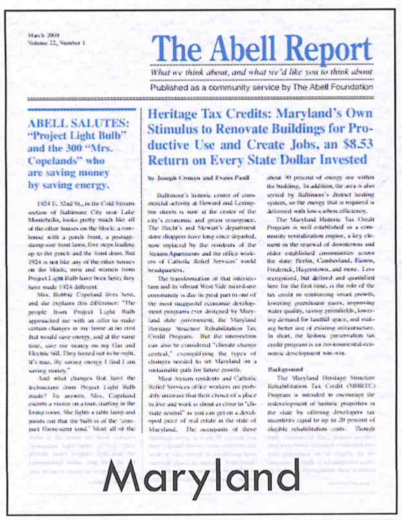
Connecticut



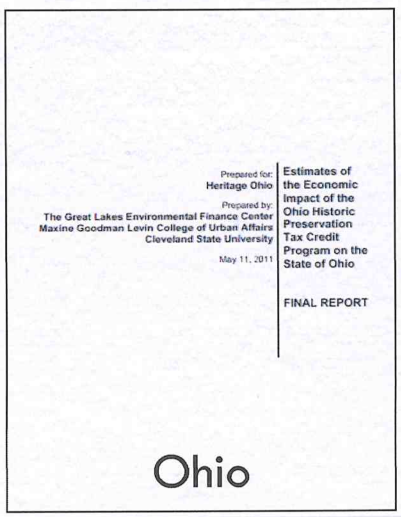
Massachusetts



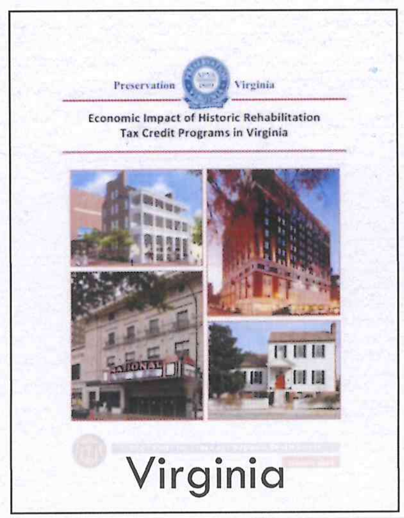
Missouri



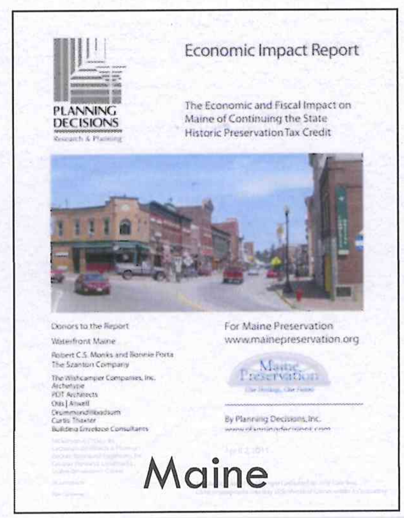
Maryland



Ohio

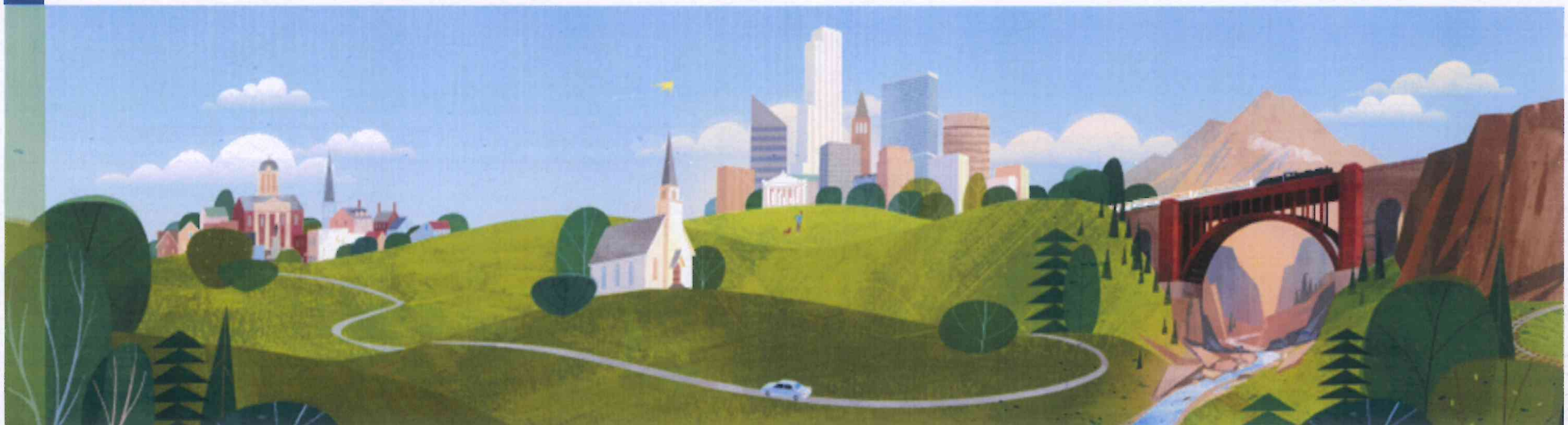


Virginia



Maine

National Trust *for* Historic Preservation

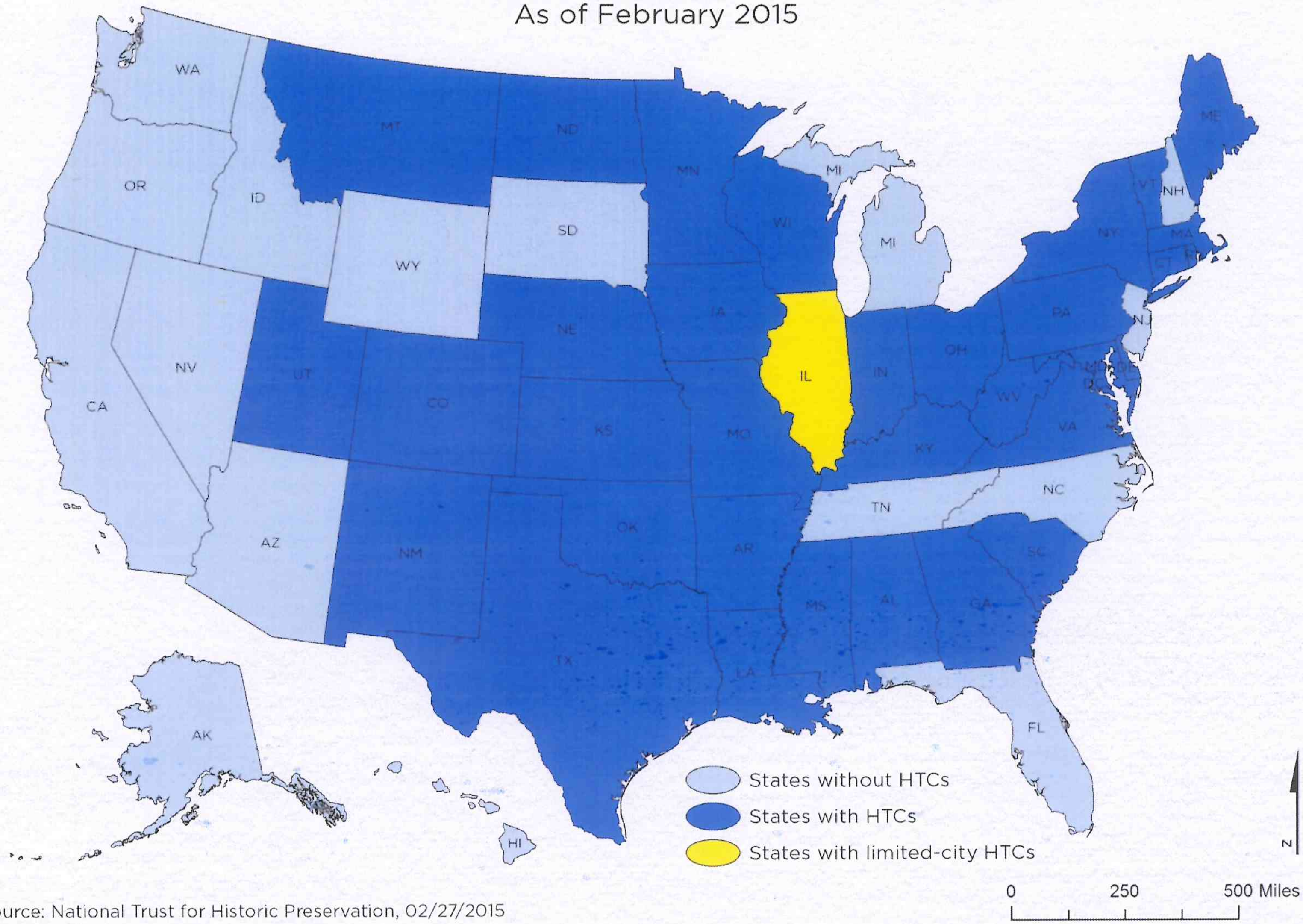


A National Perspective on State Historic Tax Credits

MARCH 11, 2015

State Historic Tax Credits (HTCs)

As of February 2015



Source: National Trust for Historic Preservation, 02/27/2015

http://www.preservationnation.org/statehtc

92% of Virginia developers said the tax credit was critical or important to their rehabilitation project.

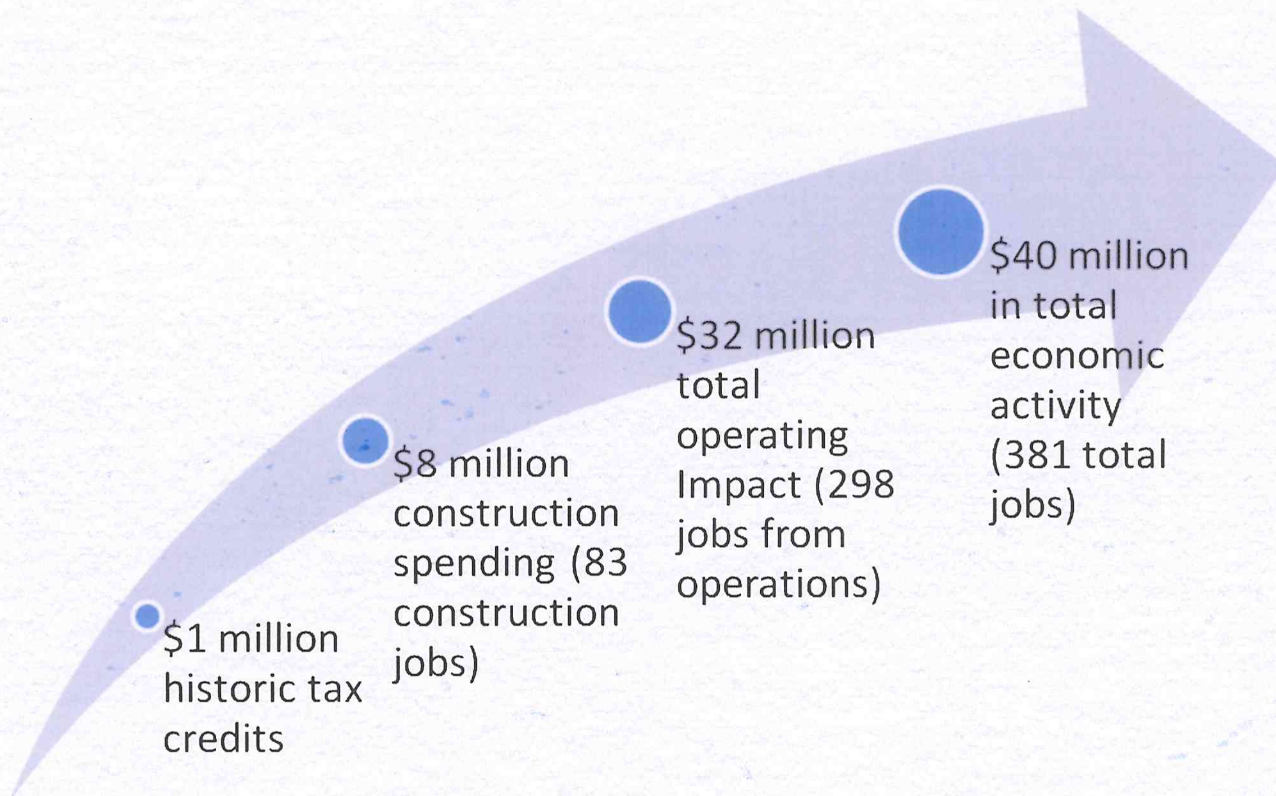
	CT	CT	DE	MA	ME	NY	PA	VT
% of QRE	25% for rental conversi on	25%	20%	20%	25%	20%	25%	25% façade; 50% code
Add-on		30% for housing	30% for housing	25% for housing	10% for housing			
Cap	$15M	$50M over 3 years	$5M	$50M			$3M	$1.5M
Per-Project	$2.7M	$5M			$5M	$5M	$500K	$25K; $50K
Transfer	Yes	Yes	Yes	Yes	Yes		Yes	Yes
Refund					Yes	Yes		

Q: One of the biggest differences?

A: Owner-Occupied Residential Properties

Help Where It's Needed the Most

Impact of $1M in Ohio Historic Tax Credits



Wisconsin's 2014 Story
$38.8M HTCs leveraged $234M investment

Leverages federal HTC on average between \$15 and \$35 million in certified expenditures annually.


JOBS
http://www.preservationnation.org/statehtc

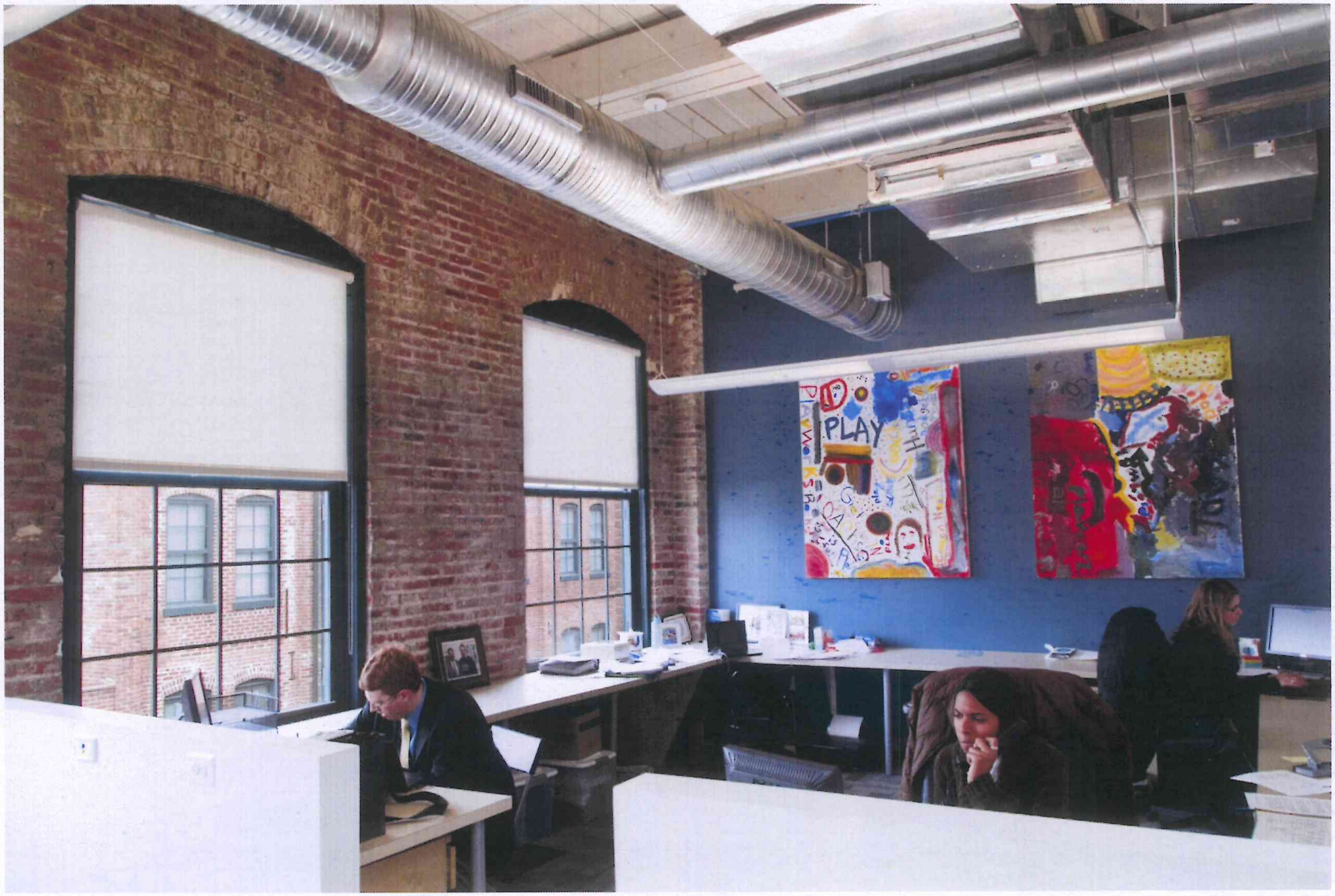
Puts Properties Back on the Tax Rolls

Increases Neighborhood Property Values

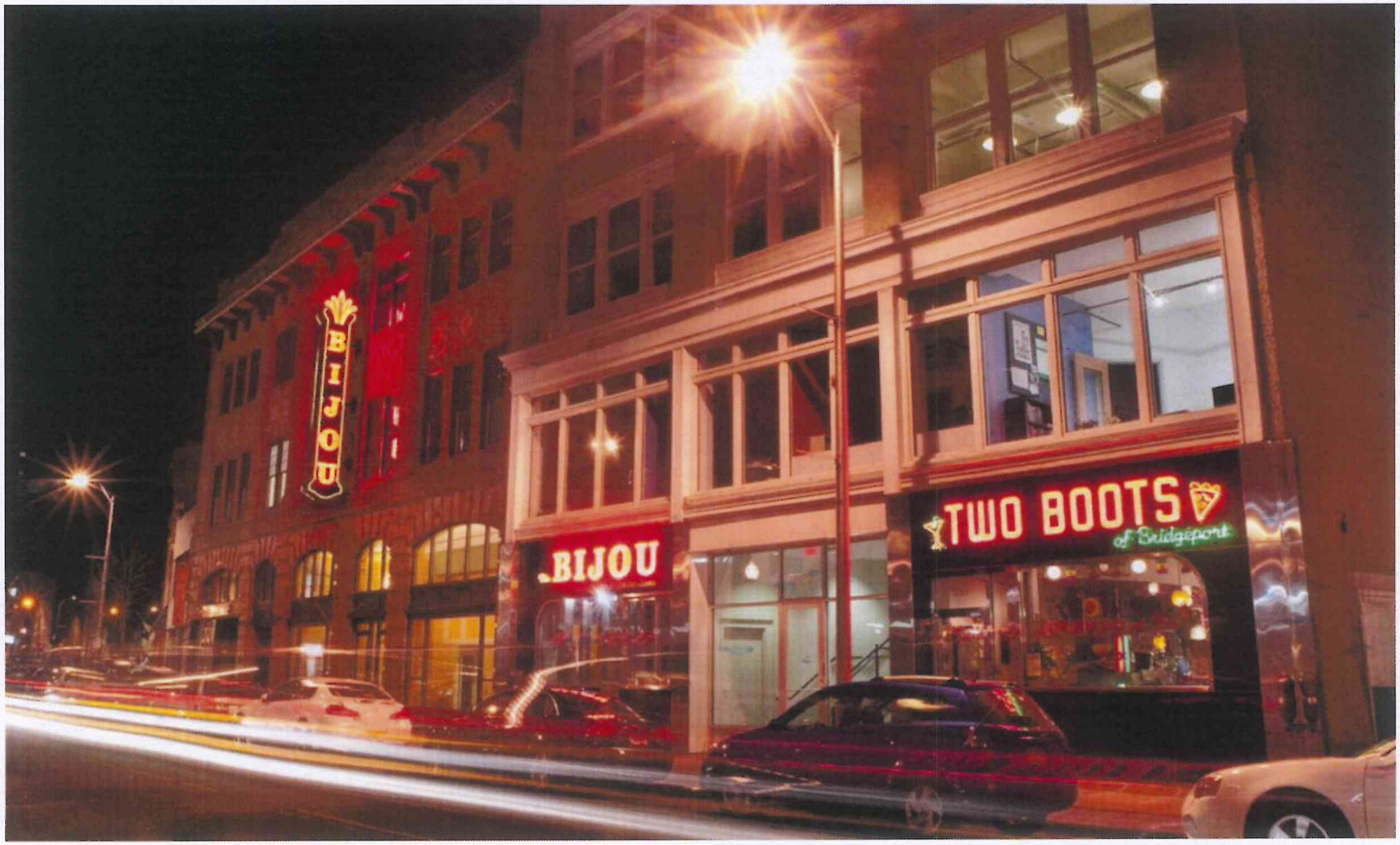
Pays Back ONE-THIRD of Cost During Construction Period BEFORE Credits are Issued

Getting the Numbers (%) Right

Capping Creates Uncertainty



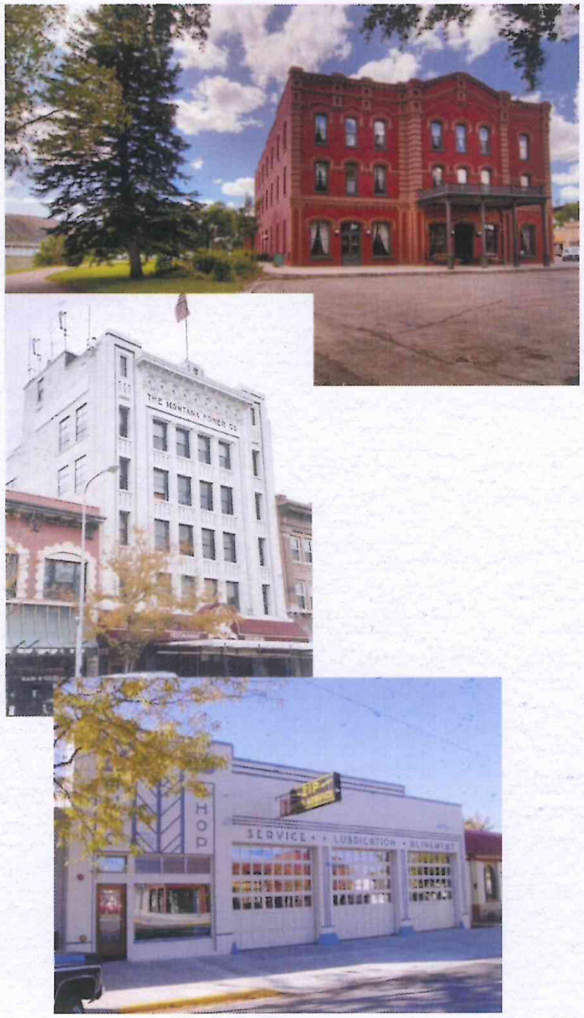
Getting Credits in Hands of Those with Tax Liability



Refundable Credits

State Experiments – NC, OR, OH

Contact Information



National Trust for Historic Preservation

State Historic Tax Credits

Renee Kuhlman

Tax Credits Specialist

Phone: 202-588-6234

rkuhlman@savingplaces.org

State Tax Credits for Historic Preservation

National Trust *for* Historic Preservation
Save the past. Enrich the future.™

A Policy Report Produced by the National Trust for Historic Preservation

Written by Harry K. Schwartz with assistance by Renee Kuhlman

Introduction

Today, thirty-four states in the country offer credits against state taxes to provide incentives for the appropriate rehabilitation of historic buildings. In most cases these tax credits take the form of the very successful federal income tax credit for historic rehabilitation contained in Section 47 of the Internal Revenue Code.

Although the tax credits vary from state to state, most programs include the following basic elements:

- Criteria establishing what 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 a certified rehabilitation.
- A minimum amount, or threshold, required to be invested in the rehabilitation.
- A mechanism for administering the program, generally involving the state historic preservation office and, in some cases, the state department of revenue or the state department of economic development.

Tax Reform and the Federal Credit

At this writing Congress is considering altering the Internal Revenue Code. Former Chairman of the House Ways and Means Committee, Dave Camp (MI-R) recommended repealing the historic tax credit in his Oct. 2014 draft proposal and the current Chairman Paul Ryan (WI-R) is formulating a tax reform proposal. Senate Finance Chairman Hatch (UT-R) has organized working groups to consider which parts of the code should remain.

The Federal Historic Rehabilitation Tax Credit is key to the effectiveness of virtually every state tax credit program. Without the federal 20% tax credit, state tax credits alone would be insufficient to provide an adequate incentive for the preservation of historic buildings.

There are of course exceptions: state tax credits that assist homeowners and developers of small commercial rehabilitation projects that do not claim the federal credit. But the bottom line is that for state tax credits to continue as useful tools for historic preservation, the federal credit must survive intact.

Why Do Some State Tax Credits Work Better Than Others?

Not all state tax credit programs are created equal. Some state programs have been extraordinarily productive in stimulating rehabilitation activity. Many others have produced mixed or minimal results.

What causes these programs to fall short? In general, two factors greatly influence the effectiveness of the state historic tax credits: a limit or cap on the amount of credit and a lack of transferability.

Annual Aggregate Caps

A well-thought-out and skillfully drafted tax incentive for historic preservation cannot achieve its objectives if the total amount of credits that can be awarded annually is subject to a statutory limit, particularly if the limit is fixed at a low figure. For example, Kentucky has a 20% credit for commercial buildings and a 30% credit for owner-occupied residences, but only a $5 million annual cap.

Even if the annual limit is relatively high, the very act of imposing a cap alters the nature of the program and can produce a perverse result, rewarding projects that do not require an incentive while excluding projects that cannot proceed without the state incentive.

Where demand for credits exceeds the amount permitted by law, applicants either must compete for credits or participate in a lottery or other arbitrary allocation system. Projects that truly require the state credit to be financially feasible have tended to be discouraged from participating because of the lack of certainty as to the outcome, the cost of preparing a competitive application that nonetheless may be unsuccessful, and the difficulties of keeping financing commitments in place during the evaluation process.

State Historic Tax Credits Increase Use of the Federal Historic Tax Credits

After examining all of the state historic tax credit programs to determine their impact on use of federal tax credits, researchers found that the presence of an active state tax credit program boosts the use of the federal credit on average between $15 and $35 million in certified expenditures.

That means the states with active tax credit programs are bringing in between $3 to $7 million federal dollars, which would not otherwise be available, to the state.

Leveraging Federal Economic Development with State Rehab Tax Credits by Jeffrey Oakman and Marvin Ward, Washington, DC Office of Revenue Analysis, 2012.

Individual Project Capping

Some states have sought to ease concerns about the costs of the credits to the state treasury by imposing caps on the dollar amount of credits that can be awarded to individual projects, while avoiding the pitfalls of annual aggregate caps. The effectiveness of the credits in providing incentives to developers is likely to be a function of how high the limit is set. Some states have experimented with project credits as high as $5 million per project (e.g., Connecticut and Maine).

However, given the present state of the economy, and in particular the difficulty in obtaining financing for construction projects, it is difficult to assess the effectiveness of the incentives provided by credits limited in this fashion. Clearly, however, limits as low as that allowed under Colorado law, which is presently set at $50,000, are inadequate to provide an incentive for the rehabilitation of large commercial buildings.

Transferability

A state tax credit has value only to the extent that the credit holder has sufficient liability for state taxes that the credit can be used to offset. Although state tax rates vary, they are far lower than federal income tax rates. As a consequence, an apparently valuable state tax credit may wind up in the hands of a party unable to use it. There are several remedies to solve this problem, but many state statutes do not provide for them.

What Makes a State Tax Credit Good?

Eligible Buildings

The scope of eligible buildings should include:

1. Buildings individually listed in the National Register of Historic Places,
2. Buildings located in historic districts listed in the National Register that contribute to the historic character of the district or in districts certified as eligible for listing,
3. Individual buildings that have been locally designated as landmarks, and
4. Buildings located in local historic districts that contribute to the historic character of the district.

Standards for Rehabilitation

The state should adopt the Secretary of the Interior's Standards for Rehabilitation, as interpreted by the state historic preservation officer.

Availability for Homeowners

The credit should be available for owner-occupied residences as well as commercial property. This is particularly important because there is no federal credit for owner-occupied residences.

Appropriate Rates

The percentage rate of the credit should be fixed at a level high enough to constitute a meaningful incentive, typically in the range of 20 percent to 30 percent of qualified rehabilitation expenditures.

Rates that are significantly lower don't provide enough incentive to make a difference in a developer's decision to undertake a historic preservation project. As a negative example, Montana provides only a 5 percent tax credit for the rehabilitation of commercial structures when the federal 20 percent credit is used.

Transferability

As mentioned earlier, there needs to be a workable mechanism to put the credit in the hands of the party that can use it. States have solved this problem in one or more ways:

1. The tax code may permit the party that earns the credit to sell it outright to a third party with adequate tax liability to use it. For example, Kansas, Kentucky, Oklahoma, and Missouri permit the taxpayer to sell or convey the tax credits in this manner.
2. The code may permit a partnership that owns the property to make a disproportionate distribution of the credit, so that a local taxpayer can acquire the state tax credit while a national corporation not doing business in the state acquires the federal tax credit. Virginia, Kansas, and Delaware, for example, allow the credit to be passed through and allocated to partners or shareholders in this way.
3. The code may allow a tax credit not fully usable in the current year to be carried back to offset taxes previously paid for prior tax years. This provision appears to be unique among the states to Missouri and West Virginia, although it is a feature of the federal program.
4. The tax credit may be refundable, so that any amount not used to offset current-year taxes is paid in cash to the holder of the credit. Since homeowners earning credits are effectively precluded from using the more complex techniques for transferring credits, the most practical solutions for them are to allow the unused credit to be either refunded or sold outright. Maryland, Ohio, Iowa, and Louisiana provide a refundable tax credit, which is of particular value to lower-income homeowners.

The Federal Penalty

Unlike the federal tax credit, which is not taxed by the federal government, the state tax credit is always worth less than its face value after federal law is taken into account.

These hidden costs occur for one of two reasons:

1. State tax credit certificates, when transferred upon completion of the project, trigger a short-term capital gain to the seller. The rate on such gains can be as high as 43.4%.
2. A party that uses a state tax credit to reduce its state tax liability normally loses the ability to take a deduction for the state tax paid with the use of the state historic tax credit. Depending on the tax bracket of the party, the loss of the deduction can reduce the value of the state tax credit by up to 35% for corporations and up to 39.6% for individuals.

Annual Aggregate Caps

Although state legislatures and their fiscal analysts prefer to keep a tight grip on the award of tax credits, those states that have resisted capping have had an economic advantage in attracting capital for historic preservation.

Eligible Claimants

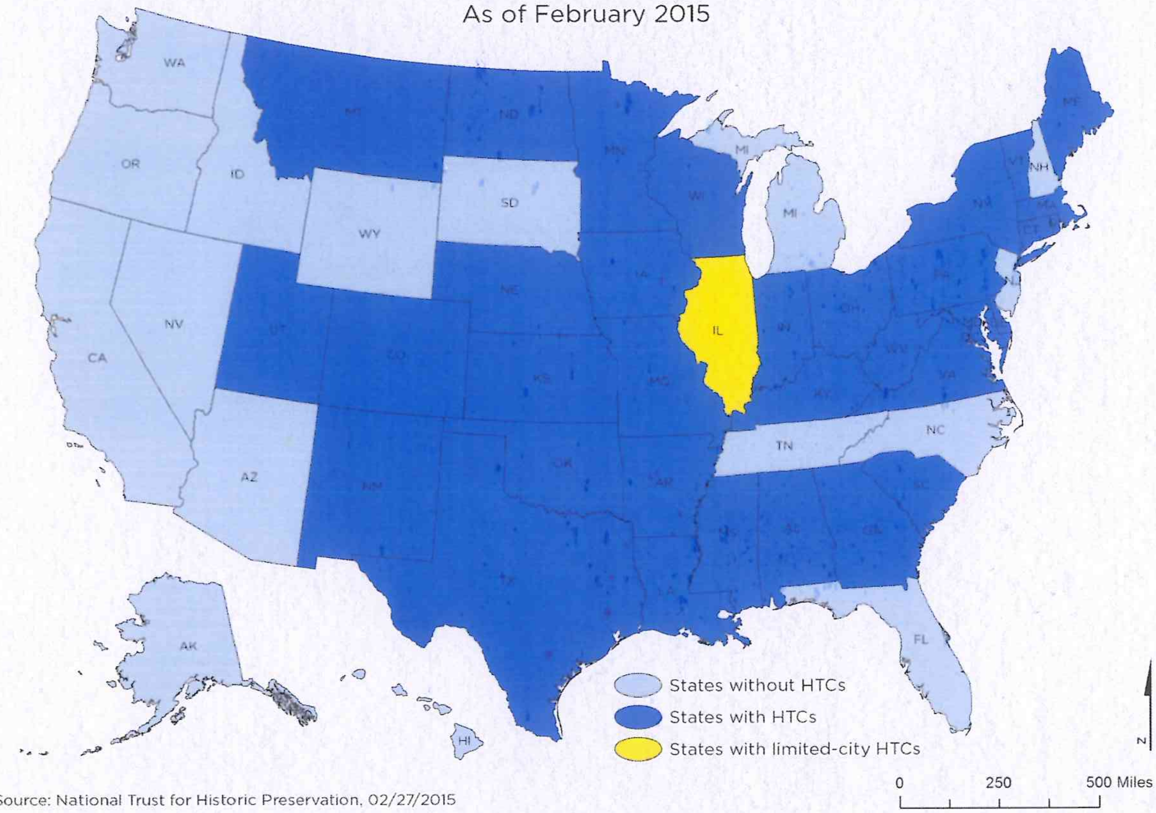
In a number of states entities such as insurance companies, banks and public utilities are not taxed under the state corporate income tax law, but are subject to tax laws that are specific to their industries. Where this is the case, provision should be made to permit the credits to be used under these laws, so as to enable sales of tax credits to these companies.

Geographic Distribution and Targeting

In order to make sure that the benefits of the credit are felt in all parts of the state, some states have experimented with geographical set-asides for rural areas, or limits on the percentage of the credits that can be claimed for metropolitan areas. Another approach would limit the use of the credit to areas of physical deterioration and economic distress. These techniques should be evaluated with care to make sure that the limitations do not interfere with achieving the goals of the state's historic rehabilitation program.

State Historic Tax Credits (HTCs)

As of February 2015



Source: National Trust for Historic Preservation, 02/27/2015

Important Definitions

Carry Back — the ability to apply current tax credits against state income taxes due in preceding years.

Carry Forward — the ability to apply current tax credits against taxes due in future years.

CLG (Certified Local Government) — a local government certified by the state historic preservation officer as having the capacity to administer preservation programs, including grants under the National Historic Preservation Act.

Disproportionate Allocation — a mechanism involving the use of pass-through entities by which a state tax credit can be allocated to a taxpayer within the state in which the project is located, while the federal tax credit for the same project is allocated to an out-of-state person or entity.

Freely Transferable — the ability to make an outright transfer or assignment of the tax credit to another person or entity.

Secretary of the Interior's Standard for Rehabilitation (DOI) — general standards adopted by the Department of the Interior governing the rehabilitation of historic buildings. Rehabilitation must be carried out in accordance with these standards to qualify for federal historic tax credits as well as for many state tax incentives or financing programs.

Recapture Period — period of time during which specified action, such as a change in ownership of the property, will trigger an obligation to pay back a ratable portion of the tax credit previously claimed.

Sunset Date — the date on which a statutory provision will expire.

Alabama	25% credit for owners and long-term qualified lessees of certified structures (including owner-occupied residential) and 10% for qualified pre-1936 non-historic structures. Annual program cap of $20 million for historic properties with a $5 million per-project cap for commercial properties and a $50,000 per-project cap for residential structures. Nonprofits eligible. Projects reserved first-come, first-served with lottery for applications received on same day. Project expenses must be certified by a CPA and projects with expenses exceeding $200,000 must be audited by a CPA. Applicants must submit an appraisal by a licensed real estate appraiser. Minimum investment: 50% of owner's original purchase price or $25,000, whichever is greater. Carry forward: 10 years. Transfer permitted by disproportionate allocation. Credits can be claimed starting on May 15, 2016.	Alabama Historical Commission 334-230-2643 http://preserveala.org/taxcredits.aspx?sm=i_b
Arkansas	25% credit for certified rehabilitation of eligible income and non-income producing properties. Annual program cap of $4 million in credits; per-project caps of $125,000 in credits for income-producing properties and $25,000 in credits for non-income producing properties. Min. expenditures: $25,000. Carry forward: 5 years. Freely transferable by either direct sale or disproportionate allocation among partners of a syndication partnership. Applications will be ranked in accordance with the following criteria: Creation of new business, expansion of existing business, tourism, business revitalization, and neighborhood revitalization, in that order. Sunset date: 2021.	Arkansas Historic Preservation Program 501-324-9880 www.arkansaspreservation.org/
Colorado	25% credit against individual and corporate taxes for first $2 million in Qualified Rehabilitation Expenses (QREs) and 20% on the remaining QREs for commercial properties. Credit goes to 30% in designated disaster area. Aggregate cap for FY2015 is $5 million, and $10 million thereafter. Per-project cap of $1 million in credits annually. 50% of credits to be awarded to projects with QREs less than $2 million; 50% of credits to go to projects with QREs of $2 million and above. Projects awarded on first-come, first-serve basis. Freely transferable by either direct sale or disproportionate allocation among partners of a syndication partnership. Nonprofits can use the credits. Program starts July 1, 2015 and sunsets 2019. 20% credit for homeowner properties. No aggregate statewide dollar cap, but per project cap of $50,000 per year. Minimum investment: $5,000. Carry forward: 10 years. DOI standards apply and work must be completed within 2 years of inception date of project.	Colorado Historical Society 303-866-3395 www.coloradohistory-oahp.org/programareas/itc/taxcredits.htm
Connecticut	25% credit for converting historic commercial, industrial, former government property, cultural building, institutional, or mixed residential and non-residential property to mixed residential and non-residential uses or non-residential use (including commercial, institutional, governmental or manufacturing use). Credit is increased to 30% if (a) at least 20% of units created are affordable rental units, or (b) at least 10% of units created are affordable homeownership units. Caps: $50 million over 3 years and $5 million per project. Carry forward: 5 years. Property must be listed individually on the national register or located in a district listed on the national or state register and certified as contributing. Freely transferable either by direct sale or disproportionate allocation among partners of a syndication partnership. (Section 10-416-b C.G.S.) 25% credit for converting commercial or industrial property for residential use only. Caps: $2.7 million per project and $15 million annual aggregate. Carry forward: 5 years. Freely transferable either by direct sale or disproportionate allocation among partners of a syndication partnership. Property must be listed individually on the national or state register or located in a district listed on the national or state register and certified as contributing. Minimum expenditure: 25% of assessed building value. Credit can offset income tax liability as well as taxes owed by insurance companies and utilities. Section 10-416a. 30% credit for eligible rehab of owner-occupied residence, including apartments up to 4 units. Eligible properties: National	Connecticut Historical Commission 860-566-3005 www.cultureandtourism.org/cct/taxonomy/taxonomy.asp?DLN=43543&cctNav=|43543

	and/or State Register of Historic Places, must be located in distressed areas. Cap: $30,000 per dwelling, $3 million annual aggregate. Recapture period: 5 years. Carry forward: 4 years. Minimum expenditure: $25,000. Credit can be used only to offset corporate taxes. Corporations may qualify either by purchasing tax credits or loan principal reduction. Effective July 2015, the minimum expenditure will be $15,000, projects will not be limited geographically while the cap will be $50,000 per dwelling for nonprofits. (Sec. 10-416 C.G.S.)	
Delaware	20% credit for income-producing properties and a 30% homeowner credit. A 10% bonus credit applies for both rental and owner-occupied projects that qualify as low-income housing. Carry forward: 10 years. Homeowner credit cannot exceed $20,000. Credits are freely transferable either by direct transfer or disproportionate allocation. Credits claimed in annual progress-based installments with phased projects. The maximum amount of credits in any fiscal year is $5 million of which $2 million is set aside for projects receiving under $300,000 in tax credits and $100,000 set aside for qualified resident curators. Sunset: 2020.	Delaware State Historic Preservation Office 302-739-5685 www.history.delaware.gov/preservation/default.shtml
Georgia	25% credit for certified historic properties, both owner-occupied residences and income-producing. Additional 5% credit for residence located in a HUD target area. Credit cap: $100,000 for an owner-occupied historic home, and $300,000 for income-producing buildings, including residential rentals. Carry forward: 10 years. Transfer permitted by disproportionate allocation, or if property is sold and no part of credit taken.	Georgia Historic Preservation Division 404-656-2840 www.gashpo.org
Illinois ** **** NOT a statewide program**	*25% credit for eligible expenditures on rehabilitation of properties eligible for the federal Historic Rehabilitation Tax Credit located in designated River Edge Redevelopment Zones approved by the state in portions of Aurora, East St. Louis, Elgin, Peoria and Rockford. Minimum investment: greater of $5,000 or 50% of the purchase price. DOI standards apply. Credits are transferrable by disproportionate allocation. No per project cap and no aggregate annual cap on dollar value of credits issuable.*	*Illinois Historic Preservation Agency* *217-557-0513* *www.illinoishistory.gov*
Indiana	20% of rehab costs up to $100,000 for qualifying commercial, rental housing, barns and farm buildings. Minimum investment $10,000. Per-project cap: $100,000. $450,000 annual statewide cap for commercial credits and $250,000 for owner-occupied residences. State register properties qualify. Carry forward: 15 years. Preapproval of work required. No fees. DOI standards apply. Owner-occupied residential: 20% of rehab costs. Costs must exceed $10,000. http://www.in.gov/legislative/ic/code/title6/ar3.1/ch16.pdf	Indiana Department of Natural Resources 317-232-1646 www.state.in.us/dnr/historic/2814.htm
Iowa	25% credit of qualified rehabilitation costs for eligible commercial properties, owner-occupied residential properties and barns. Annual cap: $45 million. Allocation of credits: 10% of credits for small projects under $750,000; 30% for projects located in Cultural and Entertainment Districts or the Great Places programs; 20% for disaster recovery projects; 20% for projects that create more than 500 permanent new jobs, and 20% for projects. No project cap. Fully refundable with interest, if appropriate, or any excess credit can be carried forward as an estimated payment to the next year. Minimum expenditure for commercial property: 50% of the assessed value of the commercial property, excluding the land or $50,000 whichever is less. Minimum expenditure for non-commercial properties: the lesser of $25,000 or 25% of the assessed value, excluding the land. The project shall begin before the end of the fiscal year in which the Part 2 application was approved. The project must be placed in service within 60 months of the Part 2 approval or within 72 months if more than 50% of the qualified rehabilitation costs are incurred within 60 months of the approval date. Credits in excess of min. established by Dept. of Revenue are fully transferable and all tax credits reserved for a fiscal year on and after July 1, 2012 may be transferred by disproportionate allocation.	State Historical Society of Iowa Historic Preservation and Cultural and Entertainment District Tax Credit Program 515-281-4137 www.iowahistory.org/historic-preservation/tax-incentives-for-rehabilitation/index.html Chapter 404A and regulations

Kansas	25% income tax credit for commercial and owner-occupied residential properties. 30% income tax credit for nonprofits. Annual cap of $3.75 million in credits claimed for FY2010. No per-project cap. Carry forward: 10 years. $5,000 minimum on qualified expenditures necessary. Credit freely transferable either by direct transfer or disproportionate allocation.	Kansas State Historical Society 785-272-8681 www.kshs.org/resource/statetax.htm
Kentucky	30% income tax credit for owner-occupied residential properties. A minimum investment of $20,000 is required, with the total credit per project not to exceed $60,000. 20% income tax credit for all other properties including properties owned by entities exempt from tax under section 501(c)(3) of the Internal Revenue Code and state and local governmental subdivisions and agencies. Minimum investment of $20,000 or adjusted basis, whichever is greater, subject to $400,000 per project cap. Both credits are fully refundable or transferable. But pass through entities which are taxed, get the credit at the entity level; pass through entities which are not taxed can use disproportionate allocation. $5 million annual program cap applies to the aggregate of homeowner and commercial/nonprofit credits. All credits are subject to proportional reduction if the value of credits claimed exceeds the annual aggregate cap.	Kentucky Heritage Council 502-564-7005 www.heritage.ky.gov/incentives/ http://www.lrc.ky.gov/KRS/171-00/396.PDF http://www.lrc.ky.gov/KRS/171-00/397.PDF http://www.lrc.ky.gov/kar/300/006/010.htm
Louisiana	25% credit for income-producing properties in "downtown development districts." $5 million cap per taxpayer for structures within a downtown development district. No statewide cap for commercial credits. Minimum investment: $10,000. Directly transferable. 5 year carry-forward for commercial credits. Sunset date: Jan. 1, 2018. After July 1, 2011, 25% rate for owner-occupied residences; 50% credit for blighted homes over fifty years old. $10 million statewide cap for owner-occupied residences. Minimum investment: $10,000. Homeowner credit must be taken in five equal annual installments and is fully refundable. Sunset date: Jan. 1, 2018.	Louisiana Department of Culture, Recreation & Tourism 225-342-8160 www.crt.state.la.us/hp/taxincentives.aspx RS 47:6019; Regulations RS 47:297.6
Maine	25% credit for qualifying rehab expenses of certified historic structure. 30% credit where at least 33% of the aggregate square feet of the completed project creates new affordable housing. Affordable housing credit may be increased each tax year by 1% till reached maximum of 35% in 2013. Minimum expenditures: Same as federal tax credit. If federal credit is not claimed, min. expenditure is $50,000 and maximum is $250,000. Cap: $5 million per project cap; no annual statewide cap. Credits are fully refundable and freely transferable by disproportionate allocation. Credit must be taken in 4 equal installments with first year being year property is placed into service. Sunset date: Dec. 31, 2023.	Maine Historic Preservation Commission 207-287-2132 www.maine.gov/mhpc/tax_incentives/index.html
Maryland	20% credit for commercial buildings and owner-occupied residences; additional 5% credit for high performance commercial buildings that achieve LEED gold rating or comparable rating from another rating system; 10% credit for non-historic, "qualified rehabilitated structures," commercial properties located in Main Street Maryland community and after 2012 in a designated "sustainable" community. Sets aside of $4 million for small commercial projects starts Jan. 1, 2015. Annual appropriation required for commercial side of program; unused amounts may be carried over to following year. Per-project cap: commercial - $3 million; owner-occupied - $50,000. Competitive award process for commercial properties only; owner-occupied need not compete. No more than 60% of funds available for commercial projects in any year may go to any single jurisdiction. Minimum investment: the greater of 100% of the	Maryland Historical Trust 410-514-7628 www.marylandhistoricaltrust.net/taxcr.html

	adjusted basis or $25,000 for commercial properties; $5,000 for owner occupied properties. Commercial credit is transferable. Residential credit is fully refundable. Program sunsets in 2017	

Massachusetts	20% credit for eligible income-producing properties. 25% credit for projects with affordable housing. $50 million annual statewide cap. Carry forward: 5 years. DOI standards apply. Permits direct transfer of credit or transfer by disproportionate allocation. Min. investment: 25% of adjusted basis. Funded through 2017.	Massachusetts Historical Commission 617-727-8470 www.sec.state.ma.us/mhc/mhctax/taxidx.htm
Minnesota	Credit equal to 100% of the federal credit allowed for the rehabilitation of a certified historic commercial property against taxes or grant equal to 90% of federal credit allowed. No annual program cap and no per-project cap. Credit freely transferable either by direct transfer or disproportionate allocation. Grants may be issued to another individual or entity. Credit is fully refundable. Credit may be used by insurance companies as well as other corporations and individuals. Application must be made for the credit before the rehabilitation begins. Sunsets in FY 2021.	State Historic Preservation Office, Minnesota Historical Society 651-259-3000 www.mnhs.org/shpo/grants/index.htm
Mississippi	25% credit for commercial property and for owner-occupied residences. Program is capped at $60 million. No project cap. Minimum investment of 50% of the total basis for commercial properties; $5,000 for owner-occupied residences. Carry forward: 10 years. If credit exceeds $250,000, 75% can be refunded in lieu of 10 year carry-forward. Refunds must be taken in two equal installments starting the year the rehabilitated property is placed in service. Transfer permitted by disproportionate allocation but can not be used in conjunction with refund provision. Members of a pass through entity, not taxed at the entity level, can use disproportionate allocation. Members of a pass through entity, taxed as a partnership, can elect to claim a refund at the entity level. Sunset date: 2014.	Division of Historic Preservation, Mississippi Department of Archives and History 601-576-6940 www.mdah.state.ms.us/hpres/prestaxincent.html
Missouri	25% credit for commercial and owner-occupied residential properties listed in National Register or listed as contributing to a federally certified historic district. Rehab work must meet DOI standards. Qualified expenditures must exceed 50% of total basis of the property. Carry back: 3 years. Carry forward: 10 years. Transfer permitted by direct transfer or disproportionate allocation. Per-project cap for owner-occupied single-family residences: $250,000 in credits. Beginning July 1, 2010, the Dept. of Economic Development can not approve more applications than would in the aggregate result in more than $140 million in credits. Any project receiving preliminary approval after Jan. 1, 2010, whose eligible costs would be more than $1.1 million, is subject to the cap. Projects with eligible costs less than $1,100,000 are not subject to cap. Projects subject to the cap are prioritized on first-come first serve basis; where applications received on same day, lottery will be held. Unfunded projects carry over into next funding round. Requires rehab to start within 2 years of authorization. Credits must be issued within 12 months of rehab completion.	Missouri Historic Preservation Program 573-751-7858 www.dnr.mo.gov/shpo/TaxCrdts.htm
Montana	Income-producing certified historic properties automatically receive 5% state tax credit if the property qualifies for the 20% federal credit. Carry forward: 7 years.	Montana State Historic Office 406-444-7715 www.his.state.mt.us/shpo/istarch.asp
Nebraska	20% credit against income, deposit or premium tax for rehabilitation of historically significant real property except for a single-family residence. Annual cap: $15 million. Per-project cap: $1 million in credits. Minimum expenditure: $25,000 or 25% of assessed value. DOI Standards apply. Starts: Jan. 1, 2015. Sunsets: Dec. 31, 2018.	Nebraska State Historical Society 402-471-3270 www.nebraskahistory.org/histpres/tax_incentive/index.shtml

New Mexico	50% of rehab costs for all properties listed in the State Register of Cultural Properties. Also applies to stabilization and protection of archeological sites listed in the State Register of Cultural Properties. No annual statewide cap. Per-project cap: $25,000 outside an Arts and Cultural District; $50,000 located within an Arts and Cultural District. DOI standards apply. Carry forward: 4 years. Pre-approval required.	New Mexico Historic Preservation Division 505-827-6320 www.nmhistoricpreservation.org/PROGRAMS/creditsloans_taxcredits.html
New York	20% credit for certified commercial properties subject to geographical targeting. Per project cap: $5 million in credits. Must be used in conjunction with federal credit. Credit must be taken in the year building is placed into service. Carry forward: unlimited. Commercial credits fully refundable starting 2015. 20% credit for certified, owner-occupied properties. Subject to the same census tract restrictions as commercial program. Residential per project cap: $50,000 in credits. If taxpayer's adjusted gross income is under $60,000, homeowner credit is refundable; over $60,000, unlimited carry forward. Minimum expenditure: $5,000 and 5% must be spent on exterior work. Both programs sunset on Dec. 31, 2020 and default to 2007 features if not renewed. 25% rehab credit for historic barns. Must be income-producing, built or placed in agricultural service before 1936 and rehab cannot "materially alter the historic appearance."	New York State Historic Preservation Office 518-237-8643 www.nysparks.state.ny.us/shpo/investment/index.htm
North Dakota	25% credit for eligible historic property that is part of a renaissance zone project. Project cap of $250,000. Carry forward: 5 years.	Historical Society of North Dakota 701-328-2666 www.nd.gov/tax/genpubs/renaissance.pdf
Ohio	25% credit for owners and long-term qualified lessees of certified historic building. Project cap: $5 million. Aggregate cap: $60 million annually and any unused amount will be carried forward and added to the next year. DOI Standards apply. Refundable amount of credit limited to $3 million per project. Transfer by disproportionate allocation permitted. Five year carry-forward. Applicant must provide evidence that the credit is a major factor in the applicant's decision to rehab. Applicant must have CPA certify costs if qualified rehabilitation expenditures exceed $200,000. If the applicant does not provide evidence of having a viable financing plan, having final construction drawings and all necessary historical approvals within 12 months of receiving notice of approval, or if the applicant has not closed on financing within 18 months after approval, the director may rescind the approval and reallocate the credit amount to another applicant. Director of Economic Development must conduct a cost-benefit analysis of every project that shows whether the project will result in a net revenue gain in state and local taxes. Director of Development and Tax Commissioner must produce an annual report to the legislature analyzing program's effectiveness.	Ohio Historic Preservation Office 614-298-2000 www.ohiohistory.org/resource/histpres/yourtown/tax/
Oklahoma	20% income tax credit for all eligible commercial and rental residential properties that qualify for the federal tax credit. Minimum investment: same as federal credit. No statewide or per-project caps. Carry forward: 10 years. Freely transferable for 5 years. Credits can be claimed starting on Jan. 1, 2012.	Oklahoma State Historic Preservation Office 405-522-4484 www.okhistory.org/shpo/taxcredits.htm
Pennsylvania	25% credit for eligible properties that qualify for the federal tax credit. Minimum investment same as for the federal credit. Project cap: $500,000. Aggregate cap: $3 million annually. Projects to be allocated equitably among state's regions. Any unused amount from a region will be reallocated to another region. DOI Standards for Rehabilitation apply. Public utilities, insurance companies and financial institutions may participate in the program. Applications must be filed by Feb. 1, 2013, but may cover expenditures previously made. Carry forward: 7 years. Credits are transferable by certificate only. Sunset: 2019.	Pennsylvania Historical & Museum Commission 717-783-6012 http://www.portal.state.pa.us/portal/server.pt/community/rehabilitation_investment_tax_credit_program/2646

Rhode Island	20% for commercial property owners, condominiums and nonprofits; 25% if 25% of total rentable space or entire first floor is used in a trade or business. Owner-occupied residences not eligible. Per-project cap of $5 million dollars. Maximum aggregate credits through 2016 to be set by legislature; currently at $34.5 million. Transfer by disproportionate allocation or direct assignment. Proceeds of sale of credit not subject to state tax. Credits awarded to tax-exempt entities fully refundable. Qualified rehabilitation expenditures must exceed the adjusted basis of the building. Applicant must enter into contract with state division of taxation and grant state a 2-year restrictive convenant on the building regarding material alterations, and a 5-year restrictive covenant regarding use as a trade or business if 25% credit is claimed. CPA must certify to amount of credit claimed. Projects with hard construction costs of $10 million dollars or more must have approved apprenticeship programs. Program sunsets July 30, 2016 or when funds exhausted.	Rhode Island Historical Preservation & Heritage Commission www.preservationri.gov/credits/
South Carolina	10% credit for commercial properties eligible for federal credit; 25% for other eligible properties. Minimum investment for non-commercial properties: $15,000. All credits must be taken in 5 equal annual installments. No statewide or per-project dollar caps. Pass-through entities (other than "S" corporations) may transfer credit by means of disproportionate allocation. Credits for owner-occupied residences limited to one per structure each 10 years. Pre-approval required. 25% tax credit against income, corporate license fees, and insurance premium taxes, for rehabilitating abandoned textile mill buildings that have been closed at least one year immediately preceding the application. Credits must be taken in 5 equal installments. Carry forward: 5 years. Credit may also be taken against local real property taxes with percentage amount set by municipality or county. Transfer permitted by certificate and disproportionate allocation. Although not a historic credit as such, South Carolina has a 25% tax credit against income taxes and corporate license fees, taken in five equal installments, for rehabilitating abandoned buildings where 66% of space has been non-income producing for a minimum of 5 years. Taxpayer, if qualifying, is only permitted to one of three credits allowed through the Abandoned Buildings Act, the Textiles Communities Revitalization Act, or the Retail Facilities Revitalization Act and cannot exceed 50% of tax liability. Alternatively, credit can be taken against local real property taxes if approved by positive majority vote of the municipality or county after a public hearing. Credit up to 75% of real property taxes must be taken each year for up to 8 years. Per-project cap: $500,000. Also capped at 50% of tax liability. Expenses that increase the square footage in excess of 200% are disallowed. Credits are transferable by certificate and by disproportionate allocation. Available for projects initiated in 2012. Sunset: Dec. 31, 2019.	South Carolina Department of Archives and History 803-896-6100 http://shpo.sc.gov/programs/tax/Pages/default.aspx
Texas	25% tax credit against franchise tax for certified historic structures rehabilitated and put in service on or after Sept. 1, 2013. No annual or per-project cap. Carry forward: 5 years. Minimum investment: $5,000. Credits are transferable by certificate or disproportionate allocation. As enacted. Subject to Attorney General review and adoption of administrative rules. Effective Jan. 1, 2015.	Texas Historical Commission 512-463-6100 www.thc.state.tx.us/preserve/projects-and-programs/preservation-tax-incentives/about-preservation-tax-incentives
Utah	20% credit for residential owner-occupied and non-owner-occupied. Cap: none. Minimum investment: $10,000 over 3 years. DOI standards apply. No fees.	Utah State Historical Society 801-533-3500 www.history.utah.gov/historic_buildings/financial_assistance/state_tax_credit.html
Vermont	All credits limited to commercial buildings located in designated	Vermont Division for Historic

	downtowns or village centers. 10% credit for projects approved for federal credit. 25% credit for façade improvement projects, limited to $25,000 per project. 50% credit for certain code improvement projects, with maximum credit of $50,000. 9-year carry-forward. Credits may be transferred to bank in exchange for cash or interest rate reduction. Annual total program cap: $1.5 million. The state board may allocate the credit upon completion of distinct phases of a qualified project and any recaptured or rescinded credits can be awarded to other applicants in subsequent years.	Preservation 802-828-3211 www.historicvermont.org/financial/credits.html

Virginia	25% for commercial and owner-occupied residential properties. Reconstruction and improvements must amount to at least 25% of the assessed value for owner-occupied buildings and at least 50% for non-owner-occupied buildings. Carry forward: 10 years. National and state register properties eligible. DOI standards apply. No caps. Transfer by disproportionate allocation permitted.	Virginia Department of Historic Resources 804-367-2323 www.dhr.virginia.gov/tax_credits/tax_credit.htm
West Virginia	10% credit for buildings eligible for federal credit; 20% credit for eligible owner-occupied residences. Commercial buildings entitled to same carry-back and carry-forward provisions as are available for federal credit. Owner-occupied residences entitled to 5-year carry forward. Both commercial credits and homeowner credits may be directly transferred or transferred by disproportionate allocation. Minimum investment in homeownership projects: 20% of assessed value. No statewide or per project dollar caps.	West Virginia Historic Preservation Office 304-558-0220 www.wvculture.org/shpo/tcresoverview.html
Wisconsin	20% for certified income-producing properties. Applicant may also claim federal credit. No statewide or per-project caps. Credit may transferred directly or by disproportionate allocation. Minimum investment $50,000. Tax credit must be approved by Wisconsin Economic Development Corporation. Program to be reviewed in 2017 for economic development effectiveness. 25% for eligible owner-occupied residences. No statewide cap. Per project cap: $10,000. Minimum investment of $10,000 over 2 years, extendable to 5 years. Cannot be used to offset state Alternative Minimum Tax.	State Historical Society of Wisconsin 608-264-6490 www.wisconsinhistory.org/hp/architecture/index.asp

The following states do not currently offer tax credits for renovating commercial or owner-occupied residences: Arizona, Alaska, California, District of Columbia, Florida, Hawaii, Idaho, Michigan, Nebraska, Nevada, New Hampshire, New Jersey, Oregon, South Dakota, Tennessee, Washington, and Wyoming.

Twenty-two states offer credits to owner-occupied residences.

1. Alabama: Alabama Historic Rehabilitation Tax Credit
2. Arkansas: Historic rehabilitation income tax credit (§ 26-51-2204)
3. Colorado: Colorado State Income Tax Credit for Historic Preservation (§39-22-514 C R S)
4. Connecticut: CT Historic Homes Rehabilitation Tax Credit Program (Public Act 99-173)
5. Delaware: Delaware Historic Preservation Tax Credit Program (73 Del Laws, c 6, § 1)
6. Georgia: Georgia State Income Tax Credit Program for Rehabilitated Historic Property (O C G A § 48-7-29 8)
7. Iowa: Historic Preservation and Cultural and Entertainment District Tax Credit Program (Iowa Code §404A)
8. Kansas: Historic Preservation Tax Credit (K S A §79-32211)
9. Kentucky: Kentucky Historic Preservation Tax Credit Program (300 KAR 6:010)
10. Louisiana: State of Louisiana Residential Tax Credit Program (Lousiana R S 47:297 6)
11. Maryland: Sustainable Communities Tax Credit Program (Md Code § 9-204)
12. Mississippi: Mississippi Historic Preservation Tax Incentives Program (Miss Code § 27-7-22 31)
13. Missouri: Missouri Historic Tax Credit Program
14. New Mexico: State of New Mexico Investment Tax Credit program (4 NM §10 9)
15. New York: New York State Historic Homeownership Rehabilitation Tax Credit
16. North Dakota: Historic Preservation and Renovation Tax Credit (N D C C § 40-63-06)
17. Ohio: Ohio Historic Preservation Tax Credit Program (ORC §149 311)
18. South Carolina: Historic Rehabilitation Tax Credit (S C Code § 12-6-3535)
19. Utah: Utah Historic Preservation Tax Credit (UC 9-8-404)
20. Virginia: Historic Rehabilitation Tax Credit (Virginia Code §58 1-339 2)
21. West Virginia: Rehabilitation Investment Tax Credit Program (W V Code §11-21-8g)
22. Wisconsin: Wisconsin Historic Homeowners Rehabilitation Tax Credit Program (Wiscn Admin Code Sect 71 07(9m))

Dollar Limits on State Tax Credits for Commercial Properties (in alphabetical order) – a/o 3/6/2015

	State	Aggregate	Per Project	Comments
1	Alabama	$20 million	$5 million	Starts May 15, 2016
2	Arkansas	$4 million	$125,000 in credits	
3	Colorado	$5 million	$1 million	Aggregate increases to $10M in 2016
4	Connecticut	$50 million over 3 years	$5 million per project	
4	Connecticut	$15 million	$2.7 million per project	
5	Delaware	$5 million	None	For both homeowners and commercial
6	Georgia	None	$300,000	
7	Illinois	None	None	River Edge Redevelopment Zone only
8	Indiana	$450,000	None	
9	Iowa	$45 million	None	
10	Kansas	None	None	
11	Kentucky	$5 million	None	For both homeowners and commercial
12	Louisiana	None	$5 million per taxpayer	In development district
13	Maine	None	$5 million per project	
14	Maryland	Annual appropriation	$3 million per project	Gov proposes $10M for 2014
15	Massachusetts	$50 million	None	
16	Minnesota	None	None	
17	Mississippi	$60 million	None	
18	Missouri	$140 million	None	Projects with eligible costs less than $1,100,000 are not subject to cap
19	Montana	None	None	5% add-on to federal
20	Nebraska	$15 million	$1 million in credits	
21	New Mexico	None	$25,000 outside $50,000 in Arts & Cultural District	
22	New York	None	$5 million	In distressed area
23	North Dakota	None	$250,000	In a "renaissance zone"
24	Ohio	$60 million	$5 million	
25	Oklahoma	None	None	
26	Pennsylvania	$3 million	$500,000	Started 2012
27	Rhode Island	$34.5 million	None	Total; no cap currently set annually
28	South Carolina	None	None	10% add-on to federal; 25% for other eligible properties
29	Texas	None	None	Starts Jan 1 2015
30	Utah	None	None	for residential owner-occupied and non-owner-occupied.
31	Vermont	$1.5 million	None	10% add-on to federal
32	Virginia	None	None	
33	West Virginia	None	None	10% add-on to federal
34	Wisconsin	None	None	20% credit

- Of the 34 states; 15 states set ANNUAL aggregate caps (RI has set a total cap) while 18 states do not place an aggregate cap.. **But several of those without aggregate caps fail to effectively incentivize rehabilitation because either the percentage rate or per-project cap is so low.**

Annual Aggregate Caps (in order of amount in 16 states): *Note: Nineteen (19) states do not place an aggregate program cap.*

1. Missouri — $140M (plus no cap on small projects)
2. Mississippi — $60M
3. Ohio — $60M
4. Massachusetts — $50M
5. Connecticut (a) — $50M over 3 years
6. Iowa — $45M
7. Alabama — $20M
8. Connecticut (b) — $15M
9. Nebraska — $15M
10. Maryland — $10M
11. Colorado — $5M (increases to $10M in 2016)
12. Delaware — $5M * covers both homeowners & commercial
13. Kentucky — $5M *covers both homeowners & commercial
14. Arkansas — $4M
15. Pennsylvania — $3M
16. Vermont — $1.5M
17. Indiana — $450,000

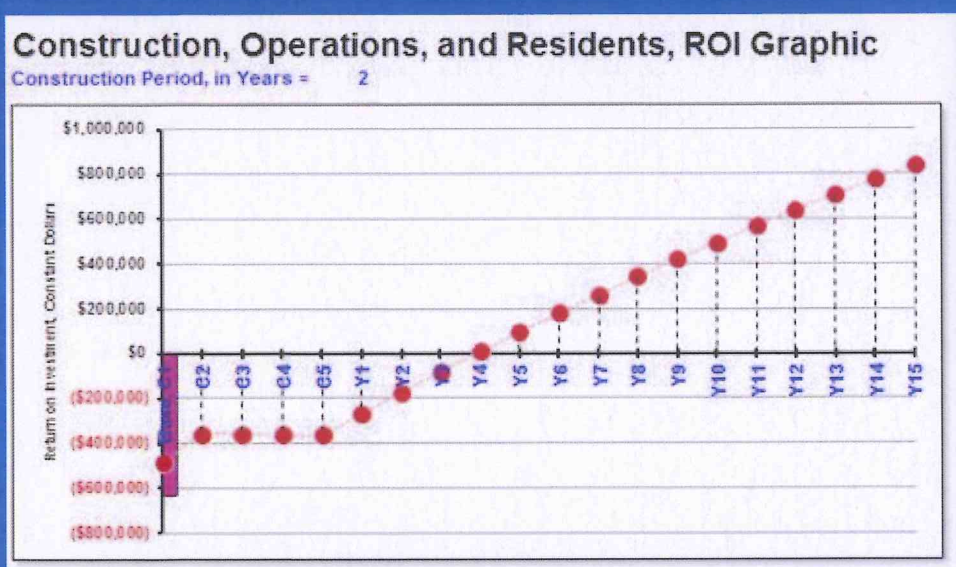
Populations from: http://www.ipl.org/div/stateknow/popchart.html

COST BENEFIT ANALYSIS IN OHIO

Ohio law requires the state to conduct a cost-benefit analysis for each historic building seeking a tax credit. The state must determine whether rehabilitation of the building and awarding of the credit will result in a net revenue gain in state and local taxes once the building is used. The Ohio model takes into account tax revenues generated after the building is placed in service.

A recent cost-benefit analysis involving The Market Block Building in Warren, Ohio demonstrated that 31% of the state's investment of $630,800 in historic tax credits was recovered before the tax credit was awarded. One-hundred percent (100%) of the state's investment will be recovered in new revenues by the fourth year of operation. By year 10 the building will have generated additional state and local tax revenues of $494,000 in excess of the amount of the credit, or a return on investment of 80%, and by year 15 the building will have generated approximately $839,000 in new tax revenues, representing a return on investment of 130%.

This year Heritage Ohio presented its Best Commercial Rehabilitation Award to The Chesler Group for this renovation which created new office and meeting space for The Raymond John Wean Foundation. The renovation of these four 1868 buildings along the Courthouse Square, helps the Foundation bring together local residents and incubate new businesses.



About the National Trust for Historic Preservation

Harry K. Schwartz is a consultant to the National Trust for Historic Preservation on state tax incentives.

Renee Kuhlman in the Government Affairs & Policy Department of the National Trust for Historic Preservation helps states expand, improve or put in place a historic tax credit. **E-mail:** rkuhlman@savingplaces.org **Phone:** 202-588-6234

The National Trust is a privately-funded nonprofit organization chartered by Congress in 1949. We work to save America's historic places to enrich our future. With headquarters in Washington, D.C., 12 field offices, 27 historic sites, and partner organizations in 50 states, territories, and the District of Columbia, the National Trust protects significant historic sites and advocates for historic preservation as a fundamental value in programs and policies at all levels of government.

National Trust for Historic Preservation - State Historic Tax Credits for Incoming Properties – March 2015

17 states issue certificates or permit direct sale; 23 states allow the credit to be allocated within a partnership; 8 states issue refunds; Minnesota's credit can be taken as a grant for .90 cents of each $1 of credit.

State	Certificate/Direct Sale	Partnership Allocation	Refundable	Grant
Alabama		♣		
Arkansas	♣	♣		
Colorado		♣		
Connecticut	♣	♣		
Delaware	♣	♣		
Georgia		♣		
Illinois		♣		
Indiana				
Iowa		♣	♣	
Kansas	♣	♣		
Kentucky	♣	♣*	♣	
Louisiana	♣			
Maine		♣	♣	
Maryland	♣		♣	
Massachusetts	♣	♣		
Minnesota	♣	♣	♣**	♣***
Mississippi		♣	♣****	
Missouri	♣	♣		
Montana				
New Mexico				
New York			♣ *****	
North Dakota				
Ohio		♣	♣ ******	
Oklahoma	♣			
Pennsylvania	♣			
Rhode Island	♣	♣		
South Carolina		♣		
South Carolina (mills)	♣	♣		
Texas	♣	♣		
Utah				
Vermont *******				
Virginia		♣		
West Virginia	♣	♣		
Wisconsin	♣	♣		

*In Kentucky, pass through entities which are taxed, take the credit at the entity level; pass through entities which are not taxed can use disproportionate allocation. (e.g., LLC or limited partnership)

** Minnesota's credit is refundable only if used in conjunction with federal historic tax credit.

*** Minnesota's grant equals 90 percent of the credit earned by the project.

****In Mississippi, if the credit exceeds $250,000, 75% can be refunded in lieu of 10 year carry-forward. Refunds must be taken in two equal installments starting the year the rehabilitated property is placed in service.

***** New York's refund went into effect Jan. 1, 2015.

****** Ohio caps the refundable portion of the credit at $3 million per project.

****** In Vermont, credits may be transferred to bank in exchange for cash or interest rate reduction.

Note: Louisiana's tax credit for renovating historic homes is refundable for a total of 9 states offering refundable tax credits.

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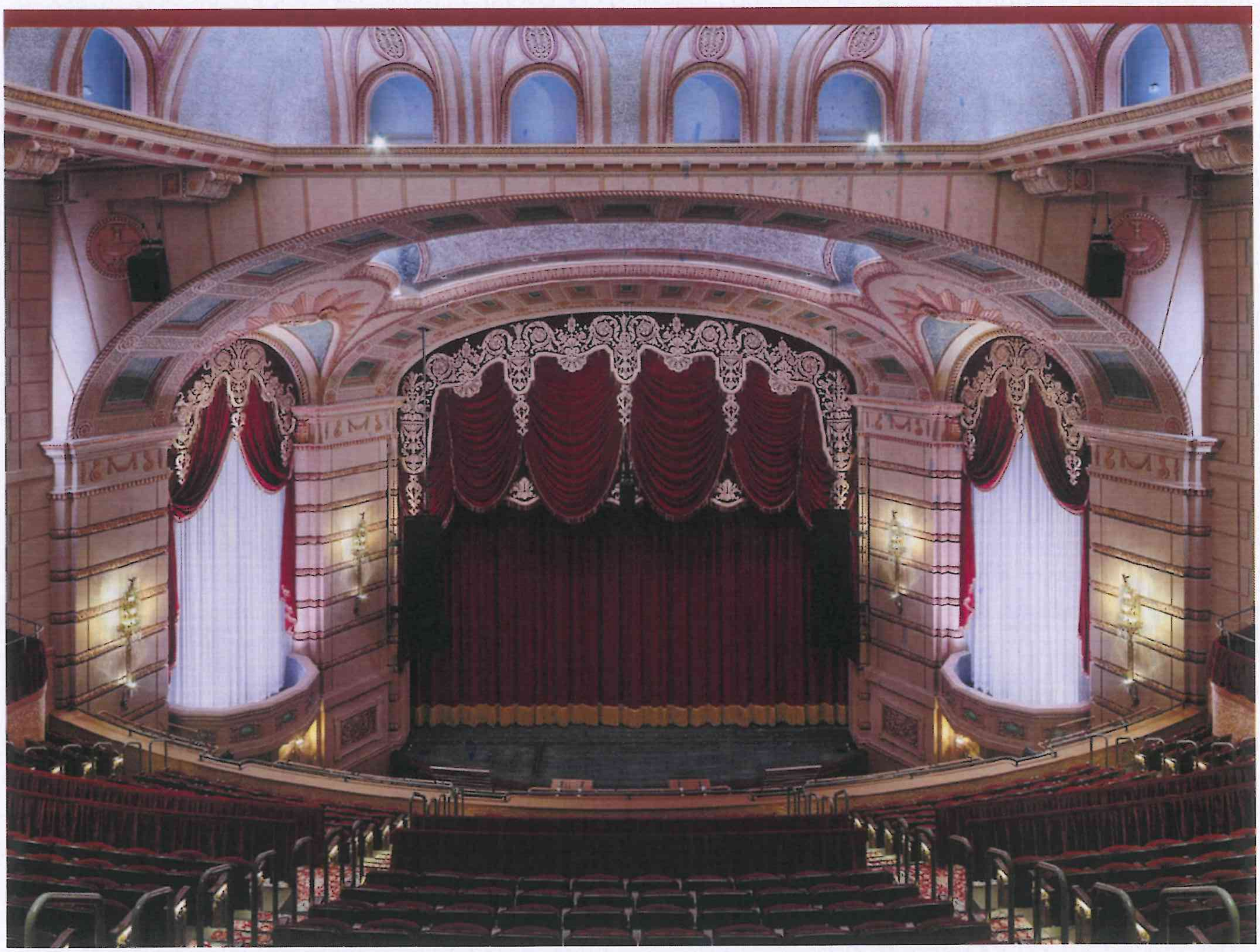
"Extra Credit" Rehabs



National Trust *for* Historic Preservation
Preservation Leadership Forum

Refundable State Tax Credits for Historic Rehabilitation

BY HARRY K. SCHWARTZ AND RENEE KUHLMAN

In 2005, the authors produced a public policy report for the National Trust for Historic Preservation on state tax credits for historic preservation. At that time roughly half the states in the country had laws creating historic tax credits. Many were relatively new. That report attempted to address the question, why do some state credits work better than others? The report also provided guidance to states adopting tax credit laws for the first time and to those attempting to improve existing statutes that were producing mixed or minimal results.

At this writing, 34 states have historic tax credit programs in place. This article will focus on the nine of them that have provisions in their laws that, in varying degrees, make such credits refundable. The nine states include Iowa, Kentucky, Louisiana, Maine, Maryland, Minnesota, Mississippi, New York, and Ohio. Refundability exists where the holder of a tax credit has the option of claiming a refund from the state in the amount by which the credit exceeds that holder's tax liability to the state.

A state tax credit typically has value only to the extent that the credit holder has sufficient liability for state taxes that the credit can be used to offset. Although state tax rates vary, they are far lower than federal income tax rates. As a consequence, an apparently valuable state tax credit may wind up in the hands of a party unable to use it.

Refundability directly addresses this problem by making the state tax liability of the credit holder irrelevant. The amount by which the credit exceeds the holder's state tax liability is returned to the holder in the form of a refund check from the state treasurer.

THE FEDERAL PENALTY

Unlike the federal tax credit, which is not taxed by the federal government, state tax credits in almost all cases are subject to federal income tax at ordinary income rates. The problem is not unique to refunds. It applies as well to the transfer of state historic tax credit certificates, where such transfer is permitted, and to credits passed through to partners and other pass-through entities that are recipients of the credits. Although strategies have been devised to avoid the penalty, they are complex and are economically feasible only for large projects with sophisticated investors.

WHY ARE SOME STATE REFUNDABILITY PROVISIONS MORE PROMISING THAN OTHERS?

This article addresses the question, why do some refundability provisions appear more likely to work than others? In answering this question, based on our examination of the statutes of the nine states with refundability provisions, and to the extent possible, their experience with refundable credits, we have attempted to identify those factors that impact negatively and positively on the effectiveness of those provisions. The following two factors appear to be the most important:

- The existence of significant statutory limitations on the dollar amount of credits that may be issued annually in the aggregate, and/or for any single project.
- Limitations on the amount refundable and restrictions on the manner in which the refund may be claimed.

Not included in this short list is the rate of the credit. The rate is calculated as a percentage of the amount expended on the appropriate rehabilitation of a historic property. Each of the nine states examined provides a base credit in the range of 20 to 25 percent. Minnesota sets its rate at 100 percent of the federal credit, which is 20 percent, and requires that the federal credit be awarded. In the event that the federal credit is not used, Minnesota will award a state grant equal to 90 percent of the amount that a federal credit would have provided.

Maine also fixes its somewhat more generous credit by referencing the federal credit, but setting the percentage at 25 percent, and providing the credit not only to taxpayers who use the federal credit but also to those who do not, provided that the latter incur appropriate expenditures in the $50,000 to $250,000 range.

Other states provide bonuses for types of projects favored by the legislature. Kentucky provides a rate of 20 percent for commercial project credits and 30 percent for owner-occupied residences. Louisiana has a base rate of 25 percent for owner-occupied residences, which increases to 50 percent if the property is "vacant and blighted." Maine increases its credit to 30 percent for affordable housing. Maryland lifts its 20 percent credit to 25 percent for a "high performance building."

Although the bonuses may achieve legislative objectives by directing investment incentives to specified purposes, there is no evidence in the nine states surveyed that the rate of the credit materially affects the use of refundability.

A CAVEAT

The amount of credits *awarded* may be determined with a high degree of certainty because records of such awards are maintained by the state historic preservation office and are open to the public. The amount and number of credits *claimed* as refunds fall within the province of the state revenue department. These records are typically not available to the public. Hence judgments about the effectiveness of a state's refund program must be based on a combination of estimates by state officials and an evaluation of the statutory structure of the refund program.

STATUTORY CAPS ON THE DOLLAR AMOUNT OF CREDITS THAT MAY BE ISSUED AND CLAIMED AS REFUNDS

It should be obvious that the existence of a statutorily mandated limit on the dollar amount of credits that may be issued annually on an aggregate basis, or with regard to individual projects, can undercut not just a refundability option, but the effectiveness of a state's program as a whole. In this regard, of the nine states examined, Minnesota distinguishes itself as a model, having neither an aggregate annual cap nor a per project cap.

The programs in Maine and New York also lack aggregate annual caps, and both set limits of $5 million per commercial project. New York has a project cap of $50,000 on credits to a project involving an owner-occupied residence.

Both Mississippi and Ohio have annual aggregate caps of $60 million, but Ohio imposes a $5 million per project cap, only $3 million of which is refundable in one year, while Mississippi has no per project cap. Iowa law establishes an annual aggregate cap of $45 million, with no per project cap. However, Iowa does require that the amount of credits awarded each year be allocated by specific percentages reflecting priorities established by the legislature.

The Ohio data are particularly revealing about the usefulness of refundability, notwithstanding the existence of the caps. According to state estimates, over the past three years, out of 49 projects certified, 32 project sponsors have elected to claim the refund. A substantial number of the projects claiming the refund involved projects under $1 million in credits. But 11 of the projects had total costs of $10 million or more. In some cases, projects of substantial size, ranging above $50 million in total costs, also made use of the refundable historic credit. What the Ohio experience demonstrates is that a per project cap of $5 million with refundability up to $3 million per year can provide an effective incentive both for large projects, involving total costs of $50 million or more, and for small, Main Street-type projects as well. This conclusion is reinforced by the amount of demand the program has attracted. In the last semiannual funding round, the state received 35 applications requesting $62.5 million in tax credits out of an available $33.9 million, roughly a 2 to 1 ratio of demand to supply.

At the other end of the scale, Kentucky imposes a $5 million aggregate annual cap on the amount of credits that may be issued and per project caps of $400,000 for commercial rehabilitations and $60,000 for rehabilitating an owner-occupied residence. Further complicating matters is a provision in the Kentucky law that specifies that if approved applications exceed in the aggregate the state-imposed dollar limit, then all of the approved credits shall be reduced proportionately, so as to limit the total amount of credits allowed to the $5 million aggregate cap. The effect of this provision, which we believe to be unique, introduces a measure of uncertainty for all program applicants, since individually they cannot know whether they will be granted the credit awarded in full or some lesser amount.

Maryland, a pioneer in the use of refundable historic tax credits, now requires an annual appropriation by the legislature to establish the aggregate amount of credits available in each fiscal year. As a consequence, developers proposing to rehabilitate a historic property in Maryland can have no degree of certainty as to what level of funding the legislature will provide in any given year. Clearly this mechanism casts a cloud over the Maryland credit.

The Maryland statute sets a $3 million cap on the amount of credits that may be awarded to a commercial credit. Homeownership credits are capped at $50,000 per project but are not subject to annual appropriation. All credits are fully refundable.

Louisiana presents an interesting and, we believe, unique approach. Credits for commercial projects are transferable but are not refundable under Louisiana law. Holders of credits for owner-occupied residences and owner-occupied, mixed-use structures are entitled to claim a refund. The aggregate amount annually provided to this program is $10 million. However, the $25,000 limit per project is at the low end of the scale. Kentucky caps homeowner credits at $60,000 and Maryland at $50,000. Refundability is a particularly useful tool for homeowners, who typically lack the means to transfer a credit and have insufficient state tax liability to use the credit as an offset. But the project cap must be at a meaningful level to provide an effective incentive.

STATUTORY LIMITS AND RESTRICTIONS ON REFUNDABLE CREDITS

The ingenuity of legislatures in devising restrictions that undermine the usefulness of refundability is boundless. While some are relatively benign, others seem clearly devised to limit the exposure of the state treasury to refund claims.

Iowa and Minnesota appear to be exempt from this indictment. Although Iowa's $45 million aggregate cap must be allocated among projects that fall within general categories specified in the statute, taking the refund is, in effect, mandatory. The recipient of the credit, or a transferee, may claim an undiscounted refund in a lump sum upon filing a tax return. The refund equals 100 percent of the amount of the credit minus any taxes offset by the credit (which may be zero).

As noted earlier, Minnesota also provides a refund in a lump sum equal to 100 percent of the amount of the credit minus any taxes offset by the credit. However, this refund is available only for projects that qualify for the federal credit. Other projects may receive a grant from the state equal to 90 percent of the credit. Credits and grants may be assigned to another taxpayer, or to a pass-through entity. In the latter case, the entity may distribute the credit or grant ratably or as the partners or members may determine.

Three states fall into a second category: Maine, Louisiana, and Mississippi. Rather than providing the refund in a lump sum, they require that it be taken in equal annual installments. Maine pays the refund over a four-year period, Louisiana over a five-year period, and Mississippi in two annual installments. However, the Mississippi refund is discounted to 75 percent of the amount of the credit, and only credits in excess of $250,000 are eligible. By contrast, the credits in Maine and Louisiana are fully refundable at a rate equal to 100 percent of the credit. Although Maine requires use of the federal credit as a condition to claiming the state credit, it also provides a Small Project Rehabilitation Credit for projects with rehabilitation expenditures between $50,000 and $250,000 which does not require that the federal credit be claimed. This credit, like the credit for larger projects, carries a 25 percent rate and is fully refundable in four equal annual installments.

It is not clear to what extent the deferral of payment of a portion of the refund presents a deterrent to developers. North Carolina, which has had a successful program, and which does not provide a refundable credit, spreads out the award of its credit over five years. Yet a dollar today is obviously worth more than that same dollar five years from now. Unquestionably the Mississippi credit is at a disadvantage even though the refund is payable over a shorter period because the discount acts as a penalty for electing the refund. The other option, which exists in virtually all the states with tax credit laws, is the ability to carry forward the full unused amount of the credit into succeeding years as an offset against future tax liabilities. Notwithstanding the limitations noted above, Mississippi's program in assisting homeowners with projects not eligible to qualify for the refund is impressive. Despite the restrictions, more than 80 homeowners have made use of the program since inception. Without the restrictions the number would doubtless be much higher.

COST-BENEFIT ANALYSIS IN OHIO

Ohio law requires the state to conduct a cost-benefit analysis for each historic building seeking a tax credit. The state must determine whether rehabilitation of the building and awarding of the credit will result in a net revenue gain in state and local taxes once the building is used. The Ohio model takes into account tax revenues generated after the building is placed in service.

A recent cost-benefit analysis involving real costs on The Market Block Building in Warren, Ohio, demonstrated that the state investment of $630,800 in historic tax credits resulted in 100 percent of the state's investment being returned in new tax revenues by the 4th year of operations. Some 34 percent of the state's investment was recovered before the tax credit was awarded. By year 10 the building will have generated additional state and local tax revenues of $494,000 in excess of the amount of the credit, or a return on investment of 80 percent, and by year 15 the building will have generated $839,000 in new tax revenues, representing a return on investment of 130 percent.

This year Heritage Ohio presented its Best Commercial Rehabilitation Award to The Chesler Group for its exquisite renovation of The Market Block Building. The renovation involved joining three 1868 stores along the Courthouse Square into new office and meeting space for The Raymond John Wean Foundation.

With a renovation cost of just over $3 million, developer Michael Chesler found it hard and expensive to find a syndicator to monetize the needed state historic tax credits. Instead he used the refundability provision of the state's historic tax credit program. According to Chesler, the refund provided equity to fuel the feasibility of the project. Without the state historic tax credits, the complex restoration would not have been possible. The refund feature of the Ohio State program is like an "equity coupon" and allows owners and developers the comfort to pursue historic projects without the need for a third-party investor.

TAKEAWAY

Click here for "Return on Investment" chart for The Market Block Building.

Although Ohio does not apply a percentage discount to its credit when used to obtain a refund, it does limit the amount of the credit that may be claimed in one year as a refund to $3 million. However, as noted above, the Ohio credit appears to be performing at a high level, so it is hard to view this provision as a significant obstacle.

Regrettably, there is a third tier of states in which, for a variety of reasons, tax refunds (not to mention tax credits) are either hard to use or may not be operating effectively as incentives for projects that would not otherwise proceed. Some features of the Kentucky tax credit law are exemplary and could serve as models for other states. Income from transfers of historic tax credits are expressly exempted from state tax. Tax-exempt entities are eligible to claim the credit. The first purchaser of a historic home rehabilitated by the seller is entitled to claim the same tax credit as the seller if the seller had retained the home as his or her principal residence. The rate of credit for owner-occupied residences is at the high end of the scale, at 30 percent, and the per project cap on credits for owner-occupied residential property is a generous $60,000.

As noted earlier, the problem arises because of the way the Kentucky statute treats situations in which the demand for credits exceeds the annual aggregate cap of $5 million. The law requires that in such circumstances the credit sought for each eligible credit shall be reduced ratably by an unknowable amount to cause the total amount of credits to be reduced to $5 million. Hence, no applicant for a credit can know in advance whether the credit will be awarded in full, or will be reduced to a lower amount that may make the proposed project infeasible as a result of conditions outside the applicant's control.

Nevertheless, the results from Kentucky's program are impressive. The state reports that 425 projects have been reviewed, representing more than $340 million in private investment. However, because of the state's unique method for assuring compliance with the aggregate cap of $5 million in refundable credits, recipients of the credit have in fact received on average only 45 percent of the amount sought. Under these circumstances it is hard to escape the conclusion that marginal projects that truly needed the full state credit would not benefit from the program, while projects that were not relying on the state credit to go forward would do so.

Clearly other state programs may also provide credits to applicants who do not meet the so-called "but for" test. "But for" is shorthand for a situation in which a project is not financially feasible without the full state credit, and but for the state credit, would not proceed. The Kentucky data appear to establish that a statutory provision that requires ratable reductions in credits to comply with an aggregate annual cap tends to reward projects that can do without the full credit, and discourages projects that do need the full credit.

Unfortunately, in Maryland, over the years the state's legislature has carved back the program because of statewide budget concerns. The program now depends on an annual appropriation from the state legislature for commercial projects. In practical terms, preservation advocates must engage in a lobbying campaign every year to secure funding for the tax credit in the next fiscal year. Although the program remains lodged in the tax code and is fully refundable, it operates very much like an annual grant program. In addition, applicants must engage in a competitive process using criteria established by the legislature.

The results in recent years reflect the shrinkage of the Maryland program. In fiscal years 2010 to 2012, the amounts of total commercial credits awarded have been approximately \$4 million, \$11 million, and \$7 million. The annual appropriations process also means that the program is open to legislative tinkering every year. Consequently key components, including refundability, are under constant legislative threat.

New York has chosen to direct the benefits of its program to less affluent areas. To be eligible for a commercial credit, the project must be located in a census tract containing a population whose family income does not exceed median family income. Commercial credits placed in service in and after 2015 are fully refundable. New York commercial credits must be used in conjunction with the federal credit.

The New York credit for homeownership contains a similar geographic limitation. In addition the statute adds an income test for homeowners, denying refundability, but not eligibility, to taxpayers whose adjusted gross income in the taxable year exceeds $60,000. Such taxpayers may carry forward the unused balance of the credit to succeeding years.

The New York law contains a number of constructive features that may be of interest to other states. For instance, tenant-shareholders in cooperatives are expressly covered. Another provision grants the first purchaser of a rehabilitated historic home the right to claim the credit for eligible expenditures made by the seller.

SOME CONCLUSIONS

Where are refundability provisions likely to do the most good? What features should such provisions have (or lack) to be effective as an incentive to projects that would otherwise be infeasible? Based on our examination of the statutes of the nine states surveyed, and to the extent possible, on the available data, we believe some conclusions can be drawn.

Homeowners: First and foremost, we believe homeowners would reap the greatest benefits from refundable state tax credits. Homeowners are barred from using the federal tax credit. They tend to have relatively low state income tax liability. Notwithstanding the federal penalty noted above, the ability to receive cash from the state treasury can provide an attractive inducement to rehabilitate a historic home. But to work, the statute must provide certainty, a guarantee that funds expended will be reimbursed at the level anticipated, and that such level will be adequate to make the project financially feasible for the applicant.

What constitutes an adequate level to make a tax credit work will vary from state to state, but a rate of 20 to 25 percent of eligible expenditures, with a project cap of $40,000 to $60,000 could be enough. Further, we would propose that credits for homeowners not be limited by any annual aggregate cap that may be imposed on commercial projects. We believe that the budget implications of such an exemption, given the small size of the projects involved, would not be great enough to warrant their subjection to an aggregate annual cap.

Maryland is a good example of what can be accomplished with a refundable tax credit for homeowners. Although the state has had a troubled history with its commercial tax credit, its homeownership credit has been enormously successful. Since its inception, more than 3,800 homeowner applications have been approved triggering more than $350 million in rehabilitation expenditures. The credit is fully refundable in the year earned and is not subject to legislative appropriation or any aggregate annual cap. It provides up to $50,000 in credits to an owner of a historic home who incurs appropriate rehabilitation expenses of at least $5,000, based on a rate of 20 percent.

Smaller Commercial Projects: We also see benefits of refundable credits for smaller commercial projects of the Main Street type and somewhat larger. Some of these projects would be of sufficient size to justify the expense of claiming the federal credit; others would not. The Ohio data, noted above, suggest that a program with a $5 million project cap, but with only $3 million refundable in a year, can generate a high level of activity with commercial projects using the refund. The Ohio projects range from some claiming less than $100,000 in credits to others at the $5 million level. Other projects for which Ohio credits were claimed show total costs as high as $75 million. While some of these larger projects would probably not pass the "but for" test, Ohio does require a rigorous cost-benefit analysis from applicants to determine whether rehabilitation of the building will result in a net revenue gain in state and local taxes once the building is used. FJ

HARRY SCHWARTZ is a former director of Public Policy of the National Trust for Historic Preservation. Mr. Schwartz works with the National Trust in providing assistance to states seeking to adopt, improve and retain state tax incentives for historic rehabilitation. He won the John H. Chafee Trustee's Award for Outstanding Achievement in Public Policy in 2006.

RENEE KUHLMAN is the director of Special Projects in the Government Relations and Policy Department at the National Trust for Historic Preservation. Ms. Kuhlman helps states initiate, improve, and protect their historic tax credit programs.

TAKEAWAY

Click here to download chart of states with tax credits.