September 8, 2014

The Honorable Edmund G. Brown
Governor of the State of California
Governor’s Office, State Capitol
Sacramento, CA 95814

Re: AB 1999 (Atkins), Historic Buildings Rehabilitation Tax Credit – Request for Signature

Dear Governor Brown:

On behalf of the California Preservation Foundation and the American Institute of Architects, California Chapter, we are writing to respectfully request that you sign AB 1999 (Atkins), which was approved by both houses of the California Legislature with unanimous bipartisan support and which enjoys the strong support of the construction industry, municipal governments, design professionals, labor unions and preservation organizations.

AB 1999 will incentivize economic development in urban and rural regions throughout the State of California by creating jobs and restoring our state’s most historic properties. If AB 1999 is signed, California would join the 35 other states which have adopted a state historic tax credit program, a program which enjoys strong public support from the business, public, labor and nonprofit sectors of the economy.

This bill is sponsored by a broad-based coalition under the leadership of the California Preservation Foundation (CPF) and the American Institute of Architects California Council (AIACC). CPF is the only statewide nonprofit organization dedicated to the preservation of California’s diverse cultural and architectural heritage. CPF works with its extensive network of 1,500 members to provide statewide leadership, advocacy, and education to preserve historic resources throughout California. The AIACC is an association and the voice of nearly 10,000 architects in California who are dedicated to improving the quality of our communities and the built environment.

Specific Elements of AB 1999 (Atkins), the California Economic Development and Historic Preservation Tax Credit Act

AB 1999 is carefully structured to model California’s tax credit program on the most successful state historic preservation tax credit programs throughout the United States. Buildings must be listed on the National Register of Historic Places or the California Register of Historic Places in order to qualify for tax credits. This bill is unique precisely *because it requires a pre-screening evaluation to ensure that the tax credit will only be given to projects that demonstrate a positive return on investment to the state.* This is modeled on the State of Ohio’s very successful historic tax credit program which has developed a sophisticated input/output model for quantifying the state’s return on investment.
Specific elements of AB 1999 (Atkins) include:

- A 20% tax credit against personal income taxes and corporate taxes for qualified rehabilitation costs of designated historic properties.
- A 5% bonus tax credit for certain projects -- Transit-Oriented Development areas, government surplus properties, BRAC zones or low-income housing.
- Use of the credit by income-producing properties and owner-occupied buildings.
- An annual aggregate cap on the tax credit program of $50 million which includes a $10 million set-aside for small projects (less than $1 million)

Other provisions of AB 1999 (Atkins) include:

- Reservation and allocation of the state historic tax credit is subject to prior approval by the State of California on an individual application basis. This is an economic analysis that will project the return on investment (ROI) to the State of California. Only projects that demonstrate a positive ROI to the State of California will be eligible for tax credits.
- This bill prescribes certain criteria for determining whether a project should be awarded the state historic tax credit, including the estimated number of jobs and potential state and local tax revenues to be generated by the project. This will result in a quantifiable public benefit.
- The review will be done by the California Tax Credit Allocation Committee (CTCAC), in consultation with the Office of Historic Preservation (OHP).
- An effective date of January 1, 2015 and a sunset date of January 1, 2023.
- Annual accountability and reporting provisions by the Legislative Analyst’s Office.

If enacted, AB 1999 (Atkins) would:

- Create thousands of good-paying construction and building industry jobs.
- Enhance state tax revenues through increased economic activity, employment, and wages.
- Increase local revenues through increased tourism, downtown and neighborhood revitalization, property values and sales tax.
- Stimulate the economy, reduce blight, support the goals of “The Sustainable Communities Act” (SB 375), and preserve the rich legacies of California communities.
- Result in better environmental stewardship by reducing demolitions, related landfill waste and the need for new resources and energy to replace demolished buildings.
- Reduces blight and the associated problems of crime, homeless encampments, illegal dumping and graffiti.
- Improve safety in our historic buildings, including seismic safety.
- Combine these credits with other tax credits for greater leverage.
- Ensure that tax credits will be awarded to projects that demonstrate a positive return on investment to the State.

Historic Preservation Tax Credits are a proven tool to promote economic development and leverage private investment. A state historic tax credit will create opportunities to expand the rehabilitation of more underutilized historic buildings in communities throughout California. The federal historic preservation tax credit, coupled with the new California state historic preservation tax credit promises to trigger millions of dollars in private investment, rebuilding iconic places and everyday neighborhoods throughout California.

California’s AB 1999 is structured so that the leveraging is guaranteed. Some economic development incentive programs hope for, but cannot mandate, private investment. One cannot receive the 20 percent credit without first making 100 percent of the investment.
Economic studies of states with historic tax credit programs have proven that investments in historic buildings are an essential part of the local economy and historic tax credits generate more income than the cost of the tax credit. Historic downtowns generate increased economic activity by sustaining vibrant, diverse neighborhoods, encouraging heritage tourism, and elevating property values.

Since 1978, federal historic tax credits have rehabilitated more than 38,700 buildings, created 2.35 million jobs and leveraged over $106 billion in private investment nationwide achieving a leverage ratio of $5 in investment for every $1 of tax credit. From 2001 to 2012, $329.8 million in federal tax credits catalyzed 134 projects in California, totaling $1.6 billion in qualifying rehabilitation expenditures. This activity has and will generate:

- 27,673 jobs.
- $1.5 billion in Gross State Product.
- $111.2 million in state and local taxes.
- $347.5 million in federal taxes
- $329.8 million in federal tax credits

Numerous studies conducted by Rutgers University have shown that in many parts of the country, a $1 million investment in historic rehabilitation yields markedly better effects on employment, income, GSP, and state and local taxes than an equal investment in new construction or many other economic activities (e.g., manufacturing or services). Workers and materials are almost always procured within a short distance of the project and a local expertise is almost mandatory for many parts of the rehabilitation. These findings demonstrate that historic rehabilitation, combined holistically with the many activities of the broader economy, delivers a commendably strong “bang for the buck”.

In a 2010 report on the performance of the State of Delaware Historic Tax Credit Program, the following statistics on jobs and household income are strong indicators of the job and income-generating impact of historic rehabilitation:

- $1 million of output from a Delaware manufacturing firm will generate on average 9.2 jobs.
- $1 million new construction project will generate 11.2 jobs.
- But $1 million invested in the rehabilitation of a historic building will create 14.6 jobs.
- $1 million of output from a Delaware manufacturing firm will generate on average nearly $344,000 in household income.
- A $1 million new construction project will generate over $477,000 in household income.
- But $1 million invested in the rehabilitation of a historic building will mean nearly $540,000 in household income.

35 states have State Historic Preservation Tax Credit programs

To help make the case for supporting AB 1999, we look toward the 35 other states that have successful state historic tax credit programs and examine a few of the most successful and innovative programs in the country.

State of Missouri Historic Tax Credit Program

The CA Department of Finance recommended against passage of AB 1999 and references the State of Missouri’s 2014 audit of its historic tax credit program. The CA Department of Finance analysis of AB 1999 fails to state that the Missouri audit does not recommend terminating the program. It does, in fact, contain recommendations to improve the efficiency of the program with several alternative approaches to allocating the tax credits, including making the tax credits refundable (developers could use them to reduce their tax liability to zero and get a tax refund for any leftover credit amount). This is not a sweeping condemnation of the program as portrayed in the California Department of Finance analysis – it is a recommendation to expand and improve this very successful program.
The State of Missouri Tax Credit Review Commission (MTCRC) studied all of Missouri’s 61 state tax credit programs, including the Missouri Historic Tax Credit. Mr. Steven Stogel, Esq., co-chair of the MTCRC (2010 and 2012), reviewed the California Department of Finance analysis of AB 1999 with the following comments:

“The 25+ members of this commission from all sectors of Missouri overwhelming, if not unanimously, supported the Missouri Historic Tax Credit. The Historic Tax Credits produces dollars for a building’s restoration as part of the capital stack, which are coupled with debt, federal historic tax credit dollars, and sometimes other funds, such as federal housing tax credit dollars, other federal loan funds and developer equity dollars. So it is inconsistent, and in fact simply unfair, to cite the cost of converting the Missouri historic tax credits from its allocated or certificated form to cash for the project, as somehow different than the other sources of capital, each of which have costs attributed to that source of funds.

The California Department of Finance does not note how laudable the Missouri historic tax credit program really is. The Missouri state historic tax credits have resulted in a transformation of towns and cities throughout Missouri. For example, in 1997, there were 70 major vacant buildings in the St. Louis Central Business District of about 2 square miles out of the City’s 61 square miles. In 1998, the Missouri Historic Tax Credit was enacted. Today, there are fewer than 6 such empty buildings. This resurgence has at least tripled the downtown residency, promoted business developments and start-ups, landed major new corporate headquarters, and aided the important tourism and convention business. “

The benefit of the Missouri historic tax credits extends to all corners of Missouri, including Main Street communities. Over two-thirds of the buildings restored each year using the Missouri Historic Tax Credit are less than $275,000 in Missouri Historic Tax Credits. Since its adoption in 1998, the credit has resulted in 43,105 jobs created or retained; leveraged $2.9 billion in private investment; and generated $669 million in local and state tax revenues.

**Commonwealth of Virginia Historic Tax Credit Program**

The Commonwealth’s Joint Legislative Audit and Review Commission (JLARC) issued a report in 2011, titled “Review of the Effectiveness of Virginia Tax Preferences”. The report indicated that:

- The Virginia Historic Rehabilitation Tax Credit (VHRTC) is Virginia’s second-largest tax credit.
- “… The credit appears to effectively achieve its public policy goal of encouraging historic rehabilitation in the State.”
- Since the enactment of Virginia’s historic tax credit in 1997, the number of historic rehabilitation projects has increased 330%.
- When asked whether they would have rehabilitated a historic structure without the credit, almost two-thirds of survey respondents said that they would not have done so if it were not for the historic tax credits: 67% of respondents said the tax credit was “very important” to their decision to invest in the rehabilitation of a historic structure and 26% said it was “somewhat important.”
- The report concluded the State program had a profound impact on private investment in historic rehabilitation: “it is safe to say that absent the $1 billion invested in lieu of tax payments, the additional $3 billion in private funds would not have been invested in historic rehabilitation”, resulting in the rehabilitation of over 2,375 buildings.

**State of Ohio Historic Tax Credit Program**

*Every dollar of state tax credit leverages $6.25 in private sector investment.* An economic impact study of construction and selected operating impacts of the Ohio Historic Preservation Tax Credit Program concluded that in the construction period alone for projects approved in 2007 through 2010, the $246 million in tax
credits approved will lead to nearly $10 billion in economic activities in the state between 2007 and 2025. This activity drives significant job creation as well. The construction and operation of the rehabilitation and reoccupied buildings creates an estimated annual average of 6,976 jobs over the 19-year period, representing more than $5.4 billion in wages.

**A study of the state of Ohio’s historic tax credit program confirms that $.31 of every dollar spent by the state comes back during the construction period before the tax credit is awarded.** This is, in fact, true in all states with historic tax credits. Because the tax credit is paid out when the building is placed in service, all construction related tax collections are made before the state is out any money.

Ohio’s investment in the Historic Preservation Tax Credit (OHPTC) program is producing a multitude of benefits across the state of Ohio, including the preservation of local historic buildings, helping to create a sustainable approach to local development, local employment opportunities in construction and building operations, and growth in revenues for both state and local government. The OHPTC Program also pushed historic buildings to their best and highest use, with 82% of the buildings being vacant prior to redevelopment.

- Every $1 in OHPTC investment in the redevelopment of the 111 historic buildings will leverage $32.33 in operating benefits from 2010 – 2025. In addition, over 298.8 jobs in operations were created per $1 million awarded in Ohio Historic Preservation Tax Credits.
- For every $1 of OHPTC Program investment, the 111 redevelopment projects will generate $40.58 in total construction and operating impact to the Ohio economy. In addition, nearly 83 construction jobs were created per $1 million awarded in Ohio Historic Preservation Tax Credits.

**The enactment of the state tax credit would result in the rehabilitation of abandoned or underutilized properties for new commercial purposes.**

Historic preservation tax credit programs in other states, over a very long period of time, have been extraordinarily powerful in leveraging private investment to restore urban and rural areas alike. While the federal tax credit program has been successful in incentivizing the rehabilitation of larger projects in California, such as the Ferry Building in San Francisco, the absence of a state tax credit in California has resulted in a number of smaller historic properties left abandoned or underutilized.

Numerous case studies have shown that the use of federal tax credits, coupled with state tax credits, has stimulated development and rehabilitation of underutilized buildings by as much as tenfold. The Kansas state historic tax credit was implemented in 2002. During the 21-year period before the Kansas state historic tax credit enactment, a total of 50 federal historic tax credit projects were approved in the state (2.4/year average). A Rutgers University study of the 8 years following the enactment of a state historic tax credit found an approximate tenfold increase in historic tax credit activity (federal only and state/federal combined) to 542 projects. Average annual project volume increased by a factor of nearly 30, to 68/year. The resulting increase in rehabilitation project costs mushroomed by a factor of six.

**California has been underperforming over the life of the federal tax credit program and the enactment of a state tax credit program will enable federal dollars to flow into the California economy.**

The overriding intent of AB 1999 is to stimulate economic development and preserve historic buildings through a program that ensures a positive ROI to the state. **However, there are significant benefits of the state tax credit incentive beyond economic development.**

- **Improved Public Safety.** State tax credits can also provide much needed financial incentives for seismic retrofit in some of our most vulnerable building stock. As the recent 6.0 earthquake in Napa
demonstrates, strengthening our historic buildings to prevent catastrophic failure will ensure that communities are more resilient, save federal, state and local resources – and protect countless lives.

- AB 1999 is consistent with the goals of SB 375, “The Sustainable Communities and Climate Protection Act of 2008”. Investing in the rehabilitation of historic buildings also means that local taxpayers save money by not funding wasteful expansions of public infrastructure that increase sprawl, create congestion and ultimately erase the irreplaceable evidence of our proud heritage.

We urge you to sign this bill. If you have any questions or comments, please contact me at cheitzman@californiapreservation.org or by phone at (415) 495-0349, or CPF’s legislative advocate in Sacramento, Tony Gonzalez, at tony.gonzalez@grayling.com or by phone at (916) 804-8957, or Mark Christian with the AIACC at mark@aiacc.org or by phone at (916) 642-1708.

Yours truly,

Cindy Heitzman
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California Preservation Foundation

Mark Christian
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cc: The Honorable Toni Atkins, Speaker of the Assembly