THE HISTORIC TAX CREDIT:
BUILDING THE FUTURE IN LOUISIANA

PREPARED FOR THE LOUISIANA
OFFICE OF CULTURAL DEVELOPMENT,
DEPARTMENT OF CULTURE,
RECREATION & TOURISM

2017
BY PLACEECONOMICS, WASHINGTON D.C.

Office of the Lieutenant Governor
State of Louisiana

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Dear Stakeholder:

No state in America is more distinctive than Louisiana. From our history and architecture to our culture, cuisine, and music, there is no state as original or unique as the Pelican State.

One of the most effective tools we have to build that future is the Louisiana Historic Tax Credit. In the last decade more than $2.2 billion dollars have been invested in commercial properties throughout the state using that tool. These were not investments in the past; these were investments in Louisiana's future – creating housing, offices, arts and entertainment facilities, restaurants, stores, and more.

In recent years excellent analyses have been conducted to measure the powerful economic impact of the tax credit in creating jobs, generating tax revenues, and putting long-vacant buildings back to use. Highlights of those earlier findings are summarized in the pages that follow. But since becoming Lieutenant Governor, in my discussions with Legislators, members of the Executive Branch, and Louisiana citizens, I have been asked two questions about the Historic Tax Credit, usually phrased like this: "We know that the tax credit spurs the reinvestment in a historic building, but what happens next door or across the street? What is the catalytic impact that the historic tax credit has?" and "It's not just about the numbers. Who are the people who are using the credit and changing their communities?"

We commissioned this study to help answer those questions. Although we intuitively knew that the tax credit was effective, even those of us who have been supporters of the program were surprised by the breadth and depth of the impacts. In town after town, one historic rehabilitation project spurred additional investment…sometimes in other historic buildings, sometimes in new construction. Investment that was made possible through the tax credits increased property values down the street. Restored historic buildings have become home to a whole range of creative businesses and engaged millennials as activists in planning their communities' futures. The use of the state tax credit spurs a greater use of the Federal Historic Tax Credit, which ultimately keeps money in Louisiana that otherwise would have gone to Washington.

We are in challenging fiscal times in Louisiana and we need to address those issues. What we have learned from this report is that far from being a drain on the short-term budget, the historic tax credit pays long-term dividends, not just in paychecks and tax revenues, but in people, in culture, and in community. The reuse of these historic buildings today is literally building the foundation for a more prosperous Louisiana tomorrow.

Sincerely,

Billy Nungesser

Billy Nungesser
Lieutenant Governor

WHN/ls

KEY FINDINGS

This study examined the catalytic role of historic preservation projects in Louisiana, and focused on projects completed over the past ten years (2007-2016) that used historic tax credits. Included in the analysis were building rehabilitations that used the State Commercial Historic Tax Credit, the Federal Rehabilitation Tax Credit, or both.

The results are:

- **24 of Louisiana's 64 parishes** have seen buildings rehabilitated through tax credits
- **821 rehabilitation projects** have been completed using the State Commercial Tax Credit
- Nearly **$2.7 billion dollars** have been invested in Louisiana's historic buildings because of these tax credit programs
- Each year, on average, these rehabilitation projects generated 1,725 direct jobs and an additional 1,429 indirect and induced jobs
- The resulting paychecks from those jobs represented, on average, $102,744,000 each year in direct labor income and $62,667,000 in indirect and induced labor income
- 61% of the $2.7 billion in total investment went to historic rehabilitation projects that used both the state and federal historic tax credits; 21% was invested in projects using only the state commercial credit and the remaining 18% used only the federal credit
- **Every $1 that the State of Louisiana provides in commercial historic tax credits spurs $8.76 in additional economic activity**
- Fully half of all projects receiving the credit were smaller than $500,000 in total costs, demonstrating that **the historic tax credit is fundamentally a small business incentive**
- The tax credit is only awarded after the project is complete, but taxes are collected as the work progresses. As a result, for **every $1 of tax credit awarded, the Louisiana Treasury receives $.42 back before a developer or property owner can even use the credit**
- An estimated **$1,273,000,000 in investment using the federal historic tax credit** – nearly 60% of the total – would not have taken place were it not for the State Commercial Tax Credit. Had this investment not been made, each of the last ten years would, on average, have seen:
    - 1,497 fewer jobs
    - $78,518,000 less in labor income
    - $10,735,000 less in state tax collections

Additionally, this study focused in on six case study cities: Baton Rouge, Monroe, New Iberia, New Orleans, Shreveport, and Slidell. From these case studies we learned:

- In Baton Rouge, there has been a domino effect of one small historic rehabilitation project leading to others, represented by a dramatic increase in building permits
- In Monroe, even properties near historic rehabilitation projects have seen an increase in value of more than 20%
- In New Iberia, there has been a steady increase of investment in buildings near historic renovation projects
- In New Orleans, the redevelopment of an automobile showroom into a grocery store using the State Commercial Tax Credit has catalyzed nearly $140 million in private sector development
- In Shreveport, the redevelopment of historic buildings into housing has led to an increase of more than 90% in their downtown's population
- In Slidell, the redevelopment of small historic buildings in Olde Town has spawned new businesses and new jobs

But beyond the numbers, Louisiana citizens are using the State Commercial Tax Credit. These include developers and property owners, of course, but also small business owners and architects, millennials and baby boomers, residential tenants and artists, and local governments and downtown associations.

In challenging economic times, it is appropriate that governments at all levels review the programs and policies that have fiscal impacts. Virtually every preservation advocate interviewed during the preparation of this study welcomed the review of the State Commercial Tax Credit because they saw what it has done for their communities.

LOUISIANA'S HISTORIC TAX CREDIT

[I]t is…the public policy and in the public interest of this state to engage in a comprehensive program of historic preservation, undertaken at all levels of the government of this state and its political subdivisions, along with the private sector.

Louisiana has long understood the economic, social, cultural, and environmental importance of its historic resources. The Louisiana Legislature has formally recognized this importance by enacting into state statute the obligation to conserve those resources as a public policy priority (see sidebar).

In 2002, to meet their responsibility toward those historic resources, the Legislature created an extraordinarily potent tool to attract private investment into these buildings that represent a public good. The State Commercial Tax Credit is one of the most effective programs of its kind in the United States.

While Louisiana has both residential and commercial state tax credit programs, **this study concentrated on the State Commercial Tax Credit** as well as the federal tax credits used over the last decade. **Since 2007, the state commercial and federal tax credit programs have spurred nearly $2.7 Billion of investment in Louisiana's heritage.**

The legislature of this state has determined that the historical, architectural, and cultural heritage of this state is among the most important environmental assets of this state and furthermore that the rapid social and economic development of contemporary society threatens to destroy the remaining vestiges of this heritage, and it is thus hereby declared to be the public policy and in the public interest of this state to engage in a comprehensive program of historic preservation, undertaken at all levels of the government of this state and its political subdivisions, along with the private sector, to promote the use and conservation of such property for the education, inspiration, pleasure, and enrichment of the citizens of this state.

Acts 1974, No. 273, §1. Amended by Acts 1975, No. 592, §1, eff. Aug. 1, 1975.

HOW THE HISTORIC TAX CREDITS WORK

A tax credit is a dollar-for-dollar offset of income taxes that would otherwise have to be paid. Louisiana's commercial historic tax credit is 25% of the qualifying rehabilitation expenditures.

In simplified terms, if a building owner invests $100,000 in the appropriate rehabilitation of her historic building and uses the State Commercial Tax Credit, she will receive a $25,000 credit against her state income tax liability.

Some 35 other states also have historic tax credits, but the vast majority of them are simply a state version of the federal historic tax credit. The Legislature in Baton Rouge wanted to create a state tax credit that reflected the particular needs and challenges in Louisiana. Thus, the State Commercial Tax Credit program was created that differs in important ways from the federal tax credit. The most important of these differences are:

1) While the eligibility for the federal tax credit is for a property that is individually listed on the National Register of Historic Places or is a contributing building in a National Register Historic District, the Louisiana state tax credit is available to historic buildings (generally those greater than 50 years old) that are located in either a Downtown Development District or a Certified Cultural District. This creates opportunities to use the state tax credit in areas of cities and towns that don't have National Register districts, but do have historic buildings worthy of preservation.

2) The state tax credit earned through the investment in historic buildings is easily transferable to another party. While there is a mechanism to transfer the federal credits, it requires an ownership position in the rehabilitated property for at least five years. The transferability of the State Commercial Tax Credit means much less expenditure for transaction costs and allows both public and non-profit organizations to benefit from the credits. While sometimes it is possible for public or non-profit organizations to participate in a federal tax credit project, doing so is both an expensive and complex process.

3) The federal tax credit is 20% of the qualifying rehabilitation expenditure (QRE); the Louisiana credit is 25% currently, although it is set to decrease to 20% on January 1, 2018.

	FEDERAL HISTORIC TAX CREDIT	STATE COMMERCIAL HISTORIC TAX CREDIT
Eligibility	Listed on the National Register of Historic Places or within National Register Historic District	Historic building within a Downtown Development District or Certified Cultural District
Property Type	Income Producing	Income Producing
Amount of Credit	20% of Qualifying Expenditures	25% of Qualifying Expenditures; 20% after January 1, 2018
Transferability	Complicated; User of credit must be in "ownership" position for at least five years	Readily transferable without ownership requirement
Rehabilitation Standards	Must meet Secretary of the Interiors Standards for Rehabilitation	Must meet Secretary of the Interiors Standards for Rehabilitation
Review of Work	State Historic Preservation Office and National Park Service	State Historic Preservation Office
Minimum Investment	The greater of $5,000 or the basis of the building	$10,000
Qualifying Rehabilitation Expenditures (QRE)	Rehabilitation but not acquisition, site improvements or additions.	Rehabilitation but not acquisition, site improvements or additions.
Carry Back; Carry Forward	Carry back 1 year; Carry forward up to 20 years	Cannot be carried back; Carry forward up to 5 years

Most real estate transactions are funded with some combination of debt and equity. Debt is money that has to be repaid to the lender, usually a bank. Equity is the investment that the owner has to make. Because of the foresight of the Louisiana Legislature in making the State Commercial Tax Credit easily transferable, the state tax credit is often converted into equity. Here is a simplified version of how that works.

A non-profit organization has been given a historic but vacant and deteriorating building in one of Louisiana's Certified Cultural Districts. The rehabilitation cost is expected to be $1,000,000. Through fundraising and grants the organization has managed to put away $100,000 in cash. They have also secured a loan in the amount of $700,000. But that still leaves them $200,000 short of the funds necessary for the project to move forward. And because they are a non-profit organization, they do not have any tax liability.

Here is where the State Commercial Tax Credit comes to the rescue. The $1,000,000 rehabilitation will allow the organization to earn a $250,000 tax credit (25% of the rehabilitation amount). They approach a local corporation to whom they offer to sell the credit. The corporation responds with an offer to pay, for example, $220,000 in exchange for the $250,000 in tax credits and an agreement is made.

The organization uses the proceeds from the sale of the credits as additional equity for their project. Here is how the transaction looks before and after the sale of the credits:

	BEFORE CREDIT	AFTER SALE OF CREDIT
Rehabilitation Amount	$1,000,000	$1,000,000
Available Loan	$700,000	$700,000
Available Equity Cash	$100,000	$100,000
Equity from Tax Credit Sale	$0	$220,000
Total Funds Available	$800,000	$1,020,000
Shortfall	($200,000)	$0
Capital Available for Reserves or Other Uses	**$0**	**$20,000**

In other words, the State Commercial Tax Credit made possible a transaction that could not otherwise have taken place.

Depending on the particulars of the transaction and the nature and needs of the development entity, the tax credit is generally used for one or more of the following:

- Increase equity into the project
- Reduce the amount of loan required
- Increase the quality of the rehabilitation
- Add amenities to the development
- Keep rents lower than would otherwise be possible
- Reduce the risk to both the debt and the equity side of the transaction

In conducting this study, examples of each of the uses of the credit listed above were found. But in every event, the availability of the State Commercial Tax Credit draws the private capital–both debt and equity–needed to make the project feasible and thus enabling it to move forward.

In those cases where a Downtown Development District or Certified Cultural District is also a National Register Historic District, the state and federal historic tax credit can be used simultaneously. It is evident from the data that the state credit plays a critical role in encouraging the use of the federal credit.

It is also important to recognize the differences between the State Commercial Tax Credit and other tax incentives that might be considered or have been used in the past:

1) The rehabilitation work has to be completed and the quality of the work approved before *any* of the credit is available to the developer.

2) The credit is for the creation of a capital asset. These rehabilitated historic buildings will be contributing to the life, the economy, and the tax base of Louisiana for decades following the tax credits being awarded.

3) Local governments are significant beneficiaries of tax credit projects because increased property taxes post-rehabilitation will fund the salaries of teachers and police, maintain local parks, and help fulfill other responsibilities that the Louisiana Legislature has mandated that local governments meet.

To administer the historic tax credit programs, the primary responsibility falls to the Office of Cultural Development (Louisiana's State Historic Preservation Office). That office oversees the Federal Historic Rehabilitation Tax Credit and other federal historic preservation programs as well as the two state tax credits for historic preservation -- the Commercial Tax Credit and the Residential Tax Credit. As previously mentioned, this report focuses only on Louisiana's commercial state tax credit (referred to as State Commercial Tax Credit or state tax credit in this report) and federal historic tax credits.

PREVIOUS QUANTITATIVE ANALYSES OF LOUISIANA HISTORIC TAX CREDITS

Two earlier studies have analyzed the State Commercial Tax Credit program. Both are still available and are linked below. Dr. Timothy Ryan, an economist who specializes in state and local taxation, conducted the first study in 2011 of the state commercial tax credit. *The Economic Impact of Louisiana's Historic Tax Credit Program* looked at commercial projects completed between 2003, when the credit was first available for use, through 2010. Included in the report were the following findings:

- 117 projects completed
- $651 million in new investment
- $140.59 million in costs to the state in tax credits
- Projects created 11,034 construction jobs
- Projects created 5,711 permanent jobs

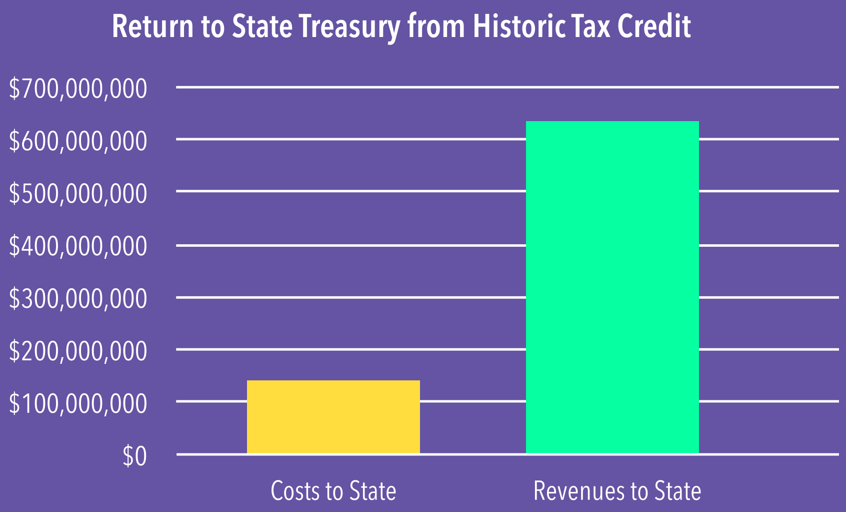
Dr. Ryan estimated tax revenues to state and local governments from both the construction phase of the projects and the permanent use of the rehabilitated historic building. Based on his calculations, there are substantial positive returns to the State of Louisiana on its historic tax credit investment. Over the life of the projects, it was anticipated that nearly $634 million would be received in state taxes as a return on the $140.59 million provided as tax credits.

In short, Dr. Ryan pointed out that, based on his data, for every $1.00 provided in historic tax credits the State of Louisiana will receive $3.22 in new tax collections.

In May 2015, the accounting and tax advisory firm Novogradac, LLC released an analysis of the State Commercial Tax Credit. In their report, *Economic Impact Analysis: Louisiana Historic Tax Credit Program*, the firm evaluated 367 commercial projects completed between 2003 and 2014.

Key findings in the Novogradac report included:

- The historic tax credit leveraged $880,000,000 of private investment
- Approximately 1 construction job was created for every $45,303 investment from the state
- The historic tax credit created 4,008 operational (permanent) jobs between 2003 and 2014



Source: Ryan, Timothy P. The Economic Impact of Louisiana's Historic Tax Credit Program. Report. 2011.

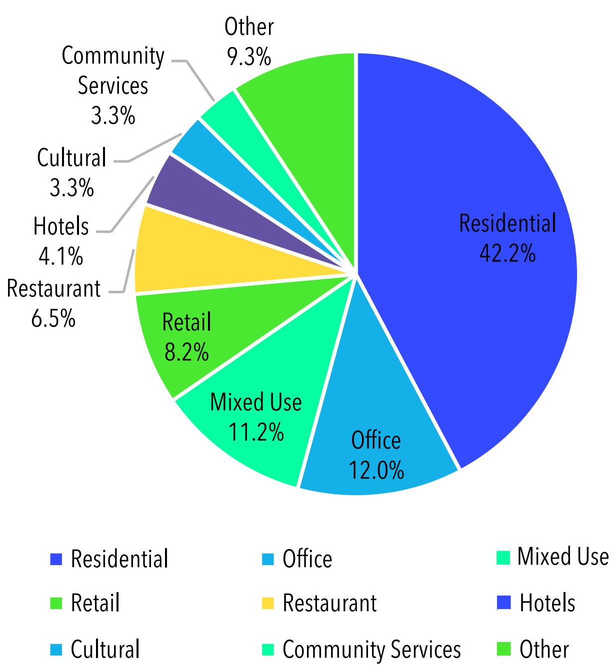
Furthermore, their report estimated the present value of the impacts of the tax credit investment made by the State of Louisiana as of 2014 through 2024. Here are their calculations:

Present Value of Construction Tax	$ 47,988,400
Present Value of Total Operational Tax	$620,485,853
Present Value of Household Tax	$143,936,472
Total Return to the State	**$821,410,725**
Total Cost to State based on 25% Tax Credit	$296,190,549
Dollar Return on Investment Tax	**$2.77**

This report also noted the rehabilitated historic buildings yielded a wide range of uses. Importantly, in light of the desperate need for housing post-Katrina, more than 40% of the projects were for residential development.

The conclusions of the Novogradac study are consistent with Dr. Ryan's findings: the State of Louisiana ultimately receives $2.77 in the state treasury for every $1.00 provided in state commercial tax credits.

Building Use after Historic Tax Credit Rehabilitation



Source: Novogradac & Company LLP, Economic Impact Analysis: Louisiana Historic Tax Credit Program. Report. 2015.

EVERY
$1,000,000
INVESTED
IN A HISTORIC REHABILITATION PROJECT
GENERATED
$751,378
IN ADDITIONAL ECONOMIC ACTIVITY WITHIN LOUISIANA

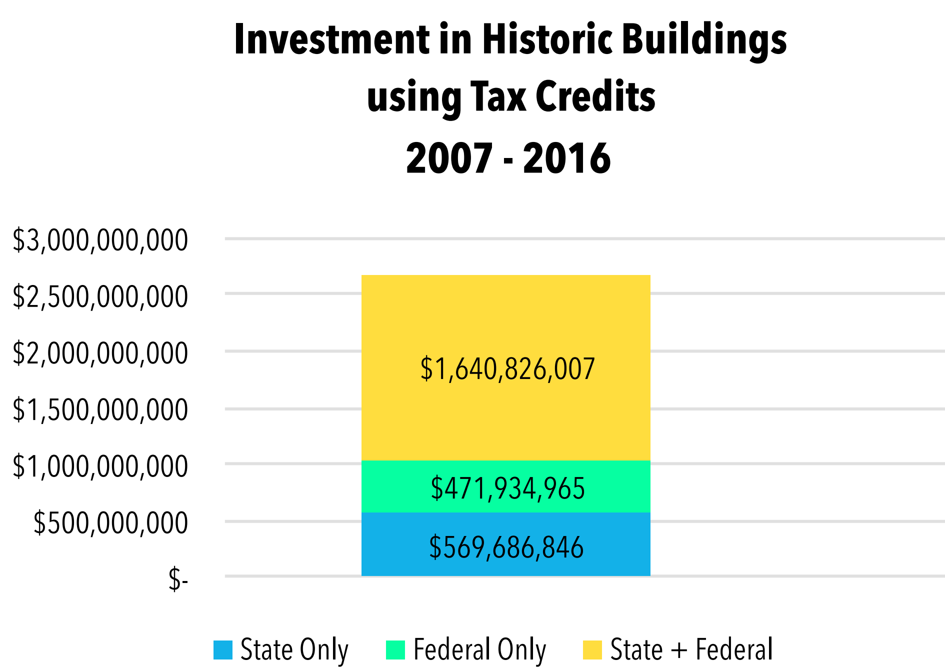
PROGRAM IMPACTS

Because the two earlier analyses well captured the long-term financial returns of the state tax credit to the State, we did not attempt to duplicate those approaches for this study.

Based on an analysis of the investment in commercial historic buildings over the last decade, however, the answers to some basic questions seemed appropriate for this study to address. Among these were:

- How much additional activity for the Louisiana economy is generated when a historic building is rehabilitated?
- How much of the total investment in the rehabilitation project is actually eligible for the historic tax credit?
- How much of the state's tax credit expenditure does the Louisiana treasury get back before the credit is awarded?
- Does the state tax credit stimulate the use of the federal historic tax credit?

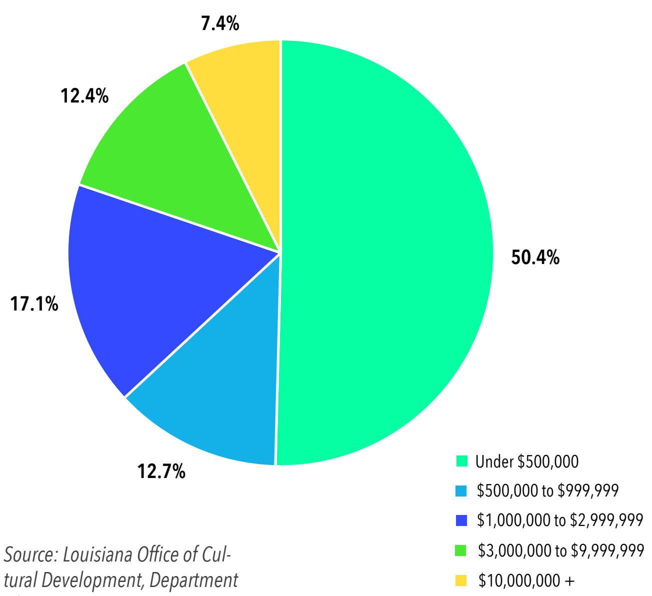
To answer those questions, it was necessary begin by looking at the total investment in Louisiana buildings using the historic tax credits over the last decade. Nearly $2.7 Billion has been invested in the future of Louisiana's historic resources. Nearly 61% of that investment used both the state and federal tax credits. Around 21% used state tax credits only and the balance used federal tax credits only. An investor would only be able to use the federal tax credit if his/her project were in a National Register District, whether or not it overlapped with a Downtown Development District or a Certified Cultural District. Conversely a project that was in a Downtown Development District or Certified Cultural District that is not overlapping with a National Register District would only be able to use the state tax credit.



Source: Louisiana Office of Cultural Development, Department of Culture, Recreation, & Tourism.

While multi-million dollar projects often get the headlines, the state tax credit can be seen as a small business incentive since half of all projects that used the credit were less than $500,000.

Size of Projects



Source: Louisiana Office of Cultural Development, Department of Culture, Recreation, & Tourism.

Based on the total amount of investment, it was possible to calculate the numbers of jobs, the amount of labor income, and the proprietor's income for each year. This was done using the IMPLAN[1] Input-Output model. On average, each year over the last decade these projects generated:

- 3,154 jobs[2] (1,725 Direct; 1,429 Indirect and Induced)
- $102,744,000 in Direct Labor Income and an additional $62,667,000 in Indirect and Induced Labor Income
- Direct Proprietor's Income of $25,918,804 and Indirect/Induced Proprietor's Income of $10,877,806

Every $1,000,000 invested in a historic rehabilitation project generated $751,378 in additional economic activity within Louisiana.

It is important to note that these jobs and income numbers are from the construction phase of the projects only and do not include permanent jobs within these buildings after construction is completed. The two earlier reports both made estimates of those permanent jobs.

The State Commercial Tax Credit is critical in spurring this investment. While a 25% tax credit may seem generous, an examination of the tax credit reports shows that sizable portions of the overall investment were even not eligible for tax credits. In fact, only around 80% of the total project investment qualified for the tax credit over the last ten years on average. Building additions, site improvements, and other non-qualifying expenditures did not receive any tax credit even though those expenditures are creating jobs and income for Louisiana workers. Here is how it actually works:

$100,000
in Tax Credits

$400,000
in Qualified investment

+

$100,000
in non-Qualifying investment

$376,000
Additional Economic Activity

1 IMPLAN is the industry standard for Input-Output modeling. Based on user data the model generates numbers of direct, indirect, and induced jobs, the labor income those jobs represent, proprietor's income and other measures.
2 A "job" is one full time equivalent job for one year

One important feature of both the federal and the state tax credits is that they are not awarded until the project is complete and has been certified as meeting the Secretary of Interior standards for rehabilitation. Therefore, all construction expenditures have to be made prior to any tax credit being received.

In the meantime, the State of Louisiana is collecting taxes from the project through sales tax on materials, personal income tax on labor and professional services, and corporate income tax on the profits of the proprietors. Conservatively, every time $100,000 is awarded in historic tax credits, the State of Louisiana receives:

- $5,075 in corporate income tax
- $13,416 in individual income tax on labor
- $5,254 in individual income tax on professional services
- $18,407 in sales tax on materials

In other words, more than $0.42 of every dollar in historic tax credits is recouped by the State *before* the tax credit is even awarded.

Finally, does the existence of a state historic tax credit spur an increased use of the federal historic tax credit? To answer that question, we examined all of the tax credit projects certified by the National Park Service between 1989 and 2016 on a state-by-state basis. Over that period, fourteen states and three other jurisdictions (District of Columbia, US Virgin Islands, and Puerto Rico) never had any state tax credit.

These states were large (California, Florida) and small (Alaska, Wyoming), and included East Coast (New Jersey) West Coast (Oregon), Midwest (South Dakota), South (Tennessee), and New England (Vermont). For this representative sample of all states we mapped the activity over the entire period of the use of the federal historic tax credit. Then we compared the change in tax credit investment over time with Louisiana and those non-tax credit states.

In the first fourteen years (1989 through 2003), the rate of increase in the use of federal tax credits in Louisiana was nearly identical to the non-tax credit states. The non-tax credit states saw historic building investment increase 181% over that time period while Louisiana's increase in activity was 177%. In other words, Louisiana, with no tax credit, was a virtual mirror of the other states without the incentive.

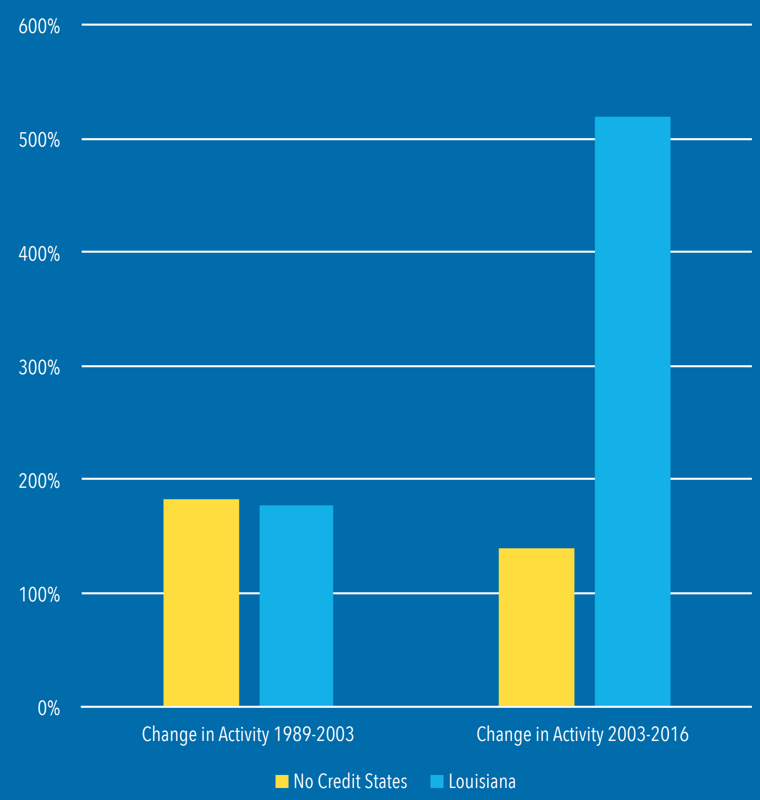
All states that did not have a state tax credit saw an increase in the use of federal tax credit over those first fourteen years.

In 2002 the Louisiana state tax credit was enacted. In 2003, when the tax credit went into effect, the pattern of rehabilitation changed dramatically.

We then compared the change in activity between 2003, the first year projects were completed using the new State Commercial Tax Credit, and 2016 with the change in activity of those non-tax credit states. The difference was astounding. Between 2003 and 2016, the non-tax credit states saw an increase in investment of just less than 139% while activity in Louisiana was up nearly 520%!

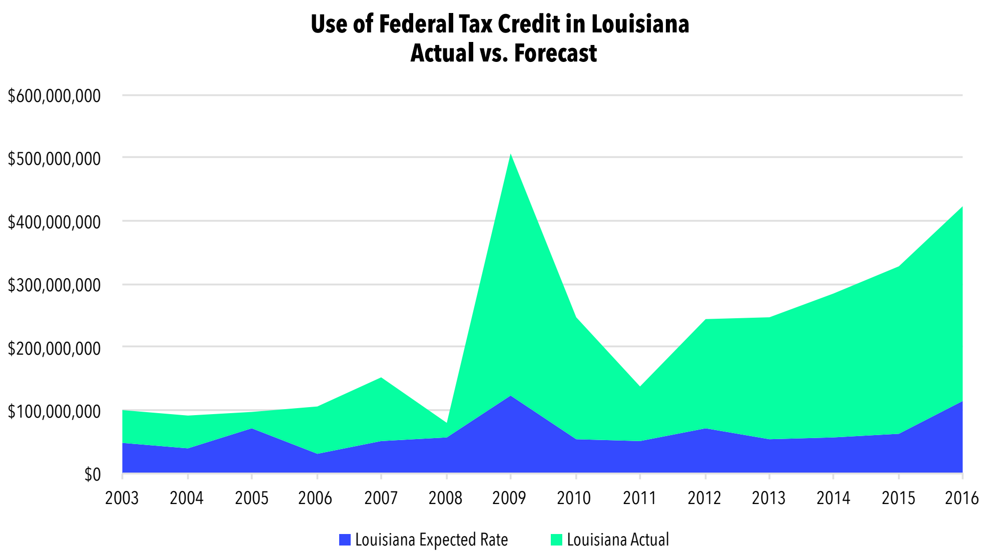
MORE THAN $0.42 OF EVERY DOLLAR IN HISTORIC TAX CREDITS IS RECOUPED BY THE STATE BEFORE THE TAX CREDIT IS EVEN AWARDED

Change in Tax Credit Usage
All States with No Credit vs Louisiana



Source: U.S. Department of the Interior, National Park Service Technical Preservation Services. Federal Tax Incentives for Rehabilitating Historic Buildings Statistical Report and Analysis. Fiscal Years 1989-2016.

Had Louisiana's Historic Tax Credit not been enacted in 2002 and put into effect in 2003, it is reasonable to forecast what the continued use of the federal tax credit would have been based on the pattern of the 14 years (1989-2003) prior to the state tax credit enactment. This is graphically represented below:



There are substantial differences between the actual federal tax credit usage and the projected usage were it not for the State Commercial Tax Credit. In fact, nearly $1.3 billion of investment using the federal historic tax credit would not have taken place if the State Commercial Tax Credit had not been available as well.

Had there been no state tax credit, Louisiana's economic activity would have been significantly lessened each year over the last decade in that Louisiana would have had:

- an average of 1,497 fewer jobs each year
- an average of $78,518,324 less in labor income each year
- an average of $10,734,735 in reduced state tax collections each year.

Nearly 60% (58.9%) of the federal tax credit's use in Louisiana over the last decade is attributable to the existence of the state tax credit. That means that because the state tax credit spurred increased use of the federal historic tax credit, $203,000,000 of federal qualified rehabilitation expenditures (QREs) remained in Louisiana.

Property owners and developers in every corner of Louisiana are using both the state and federal historic tax credits to transform the state. A new future is being created from old buildings, resulting in jobs, income, and taxes generated through the state.

NEARLY 60% OF THE FEDERAL TAX CREDIT'S USE IN LOUISIANA OVER THE LAST DECADE IS ATTRIBUTABLE TO THE EXISTENCE OF THE STATE TAX CREDIT

Source: U.S. Department of the Interior, National Park Service Technical Preservation Services. Federal Tax Incentives for Rehabilitating Historic Buildings Statistical Report and Analysis. Fiscal Years 1989-2016.