



# THE MISSING KEY

A STUDY OF THE IMPACT AND POTENTIAL OF THE PENNSYLVANIA STATE HISTORIC TAX CREDIT  
Prepared for Preservation Pennsylvania | April 2019





The Simon Silk Mill - Easton  
Cover Photo: Governor Wolf Building - Easton





Millworks - Harrisburg

# EXECUTIVE SUMMARY

Pennsylvania is a state of history. With a diversity of heritage resources, there is virtually no limit to the economic development potential—but only if these resources are appropriately maximized. The Pennsylvania Historic Preservation Tax Credit (PA-HPTC) program was established by state legislative action in 2012 and has since helped rehabilitate irreplaceable historic buildings across Pennsylvania. As with any public incentive program, it is appropriate to review the program periodically, analyze its impact, and consider potential improvements. With the PA-HPTC set to expire in 2020, such an assessment is timely. This study examined the impacts and effectiveness of historic tax credit projects that utilized the PA-HPTC, the Federal Rehabilitation Tax Credit, or both. This study also compares the PA-HPTC to other states with more effective state historic tax credit programs, providing a data-driven analysis of the potential impacts of an improved PA-HPTC.

The key findings are:

- The PA-HPTC program has awarded \$15.0 million in credits since its enactment, which has supported projects with a total projected value of more than \$700 million in public and private investment.<sup>1</sup>
- Historic building rehabilitation is high impact economic development, per dollar investment outperforming other major state industries in jobs and labor income.
- The median project size of PA-HPTC projects is \$2,362,861—projects of diverse scales are receiving the credit.
- The Pennsylvania Treasury receives back over 37% of the credit that was awarded during the construction phase—before the credit can even be used.
- A \$1,000,000 investment in a historic rehabilitation project generates 6.4 direct jobs and 5.6 indirect/induced jobs in Pennsylvania.
- The resulting wages represent \$391,766 direct income and \$290,283 indirect/induced income. An additional \$853,514 of economic activity is generated elsewhere in the Pennsylvania economy from these jobs.
- In Pennsylvania, on average for every \$100.00 that is spent on a historic rehabilitation project that qualifies for the federal and state tax credits, an additional \$17.30 is spent on project related costs that do not qualify for the credit, but still generate jobs and income.
- An analysis of other states reveals that 40% to 60% of the use of the Federal tax credit is attributable to the existence of a state tax credit. No such pattern exists in Pennsylvania.
- The demand for the use of the Pennsylvania Historic Preservation Tax Credit far exceeds the money available, with requests for \$8 of credits for every \$1 that can be awarded under the existing cap.
- If the cap on the Pennsylvania Historic Preservation Tax Credit were increased to \$50 million per year, it is anticipated an additional 2,800 jobs and \$160 million in labor income would be generated.

<sup>1</sup> While \$15 Million in credits have been awarded, not all of those projects are yet complete.





The Waldorf School - Philadelphia

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Briggs House - Harrisburg

# INTRODUCTION

*“Birthplace of a mighty nation, keystone of the land.”*  
**Pennsylvania, State Song of Pennsylvania**

From its position as the middle colony of the original thirteen colonies, Pennsylvania was given the nickname of the “Keystone State.” In architectural jargon, a keystone describes the central wedge-shaped stone within an arch, critical to hold the whole in place. Economically, politically, and socially, Pennsylvania has always been central to the story of this country. As the birthplace of our nation, as an industrial powerhouse, and as a wellspring abundant in natural resources, the Keystone State is a key player by all accounts.

The many historic structures across the state of Pennsylvania bear testament to its prominence. From Independence Hall, where two of our most treasured documents were penned and signed, to its many towering industrial monuments, to its abundant agricultural landscapes, the diversity of Pennsylvania’s heritage resources speaks to the multitude of contributions the state has made.

A key state needs a key tool in its tool box: the state historic tax credit. The historic tax credit is a state investment that leverages existing sites and infrastructure for wider impact, providing benefits to residents and returns to the local municipality and state. Across the country, state historic tax credit programs have proven to be a vital key that unlocks the potential of underutilized historic buildings, making complex historic rehabilitation projects feasible. Of the historic buildings rehabilitated through the Pennsylvania state tax credit, a majority were vacant and underutilized prior to the rehabilitation. The robust statewide surveying program and early listing of significant properties means many towns have buildings that are candidates for tax credit rehabilitation. The neighborhood revitalization and post-rehab impacts from tax credit projects are reviving towns across Pennsylvania.

The Pennsylvania Historic Preservation Tax Credit (PA-HPTC) program was established by state legislative action in 2012 and the first applications were accepted and tax credits awarded in 2013. An allocation of \$3.0 million in credits was made available to the program in year one and \$3.0 million has been available in each subsequent year. The total tax credits awarded to a qualified taxpayer may not exceed \$500,000 in any fiscal year and credits are distributed equitably across each of the five regions of the state.



# GOALS OF THIS REPORT

A recent report from the Independent Fiscal Office (IFO) of Pennsylvania notes that in establishing the PA-HPTC, “the IFO was unable to locate any documents that describe the purpose or legislative intent of the tax credit.” It goes on to state that “the purpose and goals of the tax credit must be established so that the analysis can fulfill the requirements described in statute.” By reviewing the purposes and goals of other similar state tax credit programs, the IFO notes that “...the analysis [of other state programs] assumes that the purpose of the tax credit is:

- The preservation of culture and history that is unique to local communities or the state, and if applicable, the long-term revitalization of historic communities.”

The analysis assumes that the main goals of the PA-HPTC are as follows:

- To increase the number of certified historic structures that are preserved and rehabilitated than would otherwise occur.
- The reduction of urban blight and abandoned buildings.
- The enhancement of positive social and psychological factors that make communities an attractive place to live, work and visit.
- Long-term economic development as reflected by various economic metrics, such as business sales, income and jobs.

We would suggest one addition to these goals:

- To preserve and reuse the many historic structures that are integral to the Pennsylvania story.

The PA-HPTC program has awarded \$15.0 million in credits since its founding and has supported projects with a conservatively estimated total projected value of \$704,000,000.<sup>2</sup>

This report was commissioned by Preservation Pennsylvania to:

- Assess the economic impact of PA-HPTC program to date.
- Compare the effectiveness of the PA-HPTC program to programs in similar states.
- Project the economic impact of a continued and enhanced PA-HPTC.
- Analyze how the PA-HPTC affects use of the federal historic tax credit.
- Identify ways that the current program might be improved to provide a greater return to Pennsylvania tax payers.
- Acknowledge the pending legislative sunset and prepare material sufficient to guide legislators in their renewal discussions.

<sup>2</sup> \$704 million is the total amount of private sector investment in projects that used the PA-HPTC. Around 70 percent of that amount was “Qualified Rehabilitation Expenditure” eligible for tax credits and just over 30 percent was primarily new construction that was part of the historic preservation project. While this additional amount also created jobs and household income, it did not receive either the federal or state tax credit.

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Duquesne Brew House - Pittsburgh



# RECOMMENDATIONS

The study team visited seven communities (Philadelphia, Easton, West Chester, Harrisburg, York, Pittsburgh, Lykens) and met with over 25 individuals (developers, property owners, end users, historic preservation advocates, elected officials) to look at and discuss PA-HPTC projects. Projects ranged from affordable housing rehabs to industrial buildings, from theaters to major hotel redevelopments. Each person had experience to share on the value and importance of the PA-HPTC and all offered comments to help frame the findings presented here.

While the PA-HPTC program meets many of the commonly accepted “best practices” for historic tax credits, discussions with developers, property owners, local officials and other users of the tax credit program have revealed concerns as the program currently exists. These include:

- The lack of predictability in the application schedule
- Uncertain timing in the awards
- An inadequate amount of overall funding available
- An inability to include the State tax credits as part of the sources of funds in the initial financing assumptions
- Uncertainty as to who gets the credit and why
- Credits are spread too thin on a geographical basis to have major impact on most protects
- Per project limit is too small

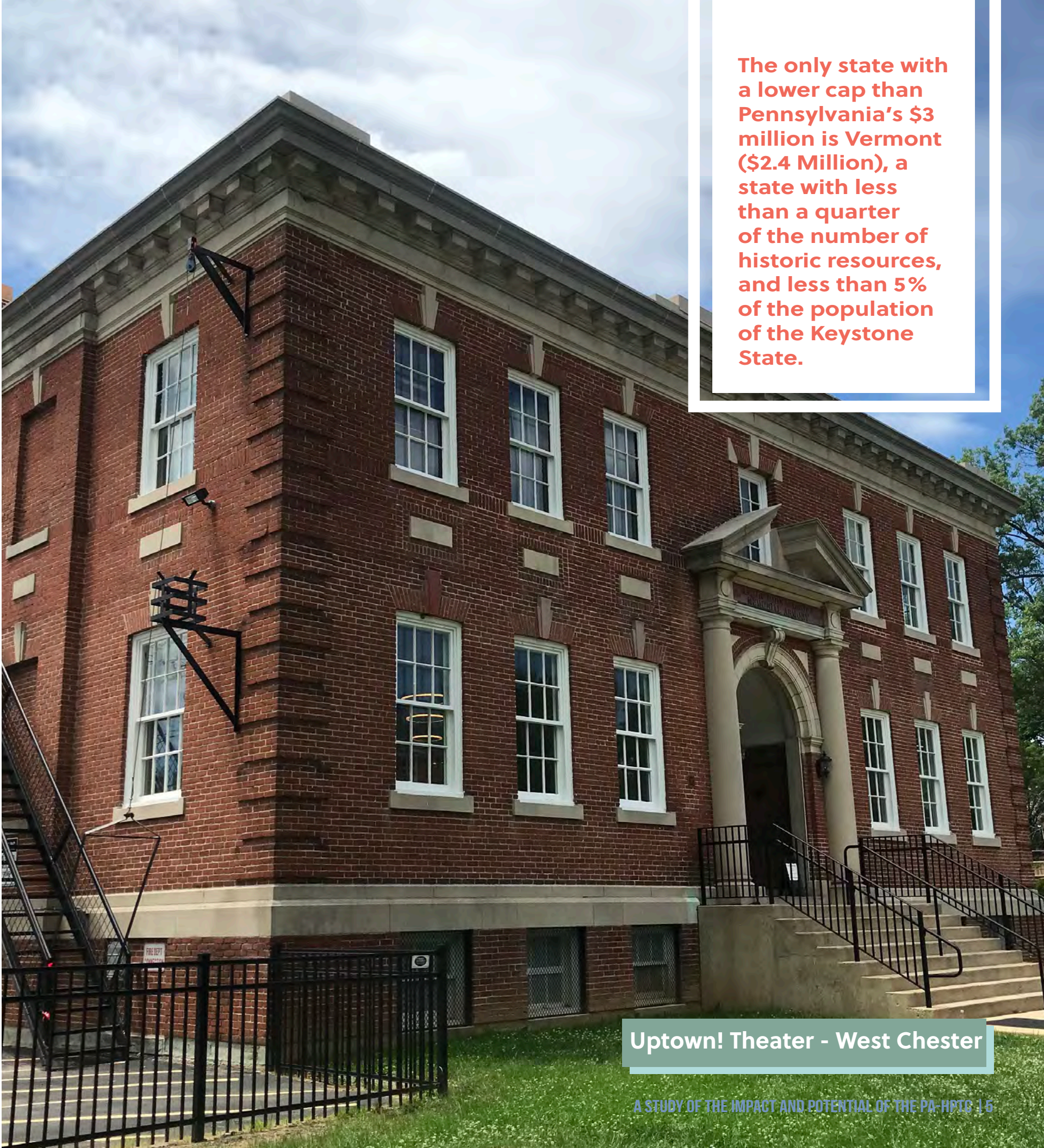
Developers, property owners and officials also had suggestions for ways to improve the credit program. These proposals represent the ideas and creative thinking of the individuals using the PA-HPTC, not necessarily a formal set of recommendations.

- Improve the predictability of receiving the credit
- Establish a defined opening date and multiple application times
- Provide more education for users and potential applicants
- Fund the credit at \$40-\$50 million
- Make the funding steady
- Evaluate applications for multiple impacts, including social and environmental
- Pre-screen eligible applicants to speed up the process
- Create targets every two to three years, e.g. schools, mills, residential areas, downtown areas, small businesses, investment zones
- Establish a differentiated credit in CDBG and non-CDBG-eligible census tracts
- Establish higher caps for total and individual projects

Upon assessing the program and incorporating stakeholder feedback, PlaceEconomics arrived at the following recommendations:

- Improve the tax credit program predictability. For the PA-HPTC program to reach its full potential, property owners and developers need to rely on the availability of the credits when planning their historic rehabilitation projects.
- Increase the cap. Of the 35 states that currently have a historic tax credit, sixteen have no annual cap at all. The average cap of those that do is \$25 million. The only state with a lower cap than Pennsylvania’s \$3 million is Vermont (\$2.4 Million), a state with less than a quarter of the number of historic resources, and a less than 5% of the population of the Keystone State. The \$3 million annual cap on the credits is far less that could be productively used, and fails to fully achieve the goals upon which the legislation was enacted.
- Raise the dollar amounts available for both projects and total program dollars. The per project cap of \$500,000 simply is not sufficient to change the investment calculus for large, catalytic projects.

The only state with a lower cap than Pennsylvania’s \$3 million is Vermont (\$2.4 Million), a state with less than a quarter of the number of historic resources, and less than 5% of the population of the Keystone State.



Uptown! Theater - West Chester



# PENNSYLVANIA’S EXISTING HISTORIC TAX CREDIT

When Pennsylvania established its historic tax credit program in 2012 it became the 30th state to do so. Today, Pennsylvania is one of over 35 states that have historic preservation tax credits, the majority of which are a mirror of the federal historic tax credit. In a time of economic downturn, financial strain, and budget shortfall, the State Legislature established a program that reflected the unique needs and challenges of Pennsylvania. The results of the program can be seen in every corner of the state, having been used in 50 Pennsylvania communities.

The tax credit projects leverage existing assets and infrastructure therefore reducing demolition and landfill expansion, limiting sprawl and preserving open space. The results have also turned vacant buildings into vibrant spaces. The projects have created jobs, increased local tax base, and encouraged additional investment, while reusing historically important buildings for work, play, housing and entertainment.

## HOW THE HISTORIC TAX CREDITS WORK

The Federal government has offered an historic preservation tax credit (Investment Tax Credit for Rehabilitation) since 1981 to attract investment for the reuse of historic buildings. As revised in 1986 it provides a 20% tax credit to qualified investors who do certified rehabilitations on designated historic buildings. Twenty percent of qualifying rehabilitation expenditures (QREs) can be packaged as a tax credit and used by developers or transferred to an entity with tax liability, thus generating equity that may be used to complete a project.

The Pennsylvania State Historic Preservation Tax Credit is a dollar-for-dollar offset of taxes that would otherwise have been paid.<sup>3</sup> The Pennsylvania historic preservation tax credit is 25% of the qualifying rehabilitation expenditures up to \$500,000 per qualified taxpayer. In exchange, the state authorizes up to \$3,000,000 in tax credits per fiscal year. The demand for the program is immense, as the requested amount of tax credits has far exceeded the \$3,000,000 available each year. Each year the \$3,000,000 in tax credits is awarded in a balanced spread to each region of the state.

It is important to note a few characteristics about the historic preservation tax credits:

- The applicant and rehabilitation plan must be completed and approved before the credits are assigned to the applicant.
- The credit is for the rehabilitation of a capital asset. These rehabilitated historic buildings will be contributing to the life, economy, and tax base of Pennsylvania communities for decades following the tax credits being awarded.
- Local governments are significant beneficiaries due to the increased property taxes post-rehabilitation. These funds will pay the salaries of police and school teachers, maintain local roads, and fund other local government responsibilities.

<sup>3</sup> May be applied against the tax liability imposed on a taxpayer including Personal Income Tax, Corporate Net Income Tax, Capital Stock-Franchise Tax, Bank and Trust Company Shares Tax, Title Insurance Companies Shares Tax, Insurance Premiums Tax, Gross Receipts Tax or Mutual Thrift Institution Tax.

## THE MATRIX BELOW EXPLAINS IN MORE DETAIL ABOUT HOW THE TAX CREDIT WORKS:

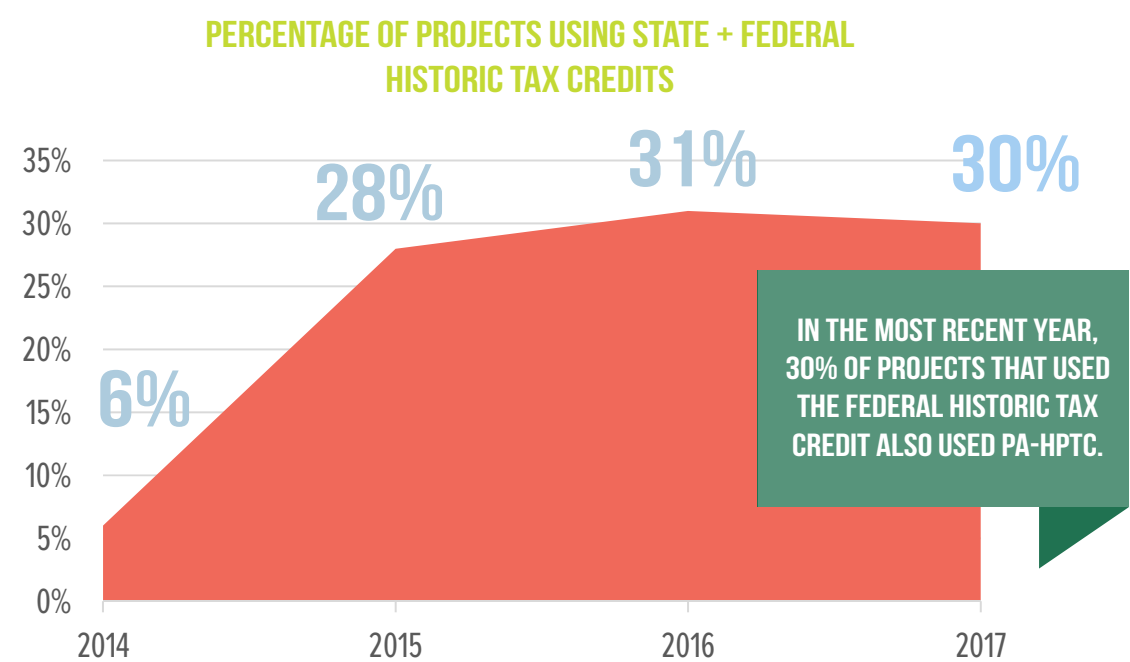
	FEDERAL HISTORIC TAX CREDIT	PENNSYLVANIA STATE HISTORIC PRESERVATION TAX CREDIT
Eligibility	Listed individually on the National Register of Historic Places; A contributing building within a National Register-listed historic district	Listed individually on the National Register of Historic Places; A contributing building within a National Register-listed historic district
Property Type	Income Producing	Income Producing
Credit Amount	20% of Qualifying Rehabilitation Expenditures (QREs)	25% of QREs up to \$500,000 per project, with a \$3 million annual cap.
Transferability	Difficult - a credit user must be in “ownership” for five years	Easy - by certificate only
Rehabilitation Standards	Secretary of Interior’s Standards for Rehabilitation	Secretary of Interior’s Standards for Rehabilitation
Review	State Historic Preservation Officer; National Park Service	Pennsylvania Historical and Museum Commission
Minimum Investment	The greater of \$5,000 or the basis of the building	The greater of \$5,000 or the basis of the building
Qualifying Rehabilitation Expenditures (QREs)	Rehabilitation, but not acquisition; Site improvements or additions	Rehabilitation; demolition of non-historic resource or historic resource owing to structural failure; reconstruction of historic features; hazard abatement; rental equipment (but shall not exceed 15% of total QRE)
Carry Back/Carry Forward	Carry back 1 year; Carry forward up to 20 years	Carry forward 7 years
Geographic Allocation	NA	Credits awarded equitably for projects in each region of the state



# A \$1 MILLION INVESTMENT IN A HISTORIC REHABILITATION PROJECT GENERATES 6.4 DIRECT JOBS AND 5.6 INDIRECT JOBS IN PENNSYLVANIA.

## THE IMPACTS

This section of analysis looked at the economic impact of projects that used the federal historic rehabilitation tax credits, the state historic tax credit or both in Pennsylvania 2008-2017. During that time, over 330 projects were completed resulting in over \$2.8 billion in investment. Overall, the vast majority of projects have utilized only the federal historic tax credit. However, since the addition of the state historic preservation tax credit in 2012, and the first completed state historic preservation tax credit projects starting in 2014, the percentage of projects utilizing both the state and federal has risen steadily each year. However, the number of projects utilizing both credits only reached around 30% because of the limited credits available.



While more and more projects are taking advantage of the layering of the state and federal tax credits over the life of the program, 15 percent of the funds invested in these projects was not eligible for the tax credit. The reason is that with the high standards for rehabilitation and oversight of the rehabilitation plan some projects have new construction or additions that are not eligible for tax credits. Other expenses such as site improvements or acquisition are also not eligible. Of the \$2.8 billion, \$2.3 billion qualified for state and/or federal tax credits.

## JOB CREATION FROM BUILDING REHABILITATION

Rehabilitation is labor intensive, and therefore it has a significant impact on the local economy. Within a new construction project, expenditures are divided equally between labor and materials, but in rehabilitation, 60-70% of those costs are spent on labor because of the skilled trades necessary. Rehabilitation is economic development because it creates jobs. But not only does it create jobs, it creates well-paying jobs. The dollars paid to workers are not a one-off investment—those workers turn around and spend those dollars in their local communities, stimulating their economies.

One of the ways to measure the impact of any economic activity is to calculate the numbers of jobs and the amount of labor income generated per \$1,000,000 of output. For the report, the jobs and labor income of historic rehabilitation was compared with other major industries in Pennsylvania. When \$1,000,000 are invested in the rehabilitation of a Pennsylvania historic building, 6.4 direct jobs and 5.6 indirect or induced jobs are created. This investment produces \$391,766 in direct Labor income, or \$61,213 per job, and \$290,283 in indirect/induced labor income, or \$51,836 per job. But the outputs don't stop there—that \$1,000,000 investment on just one site means an additional \$853,514 of activity elsewhere in the Pennsylvania economy. The table below compares the jobs and incomes of six other major economic sectors in the state.

## HOW DOES \$1,000,000 SPENT ON HISTORIC REHABILITATION COMPARE WITH \$1,000,000 IN OUTPUT FROM OTHER INDUSTRIES?\*

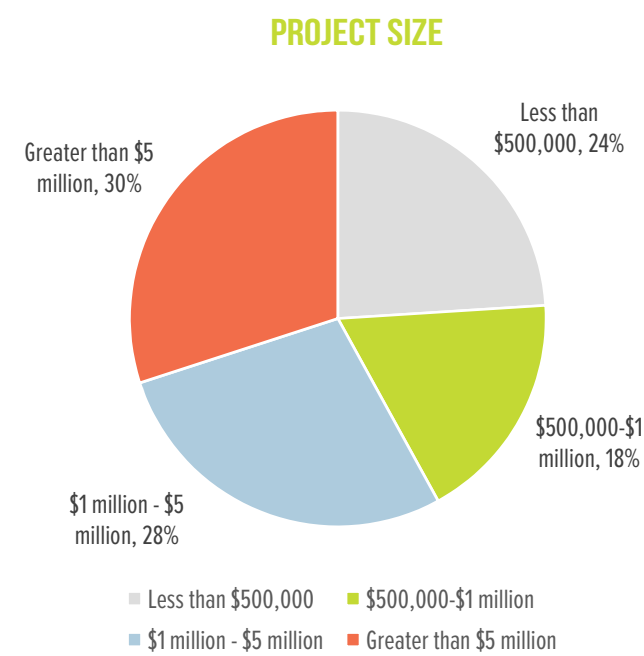
	HISTORIC REHAB	FOOD PROCESSING	NATURAL GAS INDUSTRIES	FABRICATED METALS	MEDICAL DEVICES	CHEMICAL MANUFACTURE	DRUGS/ PHARMACEUTICALS
DIRECT JOBS	6.4	1.9	3.1	2.1	2.2	0.8	1.6
INDIRECT INDUCED JOBS	5.6	4.0	3.9	3.6	4.1	2.6	4.2
TOTAL JOBS	12.0	5.9	7.0	5.7	6.3	3.4	5.8
DIRECT INCOME	\$391,766	\$109,462	\$322,833	\$153,144	\$216,104	\$104,363	\$215,874
INDIRECT/ INDUCED INCOME	\$290,283	\$226,587	\$243,521	\$220,161	\$246,901	\$164,194	\$275,289
TOTAL INCOME	\$682,049	\$336,049	\$566,354	\$373,305	\$463,005	\$268,557	\$491,163

\*Source: IMPLAN Group, LLC. IMPLAN (Data and Software) Huntersville, NC. IMPLAN.com.



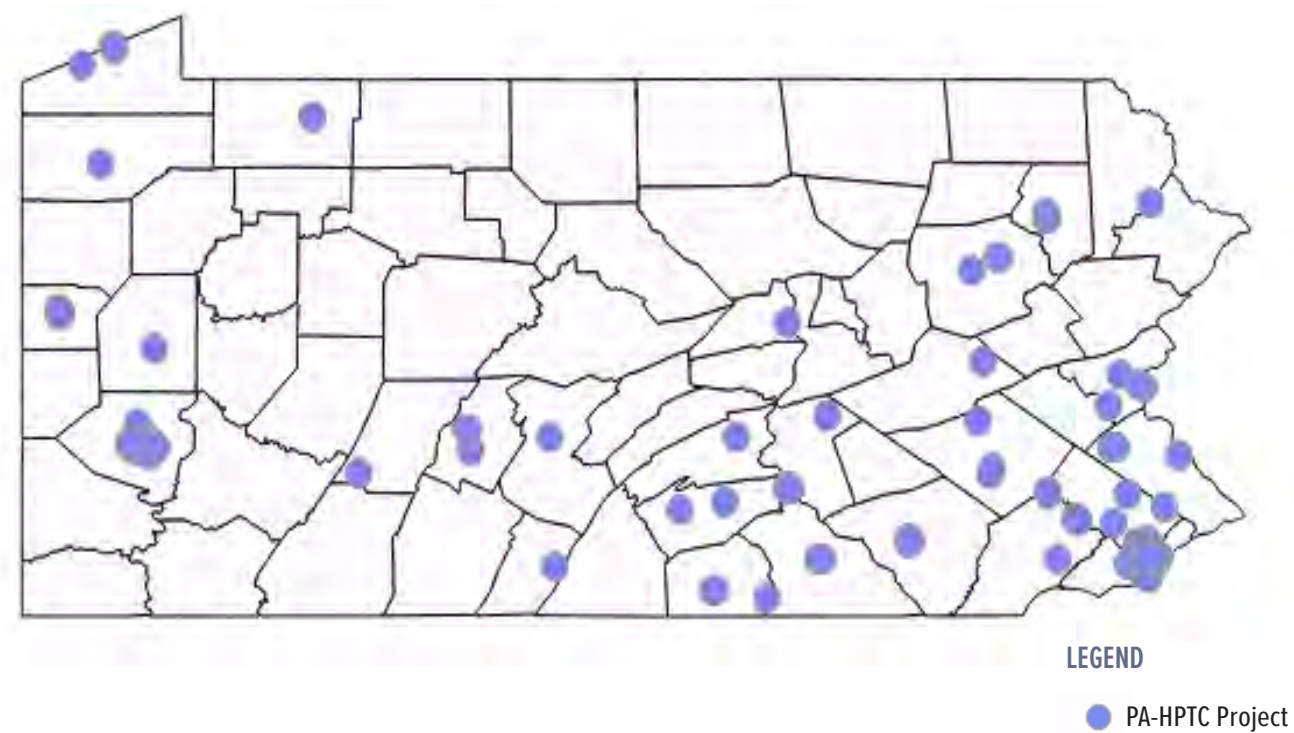
# SIZE OF THE PROJECT

While the multi-million-dollar projects often get the headlines, nearly half of all Pennsylvania’s historic tax credit projects are very much of the “mom and pop” variety, with a project size less than a million dollars. The utility of the tax credit for smaller projects is critical. While large developments can often attract investment from pension funds, insurance companies, corporations, and high income individuals, small projects are usually funded out of the pockets of the building owners. That is where the ability to use both a state and federal credit together can make smaller projects, often in smaller communities, possible. While 42% of Pennsylvania tax credit projects were under \$1 million, nationally half of all projects were of that smaller size. At the other end of the spectrum, while nationally 23% of projects were more than \$5 million, in Pennsylvania 30% were that size.



# LOCATION OF PROJECTS

It may be assumed that all the projects occur in Philadelphia or Pittsburgh; in fact 50 communities across the state have benefited from state historic preservation rehab tax credit projects. This is further spread out by the geographic allocation requirement of the tax credit legislation and the fact that Pennsylvania has had a robust National Register of Historic Places survey and listing program that has enabled small towns across the state to identify buildings that may be eligible for tax credits.



*The Avenir, a historic tax credit project in Philadelphia, includes 180 “efficiently designed apartments,” some of which are Philly’s first micro units ranging from 314 to 434 square-feet.*

# HOUSING UNITS

Since 2008 over 6,100 housing units have been created through federal and state tax credit rehabilitation projects in Pennsylvania. Nineteen (19%) of those were affordable housing units. Again it appears that an effective state tax credit combined with both the federal historic tax credit as well as the Low Income Housing Tax Credit can make a substantial difference in providing affordable housing. Over the life of the federal historic tax credit, nearly 30% of all housing units rehabilitated or created have been affordable units.

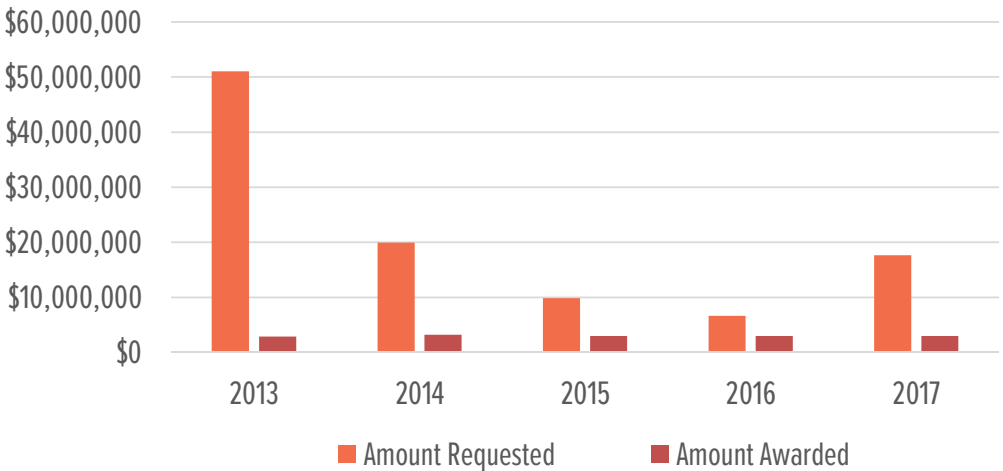


# DEMAND FOR CREDITS VERSUS CREDITS AVAILABLE TO AWARD

As noted above, under the existing law only \$3 million per year is available to be awarded as a state tax credit. The demand for those credits, however, is more than 8 times that which is currently available. Since the Pennsylvania Historic Preservation Tax Credit became available there have been requests of \$116,642,000 in tax credits, of which only \$15 million could be awarded.

THE DEMAND FOR THE USE OF THE PA-HPTC FAR EXCEEDS THE CREDITS AVAILABLE, WITH REQUESTS FOR \$8 OF CREDITS FOR EVERY \$1 THAT CAN BE AWARDED UNDER THE EXISTING CAP.

# TAX CREDITS REQUESTED VS REWARDED





# HOW PENNSYLVANIA RANKS IN HISTORIC RESOURCES AND USE OF FEDERAL TAX CREDIT



PENNSYLVANIA IS  
**DENSE**  
WITH HISTORIC  
RESOURCES

PENNSYLVANIA RANKS  
**5TH**  
IN TOTAL NUMBER OF  
NATIONAL REGISTER  
LISTINGS, WITH  
**3495**  
LISTINGS.

BETWEEN 1989 AND 2017, PENNSYLVANIA RANKED 3RD IN USE OF THE FEDERAL TAX CREDIT, WITH AN OVERALL USE OF

**\$5,162,986,293.**

HOWEVER, BETWEEN 2013 AND 2017, PENNSYLVANIA CAME IN 6TH—BEHIND NEW YORK, ILLINOIS, MASSACHUSETTS, MISSOURI, AND OHIO—WITH AN OVERALL USE OF

**\$1,450,982,899.**



Yorktowne Hotel - York



# THE PA HISTORIC TAX CREDIT COMPARED TO OTHER STATE PROGRAMS

## WHY DO SOME STATE HISTORIC PRESERVATION TAX CREDITS WORK BETTER THAN OTHERS?<sup>4</sup>

While a state historic tax credit in almost any form is a boon for economic development and rehabilitation activity, some programs are more effective than others. In general, two factors largely influence the effectiveness of state historic tax credit programs: the presence and amount of a cap on credit funds available and the ease or difficulty of transferring credits.

A cap on a historic tax credit inherently alters the nature of the program. Limited funding requires applicants to compete against one another or participate in an allocation or uncertain lottery system. Projects that require the state credit to be financially feasible are likely discouraged from participating because of the lack of certainty as to the outcome, the cost of preparing a competitive application that may be unsuccessful, and the difficulties of keeping financing commitments in place during the evaluation process. There are practical reasons why state legislatures would like to maintain some control over the total amount awarded through tax credits, and so if a cap must exist, it needs to be sufficiently high. The states that have resisted capping have seen greater impact through investments in historic resources.

Like with the federal program, a tax credit is only useful to an individual or entity with state tax credit liability. To avoid the situation where a valuable state tax credit falls with a party that cannot make use of it, a state program should provide simple and easy means of transfer. Pennsylvania allows for transfer using a certificate. It is one of the strengths of the Pennsylvania tax credit program that the credit can be relatively easy to transfer. This also allows non-profit organizations – which typically do not have an income tax liability and are often tackling the most difficult reuse projects – to be the “developers” of historic rehabilitation projects and yet attract private sector investment dollars in exchange for transferring the credits.

Essentially, time is money to a project, and a cap, along with the uncertainty of whether a given project will receive a credit allocation, reduces the likelihood that a project will be deemed feasible by risk-averse investors. A lack of transferability inhibits the credit getting to a potential user. The wider the playing field—i.e. the more projects that can access the tax credit—the more projects that can be completed. Even without issues of capping or transferability, the playing field is limited as historic rehabilitation is more complex than greenfield development, the State Historic Preservation Office oversight concerns potential developers, and many developers are unwilling to tackle the uncertainty inherent in rehabilitating older buildings.

<sup>4</sup> Policy Report on State Historic Tax Credits, National Trust for Historic Preservation, 2018.



An analysis of other states reveals that 40% to 60% of the use of the Federal tax credit is attributable to the existence of a state tax credit. No such pattern exists in Pennsylvania.

Ace Hotel- Pittsburgh



# RECOMMENDED BEST PRACTICES

While the easiest pitfalls to avoid are capping and a lack of transferability, there are a number of other factors to consider that make a tax credit program excel. Qualities that make for an effective state tax credit program include:

- A broad range of eligible buildings, including locally designated structures and National register eligible structures.
- A broad range of eligible claimants—a provision should be included to parties such as banks, public utilities, or insurance companies which are not taxed under state tax law but are subject to their own industry tax laws.
- Standards for rehabilitation that adhere to the Secretary of Interior’s Standards.<sup>5</sup>
- A tax credit that is available for owner occupied structures, as there is not federal credit available for this use.
- An appropriately high rate—usually 20-30% of Qualified Rehabilitation Expenditures (QREs)—to meaningfully influence a developer’s decision to undertake a historic rehabilitation project.
- Easy credit transferability, so that many parties can participate. Means of transferability include:
  - the credit can be sold outright to a third party,
  - disproportionate distribution or allocation<sup>6</sup>
  - allowing a credit that is not fully usable in the current year to be carried back or forward to offset taxes previously paid or to be paid in the future
  - the credit can be refundable, so that any amount not used to offset current-year taxes is paid in cash to the holder of the credit.
- Some states choose to set aside a percentage of tax credits for specific geographies or purposes, whether to ensure that the entire state enjoys the benefits of the tax credit, or to target the tax credit to areas of particular economic distress.

The foundations of the PA-HPTC are good— a 25% credit that is easily transferable and applies to broad range of tax liability. The primary obstacle facing the PA-HPTC is an insufficient cap.

<sup>5</sup> The Secretary of the Interior is responsible for establishing rehabilitation standards for all programs under Departmental authority and for advising Federal agencies on the preservation of historic properties listed in or eligible for listing in the National Register of Historic Places. The Secretary of Interior’s Standards are used to determine if a rehabilitation qualifies as a Certified Rehabilitation for Federal tax purposes.

<sup>6</sup> 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.

## BEST PRACTICES THAT THE PA-HPTC ALREADY FOLLOWS:

- Easy credit transferability
- A broad range of eligible buildings and claimants
- An appropriately high rate

If the cap on the Pennsylvania Historic Preservation Tax Credit were increased to \$50 million per year, it is anticipated an additional 2800 jobs and \$160 million in labor income would be generated.



The Waldorf School - Philadelphia

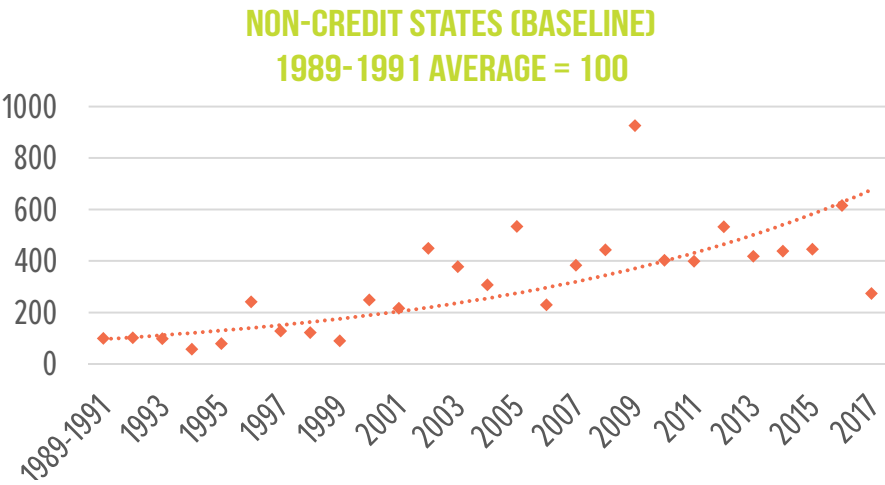


# COMPARATIVE METHODOLOGY EXPLAINED

Fourteen states<sup>7</sup> and three additional jurisdictions<sup>8</sup> have never had a state historic tax credit. These states are both large and small and in every region of the country. The use of the Federal Tax Credit in these states, therefore, can be expected to reflect the annual ups and downs of investment in historic buildings based on such external factors as the overall economy, interest rates, relative attractiveness of real estate as an investment, other tax policies, availability of financing, and other factors.

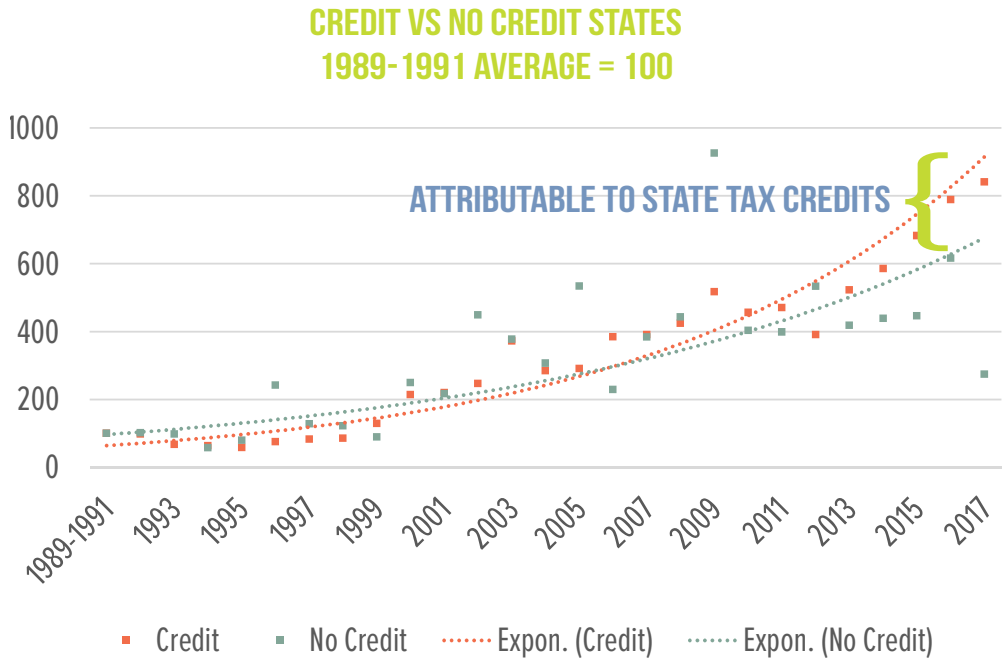
“Indexing” is a way to understand changes over time and can be used to compare the relative rates of change between two sets of numbers of significantly different sizes. An index begins with a “base year” (or set of years) and assigns that base a fixed number – often 100. The change in subsequent years is then expressed as how it differs from the base number.

The amount of investment using the Federal Historic Tax Credit in those 17 states and other jurisdictions which have never had a state historic tax credit was “indexed” with the base year(s) being 1989-1991.<sup>9</sup> This pattern of activity is called the “Baseline.”<sup>10</sup>



This indexed change in activity can then be compared with the rest of the states.

7 Alaska, Arizona, California, Florida, Hawaii, Idaho, New Hampshire, New Jersey, Nevada, Oregon, South Dakota, Tennessee, Washington, and Wyoming  
8 District of Columbia, Puerto Rico, US Virgin Islands  
9 Three years rather than 1 was used as a base to better stabilize a small sample of numbers.  
10 Because annual amounts vary significantly, a trendline represents a “smoothed” representation of change over time. The individual dots represent that actual index for each year.



Since the Non-Tax Credit states reflect changes in activity from factors that would affect all historic property investment, the difference in the rate of change can reasonably be attributed to the existence of state historic tax credits. In the following section each comparison state’s activity is compared with the Baseline of non-tax credit states, both before the state tax credit was adopted and in subsequent years.



# COMPARISON STATES

For each of the states below with which Pennsylvania has been compared, a common set of measurements has been provided so that the effectiveness of the Pennsylvania Historic Preservation Tax Credit can be evaluated. It is based on these comparisons that estimates of the increased activity of an improved Pennsylvania credit has been made.

The matrix below provides the basic information regarding the Best Practices discussed above. A more thorough listing of the attributes of all the State historic tax credit programs is found in Appendix 1.

COMPARABLE STATE HISTORIC TAX CREDIT PROGRAMS

	Sufficiently Large Cap	Easily Transferable	Refundable	Carry Forward/Back	Wide range of Eligible Buildings	Secretary's Standards	Available for Home Owners	Adequate Credit Amount	Targeting
Ohio	YES	YES	YES	YES	YES	YES	NO	NO	YES
New York	YES	NO	YES	YES	NO	YES	YES	YES	YES
Virginia	YES	YES	NO	YES	YES	YES	YES	YES	NO
West Virginia	YES	YES	NO	YES	YES	YES	YES	YES	NO
Missouri	YES	YES	NO	YES	YES	YES	YES	NO	YES
North Carolina	YES	YES	NO	YES	YES	YES	YES	YES	NO
Pennsylvania	NO	YES	NO	YES	NO	YES	NO	YES/NO*	YES

\* This variable reflects if the amount of the state credit as a percentage of total Qualified Rehabilitation Expenditure (QREs) is sufficient to attract investment. Because the Pennsylvania credit is 25% the “Adequate Credit Amount” should be a “yes”. However, when the per project cap is only \$500,000 for many projects the credit amount is inadequate, not in percentage but in total dollars.

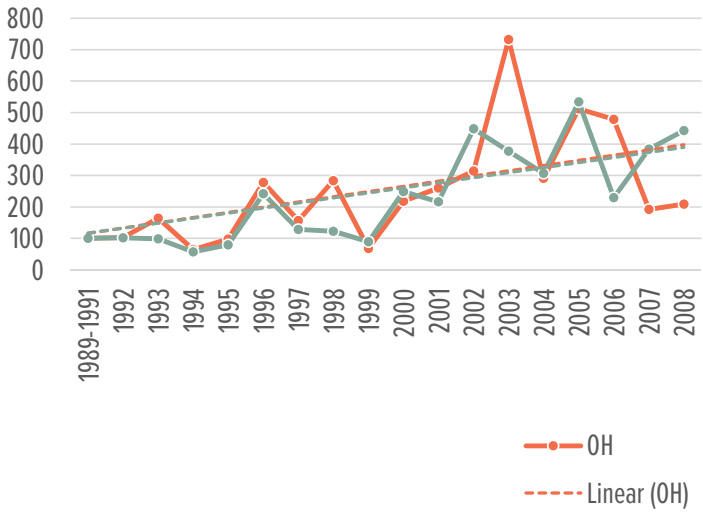
# OHIO

## OHIO VS PENNSYLVANIA

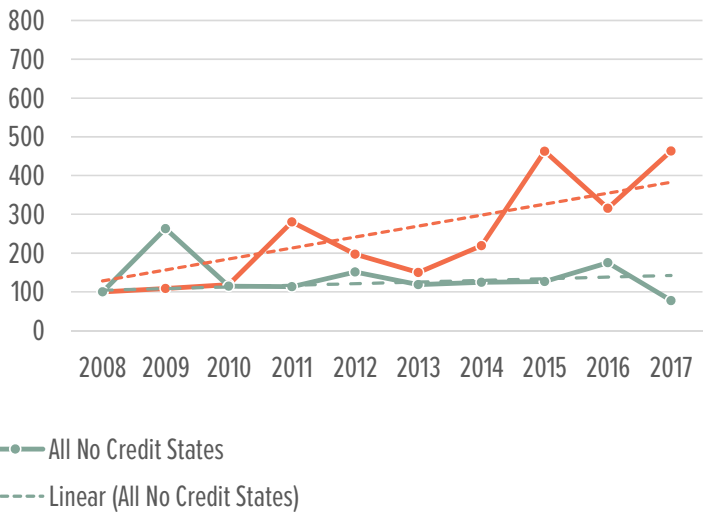
	Ohio	Pennsylvania
Population	11,694,664	12,823,989
National Register Listings/10,000 in Population	3.4	2.7
Total Investment in Projects using Federal Tax Credit (last five years)	\$1,485,540,078	\$1,433,265,432
Tax Credit Investment/Person (Annual average last five years)	\$25.41	\$22,35
Year Tax Credit Year Became Effective	2007	2013
Amount of State Tax Credit	25%	25%
Amount of Cap	\$60,000,000	\$3,000,000
Cap/Person	\$5.13	\$.23
Cap as % of Total Tax Credit Investment (Annual average last five years)	20.2%	1.0%
Share of Use of Federal Tax Credit attributable to State Tax Credit	59.3%	0%

Ohio may be the best head-to-head comparison to Pennsylvania. The two states are of similar size and both historic tax credit programs have annual caps. However, the annual cap is 20 times greater in Ohio than in Pennsylvania. Nearly 60% of the use of the federal tax credit in Ohio is attributable to an effective state tax credit program.

OHIO VS BASELINE  
1991-2008



OHIO VS BASELINE  
2008-2017



The two graphs above, comparing the use of the Federal Historic Tax Credit before and after the adoption of a state tax credit, are found for each of the comparison states in Appendix 1.



# NEW YORK

New York was seeing a rate of growth in historic preservation activity greater than the baseline even prior to the adoption of a state tax credit in 2007. That rate of growth increased, however, and today more than 64% of the amount invested using the Federal Tax Credit is attributable to the existence of an effective state tax credit. There is no annual cap on the New York credit.

## NEW YORK VS PENNSYLVANIA

	New York	Pennsylvania
Population	19,862,512	12,823,989
National Register Listings/10,000 in Population	3.0	2.7
Total Investment in Projects using Federal Tax Credit (last five years)	\$2,936,551,317	\$1,433,265,432
Tax Credit Investment/Person (Annual average last five years)	\$29.57	\$22,35
Year Tax Credit Year Became Effective	2007	2013
Amount of State Tax Credit	20	25%
Amount of Cap	None	\$3,000,000
Cap/Person	n/a	\$.23
Cap as % of Total Tax Credit Investment (Annual average last five years)	n/a	1.0%
Increased Used of Federal Tax Credit attributable to State Tax Credit	64.2%	0%

# VIRGINIA

Virginia was one of the first states in the nation to adopt a state historic tax credit. There is no cap in the Virginia program. Over the past five years the average per person investment in historic resources is 43% greater in Virginia than in Pennsylvania.

## VIRGINIA VS PENNSYLVANIA

	Virginia	Pennsylvania
Population	8,525,660	12,823,989
National Register Listings/10,000 in Population	3.7	2.7
Total Investment in Projects using Federal Tax Credit (last five years)	\$1,365,559,617	\$1,433,265,432
Tax Credit Investment/Person (Annual average last five years)	\$32.03	\$22,35
Year Tax Credit Year Became Effective	1997	2013
Amount of State Tax Credit	25%	25%
Amount of Cap	None	\$3,000,000
Cap/Person	n/a	\$.23
Cap as % of Total Tax Credit Invest-ment (Annual average last five years)	n/a	1.0%
Increased Used of Federal Tax Credit attributable to State Tax Credit	68.2%	0%

# WEST VIRGINIA

On most levels the historic tax credit program in West Virginia is not a good comparison with Pennsylvania. It is a much smaller state and the tax credit was adopted so recently as to not have post-credit data to compare. What is worth noting, however, is that although the population is much smaller, the annual cap is much larger. While the Pennsylvania cap amounts to merely \$.23 per person, in West Virginia it is \$16.64 per person – or more than 72 times the Pennsylvania cap.

## WEST VIRGINIA VS PENNSYLVANIA

	West Virginia	Pennsylvania
Population	1,803,077	12,823,989
National Register Listings/10,000 in Population	5.8	2.7
Total Investment in Projects using Federal Tax Credit (last five years)	\$44,136,402	\$1,433,265,432
Tax Credit Investment/Person (Annual average last five years)	\$4.89	\$22,35
Year Tax Credit Year Became Effective	2018	2013
Amount of State Tax Credit	25%	25%
Amount of Cap	\$30,000,000	\$3,000,000
Cap/Person	\$16.64	\$.23
Cap as % of Total Tax Credit Investment (Annual average last five years)	339.9%	1.0%
Increased Used of Federal Tax Credit attributable to State Tax Credit	Too soon to determine	0%

# MISSOURI

Missouri may have the best state historic tax credit in the nation. Prior to its adoption of a state tax credit in 1998, Missouri actually trailed the nation as a whole in the growth in the use of the federal tax credit. Since then, however, the historic tax credit has been a central component of Missouri’s economic development and urban revitalization strategies. For most of the time since the enactment of the credit there was no cap. In recent years, however, to address budget issues, the legislature has placed an annual cap of \$90 million on the program, with an additional \$30 million allocated for distressed census tracks. Missouri also does not cap projects under \$1.1 million in QREs. With a population less than half of that of Pennsylvania, Missouri has seen more total investment using the federal tax credit in total dollars over the last five years and a per person rate of investment more than twice that of Pennsylvania.

## MISSOURI VS PENNSYLVANIA

	Missouri	Pennsylvania
Population	6,135,888	12,823,989
National Register Listings/10,000 in Population	3.8	2.7
Total Investment in Projects using Federal Tax Credit (last five years)	\$1,545,844,554	\$1,433,265,432
Tax Credit Investment/Person (Annual average last five years)	\$50.39	\$22,35
Year Tax Credit Year Became Effective	1998	2013
Amount of State Tax Credit	25%	25%
Amount of Cap	\$90,000,000 +	\$3,000,000
Cap/Person	\$14.67	\$.23
Cap as % of Total Tax Credit Investment (Annual average last five years)	29.1%	1.0%
Increased Used of Federal Tax Credit attributable to State Tax Credit	88.7%	0%



# NORTH CAROLINA

	North Carolina	Pennsylvania
Population	10,390,149	12,823,989
National Register Listings/10,000 in Population	2.9	2.7
Total Investment in Projects using Federal Tax Credit (last five years)	\$698,460,851	\$1,433,265,432
Tax Credit Investment/Person (Annual average last five years)	\$13.35	\$22,35
Year Tax Credit Year Became Effective	1998	2013
Amount of State Tax Credit	15%+	25%
Amount of Cap	None	\$3,000,000
Cap/Person	n/a	\$.23
Cap as % of Total Tax Credit Investment (Annual average last five years)	n/a	1.0%
Increased Used of Federal Tax Credit attributable to State Tax Credit	61.7%	0%

North Carolina is another state known for an effective tax credit program. On political grounds the program was eliminated in 2015, but bi-partisan efforts re-established the credit in 2016 albeit with a slightly smaller credit amount. There is no cap on the annual aggregate in North Carolina. In North Carolina there is also a Mill Rehabilitation Tax Credit that is often combined with other historic tax credits.



Dickson Tavern- Erie



## PENNSYLVANIA

	Pennsylvania
Population	12,823,989
National Register Listings/10,000 in Population	2.7
Total Investment in Projects using Federal Tax Credit (last five years)	\$1,433,265,432
Tax Credit Investment/Person (Annual average last five years)	\$22,35
Year Tax Credit Year Became Effective	2013
Amount of State Tax Credit	25%
Amount of Cap	\$3,000,000
Cap/Person	\$.23
Cap as % of Total Tax Credit Investment (Annual average last five years)	1.0%
Increased Used of Federal Tax Credit attributable to State Tax Credit	0%

Pennsylvania has always been a big user of the Federal Historic Tax Credit. But the reality is that the growth in the use of the credit has fallen behind not only states in general, but even among states that have never had a state tax credit. While most states, including those above, see a sizable increase in activity in both the absolute and relative basis after a state tax credit is adopted, that has not been the case in Pennsylvania. Even in the years since the Pennsylvania historic preservation tax credit was implemented, the state still lags in growth relative to the baseline states.

While the National Register listings – a reasonable proxy for properties on which the tax credit might be used – is comparable to most other states, the actual per person investment, the amount of the cap per person, and other indicators in Pennsylvania lag behind comparable states.

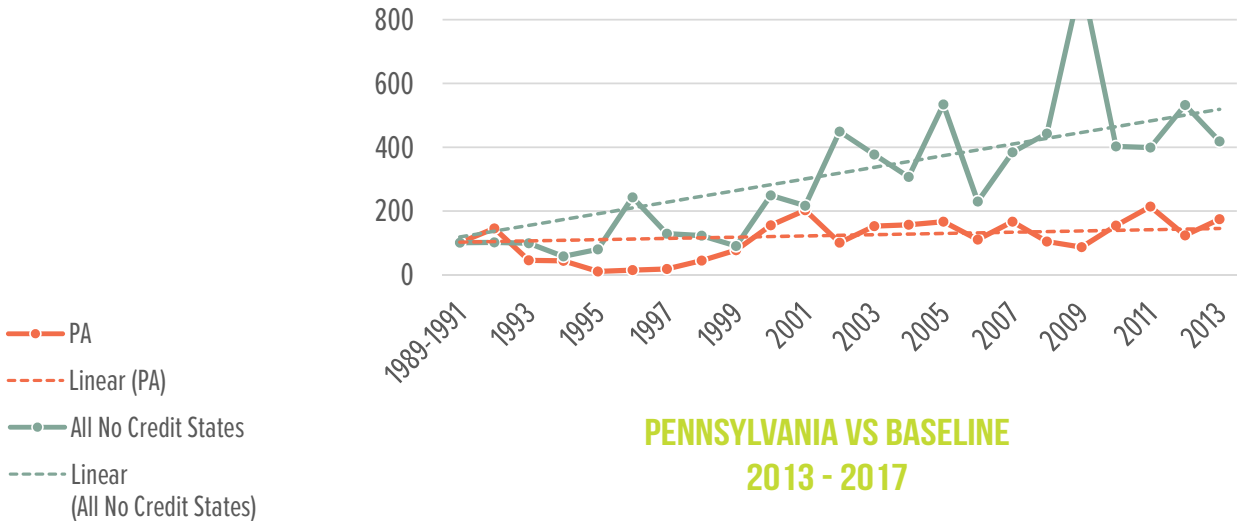
### WHAT ABOUT THE CAP?

- 17 states have a cap on the tax credit
- Annual caps range from \$2.2 million (Vermont) to \$120 million (Missouri)
- Average cap is \$25 million
- Cap as % of total federal historic tax credit ranges from 1% (Pennsylvania) to 69% (Georgia)
- Average cap as % of federal historic tax credit average usage is 28.2%
- Average cap per person ranges from \$.23 (Pennsylvania) to \$14.67 (Missouri)

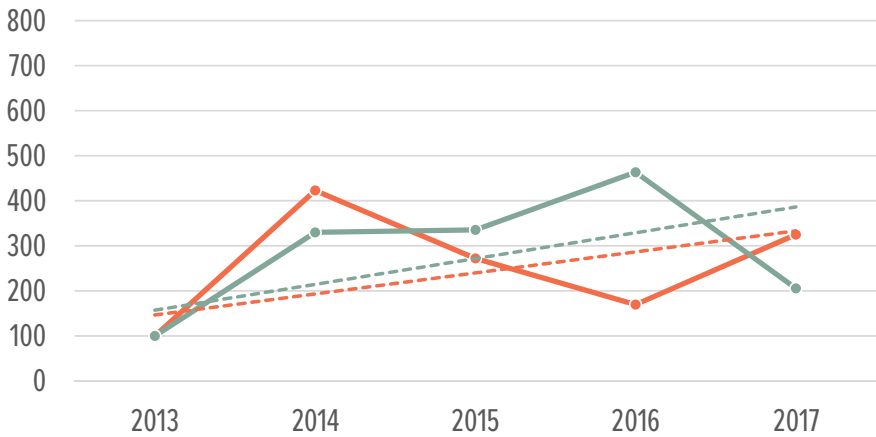


The Waldorf School, a 145 year old Furness and Hewitt designed campus in the Germantown neighborhood of Philadelphia, was built as St. Peter’s Episcopal Church. In 2013, the church was rehabilitated to become a liberal arts primary school, teaching children to integrate the practical and the beautiful.

PENNSYLVANIA VS BASELINE  
1989-91 AVERAGE =2013



PENNSYLVANIA VS BASELINE  
2013 - 2017





# PENNSYLVANIA’S EXPERIENCE

While most of this report is quantitative data on the use of the credit, discussions with more than two dozen individuals during site visits in all parts of the state revealed the issues of those directly involved in historic preservation projects. Below are summarized the most common and the most telling of those responses. These do not represent the observations or recommendations of this report, but do reflect the perspective of individuals who have had direct experience with historic rehabilitation projects in Pennsylvania.

Problems identified in stakeholder interviews:

- State tax credit cannot be built into initial financing plans
- There is uncertainty as to who gets credit and why
- Unpredictability is the biggest problem
- Credits are spread too thin on a project and a geographical basis
- There is an inadequate total amount of tax credit allocations available
- The per project limit is too small

Ideas and solutions offered by stakeholders:

- The credit should be funded at \$40-50 million
- Make funding steady year to year
- Establish higher caps for total and individual projects
- More clearly define opening date and multiple application times
- Improve the predictability of receipt of the credit
- Provide more education for users
- There should be pre-screening of eligible applicants
- Create targets every 2-3 years based on property type (schools, mills, residences, etc.)
- Differentiate amount of credit in CDBG eligible/non-eligible census tracts
- Applications should be evaluated for project impact, including social and environmental
- Credits should be targeted to building types, small business, downtowns, and investment zones

# RECOMMENDATIONS AND PROJECTIONS

Many parts of the Pennsylvania Historic Tax Credit are as good as any in the country. The ease of transferability and the fact that the credit is 25% of Qualified Rehabilitation Expenditures are both very competitive aspects. The credit is not reaching its optimum potential, however, primarily because of two elements – the extraordinarily low annual cap on usage of the credit and the low per-project limit. There is a relation between these two. When the total annual cap is \$3 million, it makes sense that no single project receives more than \$500,000 of that amount. However if the overall cap were at a more competitive level the per project cap could either be significantly increased or eliminated entirely.

Based on the findings of this report two changes are recommended:

- The overall annual cap be raised to \$50,000,000, and
- The per project cap is increased to \$2,500,000. This would allow around 70% of all projects to receive the full 25% of their QRE as a credit.

Were the cap increased to \$50,000,000 it is anticipated that the annual average use of the federal tax credit would increase between \$200 and \$240 million per year with a larger share than currently used by smaller projects and projects that included affordable housing units.

If the activity increased on the lower end of the estimate – an additional \$200 million per year - here would be the annual impacts on the Pennsylvania economy. If this increased activity were to take place, local governments in Pennsylvania would receive an additional \$2,372,000 in property taxes each year.

	DIRECT	INDIRECT/INDUCED	TOTAL
JOBS FROM QRE INVESTMENT	1280	1120	2400
JOBS FROM ADDITIONAL NON-QRE INVESTMENT	221	194	415
LABOR INCOME FROM QRE INVESTMENT	\$78,353,200	\$58,056,600	\$136,409,800
LABOR INCOME FROM ADDITIONAL NON-QRE INVESTMENT	\$13,555,104	\$10,043,792	\$23,598,896
TOTAL ADDITIONAL JOBS			2815
TOTAL ADDITIONAL LABOR INCOME			\$160,008,696





Seminary Ridge Museum, Gettysburg

The recent report from the Independent Fiscal Office, *Pennsylvania Historic Preservation Tax Credit: An Evaluation of Program Performance* correctly noted the following:

The PA-HPTC differs from other tax credits because short-term economic development is not a primary goal. Rather, the credit seeks to revitalize distressed communities, preserve state and local heritage and facilitate longer-term economic development. The tax credit can yield benefits over very long time horizons, so policymakers should also judge its effectiveness using the same time frame. Moreover, rehabilitation projects can have significant positive spillover effects that are difficult to quantify. These attributes complicate comparisons of the PA-HPTC to other credits used to promote economic development and job creation.

While acknowledging that comparisons are difficult, what is evident is that there is a job generating and revenue producing contribution to Pennsylvania stemming from this program, the original goal of which was other than economic development.

As was pointed out by the Independent Fiscal Office, “...policymakers should judge its effectiveness using [long time horizons]” But for a significant share of the credit, the wait is not that long. A recipient of the tax credit does not receive it until the project is completed and certified as to the compliance with the established standards. However, the developer begins paying sales tax on the materials, employees begin paying income tax, and the construction company, professional service providers and others begin paying tax on profits. When both direct and indirect economic activities generated by the historic rehabilitation are included, the State of Pennsylvania receives back just over 37% of the credit that was awarded before the credit can even be used. This return to the State coffers only represents that generated during the construction phase.

Once the building is placed in service and is being used in an economically productive fashion, additional returns to the State treasury will be generated. How long it will take the State to recover the balance of its investment in a historic building through the tax credit will depend on the ultimate use and may take from five to ten additional years. But this is in exchange for not just a renewal of some of Pennsylvania’s heritage resources, but the creation of a revenue generating capital asset for decades to come.



Seminary Ridge Museum, Gettysburg



# CASE STUDY PROJECTS:

Simon Silk Mill, Easton

Millworks, Harrisburg

Bayard School, Pittsburgh

Brew House, Pittsburgh

Uptown! Theater, West Chester

Yorktowne Hotel, York

Millworks - Harrisburg





## SIMON SILK MILL EASTON, PENNSYLVANIA.

The Simon Silk Mill was one of 75 silk mills to grace the Lehigh Valley and one of over 300 statewide by the 1920s, making Pennsylvania the second largest silk producer in the world at one time. Abandoned in the 1960s, the Simon Silk Mill's extensive complex is being given new life as the most sought after residence in Easton, Pennsylvania.

In the early 2000s, there were proposals to tear down the old mill to make way for a sports field and community center. Fortunately, thanks to a long time partnership between the city and developers, the old silk mill is being transformed into over 150 apartments with 150,000 square feet of retail space, including a restaurant, photography studio, distillery, art gallery, creamery, and two downtown Easton businesses: Christina's Bridal and Skinterest Skin Care Boutique. Following extensive infrastructure work by the city as part of the agreement—including extending a boulevard, water, sewer, and power lines to the site—VM Development group began the first phase of the \$100 million dollar redevelopment in 2015.

The Silk Mill is located in a Keystone Opportunity Zone, which spurs economic development by allowing business owners and residents to receive certain tax breaks through 2023. That year, the state and municipality are poised to see a significant tax return from these projects.

Mayor Sal Panto of Easton describes himself as a pragmatic preservationist. He understands the long-term returns that come from investing in his city's heritage, and he is a strong advocate for the historic preservation tax credit and the projects they've supported. "Historic tax credits for the big projects are huge" he said, "they have really made the difference" in Easton. Mark Mulligan, developer of the Silk Mill, says the value of the state historic tax credit should not be underestimated solely because they are awarded after project completion: "Every project runs over so having the Historic Tax Credits softens the blow; it's absolutely been a valuable tool!"



## MILLWORKS HARRISBURG, PA

The newly opened Millworks restaurant, brewery, and artist's studio is a key piece helping to revitalize the Midtown district of Harrisburg. While there have been mainstays in the neighborhood since the early 2000s that made the area attractive, such as the eclectic and quirky Midtown Cinema and the Midtown Scholar, a funky used bookstore and event space, Midtown was still plagued by commercial vacancy and inactivity. The opening of Millworks paralleled with the revitalization of Broad Street Market—the oldest indoor market in the US and located just across the street—are transforming Midtown into the place to be.

The former Stokes Millworks was built in 1929 and produced architectural wood products—laminated, trims, woodworking, etc.—up until 2000. In 2013, Joshua Kesler purchased the building for rehabilitation, reimagining the space as a farm-to-table restaurant, complete with an onsite brewery and an open-air biergarten. Millworks works closely with Broad Street Market for a steady supply of fresh meats and produce. But the site is a makerspace in more than a culinary sense—the development includes studio space for 35 artists, three galleries for the display of their work, and a shop where the crafts can be purchased.

Artistry and reuse can be found in the design ethic as well. More than half of the construction materials were salvaged from reclaimed on-site lumber. The wood was utilized in the construction of stairs, handrails, dining tables, bar tops, and wall finishes. The bricks used to create the wood-fired oven came from an 1830's farmhouse. Kesler estimates that the project saved around 50 percent of new construction costs by making use of existing materials. The overall project cost over \$2 million dollars and was awarded a 2017 Pennsylvania Historic Preservation Public Impact Award.







## BAYARD SCHOOL PITTSBURGH, PA

The Bayard School is one of the oldest school buildings still standing in Pittsburgh, built in the late 19th century and situated in the Upper Lawrenceville residential neighborhood. Though listed as part of an early National Register Multiple Property listing, the building had endured decades of unsympathetic use and neglect. The property stood vacant since the 1980s, but it's rehabilitation will preserve this significant historic school and re-dedicate it to the fabric of the neighborhood.

The partners at Q Development consider themselves double-bottom line real estate developers. Rick Belloli spent more than 20 years in the community development field, and so he and his partners are well aware of the larger impact of socially-conscious development. The Q Development team normally targets their efforts in Pittsburgh's underserved neighborhoods, but upon hearing that other developers were eyeing the property for demolition, they stepped in to save the historic school. "Our return threshold is lower than most developers," said Rick, "but we believe in patient equity. But it makes the \$250,000 tax credit that much more valuable."

The rehabilitation transformed the historic school into 11 market rate apartment units, but that doesn't mean that Rick and his partner, Matt Quigley, will allow their units to be inaccessible. They are hiring a property manager that specializes in affordable housing, and they are experimenting with tenancy models to demonstrate to for-profit developers that mission-driven development can offer returns. One such model is offering a tenant application process similar to the HUD Good Neighbor Program, which would provide units to teachers, law enforcement officers, firefighters and emergency medical technicians at moderate rates. During construction, the project employed approximately 15 people. The total cost of the rehabilitation was around \$3.2 million with \$2.5 million in hard costs. These included the installation of 42 custom 2-over-2 arch-topped windows, with extensive repairs to the surrounding masonry, which had been extensively scarred, patched, and painted.

The vision for the project was formed in partnership with the Lawrenceville community. They hosted 6 public meetings where they discussed long term goals for the neighborhood, as well as practical matters like what construction hours would best suit the neighbors. Another topic of discussion at these meetings was the possible creation of a National Register Historic District. "After speaking with the community about the designation, we were surprised to learn that they were disappointed that national designation wouldn't automatically protect the neighborhood or enforce any regulation. We like to think our design ethic and process not only preserves a sense of place, but catalyzes a preservation ethic."



## THE BREW HOUSE (DUQUESNE BREWERY) PITTSBURGH, PA

With the great industrial steel boom of the 19th century came the need for many other types of businesses and production in Pittsburgh—one was the need for beer. The Duquesne Brewery was constructed in the South Side neighborhood of Pittsburgh in 1899 and was in operation for 73 years. In 1972, the great Duquesne Brewery closed, signaling a decline of both the local brewing industry in Pittsburgh and the wider South Side neighborhood of Pittsburgh in the latter half of the twentieth century.

The impressive but vacant turn-of-the-20th century brewhouse presented an opportunity for local artists to live and practice in an inspiring and underutilized space. In the 1990s, the artists began organizing and formed an official non-profit, the Brew House Association. The Brew House Association purchased several of the former brewery buildings from the city, so that they could expand their cultural programming initiatives and secure affordable housing for artists. The building and the organization became a cornerstone for the South Side community and the artistic community of Pittsburgh.

In 2015, the Brew House Association partnered with Trek Development to develop 76 live-work spaces for artists at both affordable and market rates. Before this project, the Brew House only held 15 live-work spaces, and only half of the building was being used; thus the rehabilitation greatly increasing the capacity of the Brew House to create a supportive environment for artists. Totalling over \$21 million, the project was awarded \$1.3 million in Low Income Housing Tax Credits and \$250,000 in state historic preservation tax credits. John Ginocchi said that though the credit is small in relation to the project total, the credits have value beyond their worth: “When working with historic buildings, there are things you can’t anticipate, things you can’t budget for. Having these tax credits at the end helps to defray these unexpected costs.”

Photo Credit: fatherpitt.wordpress.com







## UPTOWN! THEATER WEST CHESTER, PA

The Uptown! Entertainment Alliance had been working for a decade to cultivate a culture of arts and performance in West Chester, but they always had dreams of operating a dedicated space to provide world class entertainment with regular community programming. Though they had considered other spaces, the historic armory building in downtown had always been number one on their “wish list” of venues. As fate would have it, in 2013, the West Chester National Guard relocated from the armory, freeing up the historic space for a new use. With the help of local legislators, the Department of Military and Veterans Affairs conveyed the armory property to Uptown! at a discounted price, under the condition that the organization maintain the building’s historic character.

In 2017, the restoration of the historic West Chester Armory building created a home for world class performing arts in downtown West Chester, selling over 33,000 tickets to more than 400 live performance events. These events range from Broadway theater, opera, jazz, Latin music, comedy, classical music, contemporary music, and renowned speakers to a children’s theater school. Patrons come to the theater from over 38 zip codes. In addition to ticket sales, Uptown! hosted over 6,000 people coming in to the theater for events held by groups who have rented space such as the Chester County Community Foundation, the Chester County Hospital, and the Brandywine River Museum.

The historic rehabilitation of the West Chester, PA National Guard Armory into the Uptown!Knauer Performing Arts Center was financed through a combination of funding sources. Uptown!Bravo Theatre, LLC—a for-profit formed to provide Federal Historic Preservation Credits to the investors—provided \$1,555,000. Uptown!Entertainment Alliance (U!EA) is the non-profit formed to provide capital via loans to UBT. The U!EA leases the Center from UBT at a monthly rate sufficient to cover the UBT debt service plus a small return to the UBT investors. Bank financing and a PA Department of Community and Economic Development (DCED) grant provided the remaining financing. The project received \$250,000 in state historic tax credits after completion, which the LLC will sell to an entity with sufficient PA tax liability to use them right away. This income will then be used to reduce the bank financing, which in turn will reduce the rental costs being incurred by U!EA. Each \$100,000 reduction in outside financing will result in U!EA rental savings of nearly \$10,000/year, important to a non-profit arts organization.

The rehabilitation of the Armory has had a positive economic impact on the Borough and the businesses in the town center. Restaurants are seeing increased patronage on show days/nights—one suggested his restaurant has experienced an increase of 40-45%—and the local hotel has also seen positive results.



## YORKTOWNE HOTEL YORK, PA

York, Pennsylvania is a small city that made an improbable cultural comeback through arts and preservation. The city has deep industrial roots, once the home of the Pullman motorcar company, and today home to a Harley Davidson factory. Like many Rustbelt cities, York's economic prosperity peaked in the 1950s, but fell off sharply thereafter as manufacturing plants shut down and the population decreased with white flight. By 2009, York was a sleepy legacy city—resplendent with architectural jewels, but without energy or direction. That year, a partnership between local artists, developers, and the York Redevelopment Authority kick started an arts and culture-based redevelopment movement that brought York back to life.

While hundreds of apartments and dozens of unique restaurants and retail shops had opened in recent years, the Yorktowne Hotel had sat vacant. Built as an impressive 121 guest room hotel in 1924, the enormous project was no easy sell. One proposal for the Yorktowne would have transformed the iconic structure into a boarding home. While not denying the need for such a service, the city believed the structure had potential for greater catalytic impact.

Recognizing the critical importance of the structure, the York County Industrial Development Authority (YCIDA) purchased the historic hotel in 2015. "This is not just a hotel," said Blanda Nace, Director of Strategic Development, "The Yorktowne is a community asset that is important to our growth and our heritage. It was built in 1924 by the community for the community." Later that year, the city made a huge announcement: the city would partner with the prestigious hotel franchise, Hilton Hotels, to transform the historic hotel into a modern, boutique hotel.

This was not the first large-scale project undertaken by the YCIDA, having shortly before facilitated the development of a minor league baseball stadium and the Harley-Davidson West Campus. But at an estimated \$36 million budget, the Yorktowne would be the largest project the YCIDA had undertaken. In 2018, the YCIDA received a \$250,000 state historic preservation tax credit. Other funding includes nearly \$20 million in RACP grants and private donations, and \$10-12 million in historic and new markets tax credits. However large an undertaking, Nace said it was the right thing to do as an economic authority, especially because they can better manage who benefits from such a large scale project. "We care about who signs the back of the check. We are working with many small and local contractors and subcontractors to share the wealth from this project. We also require that these companies report employee profiles, so we can ensure that minority and women employees are benefiting," said Nace.

The Yorktowne will also work closely with York college, engaging students from the hospitality management program as a feeder system for the hotel, and giving York College the opportunity to be more invested in York's downtown core. From arts and cultural events, new restaurants and retail, to major economic and real estate investments, York is positioning itself for the next wave of growth and development.

Photo Credit: Flickr





# CONCLUSION

The rehabilitation of historic buildings is an effective economic development strategy, proven throughout the country and across Pennsylvania. Pennsylvania has a strong record of investment impact utilizing the Federal historic preservation credits but a limited record of impact with their own state Historic Preservation Tax Credit. Changes in the federal credit will make it all the more important to have an effective state credit to attract investment. Improving the tax credit program predictability, raising the dollar amounts available for both projects and total program dollars, and making funding steady will be the kind of enhancements that will ensure this program's continued impact on investment throughout the state.

Most of the elements that have been identified as making an effective state historic tax credit have been incorporated into the Pennsylvania program. These include: a sufficiently large credit amount (25%); easy transferability; and the ability to carry the credits both forward and back. It would appear that the major barrier to optimizing the use of the credit is the small level of the annual cap – \$3,000,000. Other identified problems – lack of predictability, inability to incorporate state credit into initial financing plans, credits spread too thin, etc. – would all largely be mitigated if the cap were significantly higher. If Pennsylvania were to raise its cap equal to the average of the other states' caps, the new cap would be between \$62,000,000 and \$82,000,000.

There is no question that the Pennsylvania Historic Preservation Tax Credit has helped those projects that have received it. But the catalytic impact of a state tax credit found in virtually every other state, simply is not in evidence in the Keystone State. A significantly higher annual cap would be the key to making the difference.

The Simon Silk Mill - Easton



# ACKNOWLEDGMENTS

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# METHODOLOGY

This analysis relied on data from the Pennsylvania Historical & Museum Commission, National Park Service, other state and federal databases, online research platforms, newspaper and social media outlets, and in-person stakeholder interviews.

- Tax credit data from the Pennsylvania Historical & Museum Commission and the National Park Service
- Calculations for jobs and income created through building rehabilitation were based on IMPLAN, an input output econometric model

# PLACEECONOMICS TEAM

This report was prepared and written by Donovan Rypkema, Katlyn Cotton, Rodney Swink, and Briana Grosicki. Rypkema is principal of PlaceEconomics, a Washington D.C.-based real estate and economic development consulting firm. PlaceEconomics has completed similar historic tax credit studies in Louisiana, Rhode Island, and Oklahoma, as well as dozens of studies analyzing the economic impacts of historic preservation. Cotton is a Research Associate with PlaceEconomics and a recent graduate in historic preservation from the University of Pennsylvania. Swink is Senior Associate for Planning and Development at PlaceEconomics. Grosicki is Director of Research at PlaceEconomics. Report design by Katlyn Cotton.

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The Ace Hotel is a boutique hotel brand that is known for tapping the local culture of its locations. The hotel inhabits a century-old YMCA building and makes use of the former three-story gymnasium and elegant ballroom for event spaces. Situated in the Eastern Liberty neighborhood of Pittsburgh, the Ace Hotel is part of the area’s revival. Once the most expensive census tract in the country that was devastated by disastrous urban renewal plans in the 1960s, Eastern Liberty is now a technological hotspot due to the arrival of a Google office in 2010 and many other smaller tech startups that followed.



The Ace Hotel - Pittsburgh



# APPENDIX 1: MATRIX OF ALL STATE HISTORIC TAX CREDIT PROGRAMS FROM NATIONAL TRUST FOR HISTORIC PRESERVATION

The following matrix was created by the National Trust for Historic Preservation. The data is published in their November 2018 publication: *State Historic Tax Credits: Maximizing Preservation, Community Revitalization, and Economic Impact*.

State	Effective Year	Credit % for Income-Producing Properties	Additional Credits	Minimum Investment	Annual Aggregate Cap	Annual Per-Project Cap	Direct Transfer	Allocation by Partnership Agreement	Refund
Alabama	2018	25%	25% homeowners	Greater of 50% of purchase price or \$25,000	\$20M	\$5M	Yes		Yes
Arkansas	2009	25%	25% homeowners	\$25,000	\$4M	\$400K	Yes	Yes	
Colorado	2018	25% for \$2M QRE; 20% for \$2M+ QRE	30% disasters; 35% in rural communities; 20% homeowners	25% of adjusted basis; in 2020, flat \$20,000	\$10M	\$1M	Yes	Yes	
Delaware	2002	20%	30% affordable hsg & nonprofits; 30% homeowners	Greater of \$5,000 or adjusted basis	\$5M	None	Yes	Yes	
Georgia	2002	25%	30% residence in HUD areas; 25% homeowners	Greater of \$5,000 or adjusted basis	No cap under \$300K credits / \$25M	\$5M; \$10M if meets job creation tests	Yes	Yes	

State	Effective Year	Credit % for Income-Producing Properties	Additional Credits	Minimum Investment	Annual Aggregate Cap	Annual Per-Project Cap	Direct Transfer	Allocation by Partnership Agreement	Refund
Illinois (River Edge)	2011	25%		Greater of \$5,000 or 50% of purchase price	None	None		Yes	
Illinois (Statewide)	2019	25%		Greater of \$5,000 or adjusted basis	\$15M	\$3M		Yes	
Indiana	2002		20% homeowners		\$250,000	None			
Iowa	2000	25%	25% homeowners	Lesser of 50% of the assessed value or \$50,000	\$45M	None	Yes	Yes	Yes
Kansas	2001	25%	25% homeowners; 30% for nonprofits	\$5,000	None	None	Yes	Yes	
Kentucky	2005	up to 20%	30% homeowners	Greater of \$20,000 or adjusted basis	\$5M	\$400,000	Yes	Yes for non-taxed entities	Yes
Louisiana	2002	20%		10,000	None	\$5M per taxpayer, per year	Yes		
Maine	2008	25%	30% for affordable housing	Same as federal HTC; \$50K if fed HTC not claimed	None	\$5M per building. per year		Yes	Yes



State	Effective Year	Credit % for Income-Producing Properties	Additional Credits	Minimum Investment	Annual Aggregate Cap	Annual Per-Project Cap	Direct Transfer	Allocation by Partnership Agreement	Refund
Maryland	2004	20%	20% homeowners; 30% LEED gold; 30% affordable hsg	Greater of adjusted basis or \$25,000	\$9M	\$3M		Yes	Yes
Massachusetts	2005	Up to 20%	25% credit affordable hsg	25% of adjusted basis	\$55M	None	Yes	Yes	
Minnesota	2010	20%		Greater of \$5,000 or adjusted basis	None	None	Yes	Yes	Yes
Mississippi	2016	25%	25% homeowners	50% of the total basis	\$12M	None		Yes but not also with refund	75% can be refunded.
Missouri	1998	25%	25% homeowners	50% of total basis of the property	\$90M; additional \$30M in areas of high poverty; small projects uncapped	None	Yes	Yes	
Montana	1997	5%		Greater of \$5,000 or adjusted basis	None	None			
Nebraska	2015	20%		\$25,000 or 25% of assessed value	\$15M	\$1M		Yes	
New Mexico	1984	50%	50% homeowners		None	\$25K; \$50K inside Arts & Cultural Dis.		Yes	

State	Effective Year	Credit % for Income-Producing Properties	Additional Credits	Minimum Investment	Annual Aggregate Cap	Annual Per-Project Cap	Direct Transfer	Allocation by Partnership Agreement	Refund
New York	2007	20% credit	20% homeowners; 25% for barns	Greater of \$5,000 or adjusted basis	None	\$5M			Yes
North Carolina	2016	15% for up to \$10M QRE; 10% for \$10M–\$20M QRE	Add 5% in target areas or sites; 15% homeowners	Greater of \$5,000 or adjusted basis	None	\$4.5M		Yes when 40% allocated to owner	
North Dakota	1999	25% for projects in Renaissance Zones	25% homeowners	50% of building value	None	\$250,000			
Ohio	2007	25%	25% homeowners		\$60M	\$5M		Yes	Yes
Oklahoma	2009	20%		Greater of \$5,000 or adjusted basis	None	None	Yes		
Pennsylvania	2013	25%		Greater of \$5,000 or adjusted basis	\$3M	\$500,000	Yes		
Rhode Island	2002	20%	25% if 1/4 of space for business	Adjusted basis of the building	Awaiting reauthorization	\$5M	Yes	Yes	Yes for tax exempt entities
South Carolina	2003	10% 25% if no federal HTC	25% mills; 25% homeowners		None	None	Yes for mills	Yes for 10%; Yes for pass through entities on mills	

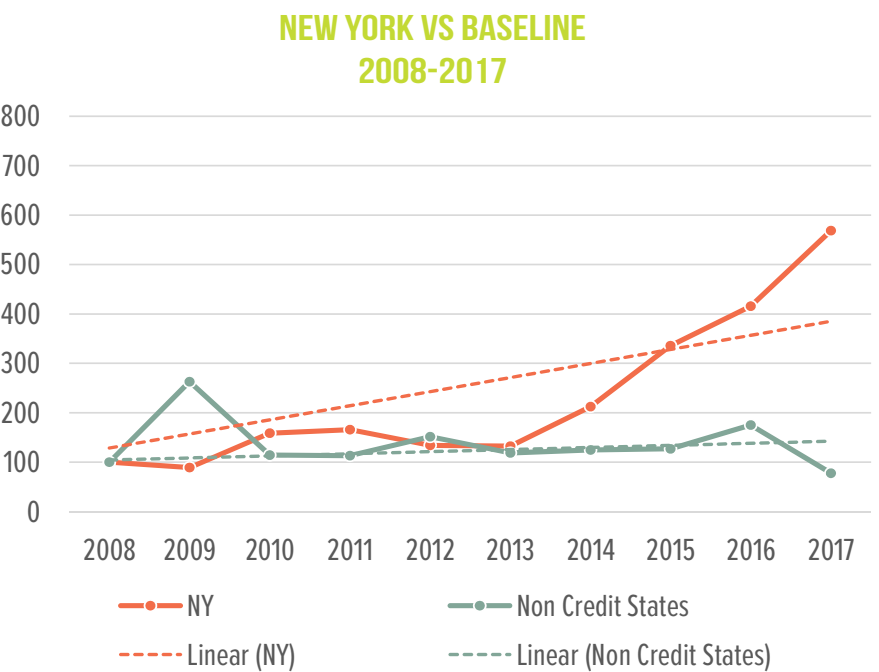
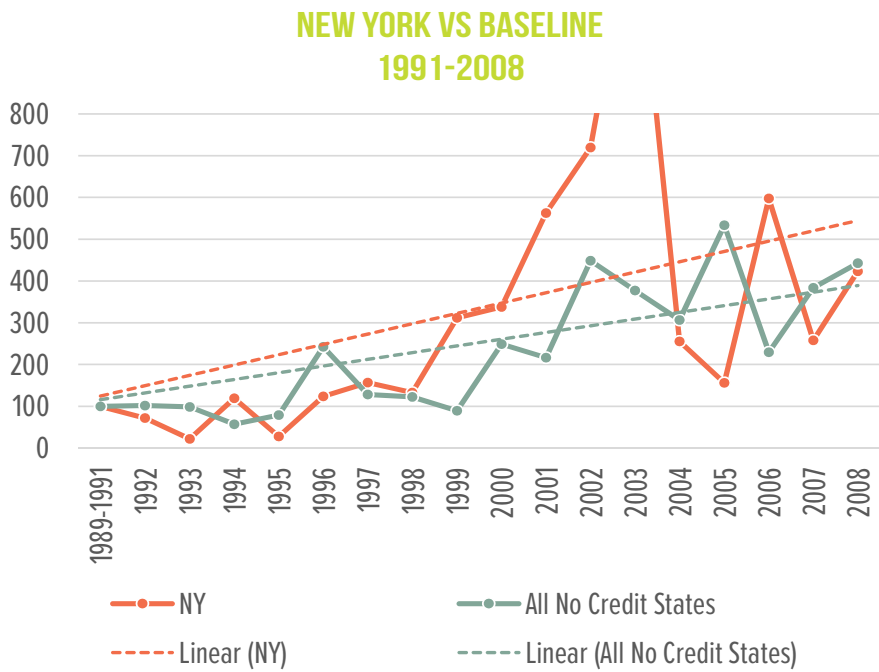


State	Effective Year	Credit % for Income-Producing Properties	Additional Credits	Minimum Investment	Annual Aggregate Cap	Annual Per-Project Cap	Direct Transfer	Allocation by Partnership Agreement	Refund
Texas	2015	25%		\$5,000	None	None	Yes	Yes	
Utah	1993	None	20% for rental residential	\$10,000	None	None			
Vermont	1998	10% downtown; 25% façade and 50% code improvements		\$5,000	\$2.4M	None	Yes		
Virginia	1997	25%	25% homeowners	at least 50% of the assessed value	None	\$5M (between 2017-2019; reverts 2020 to no cap)		Yes	
West Virginia	2018	25%	20% homeowners	\$5,000 or adjusted basis	\$30M	\$10M	Yes	Yes	
Wisconsin	2013	20%	25% homeowners (1989)	\$50,000	None	\$3.5M	Yes	Yes	

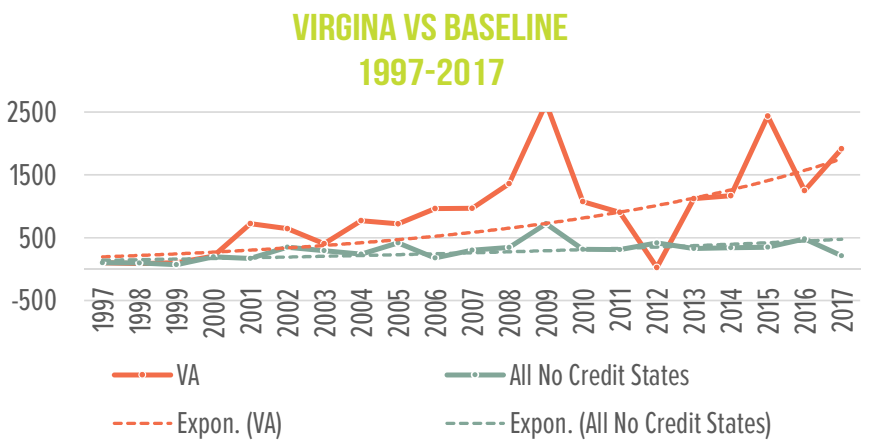
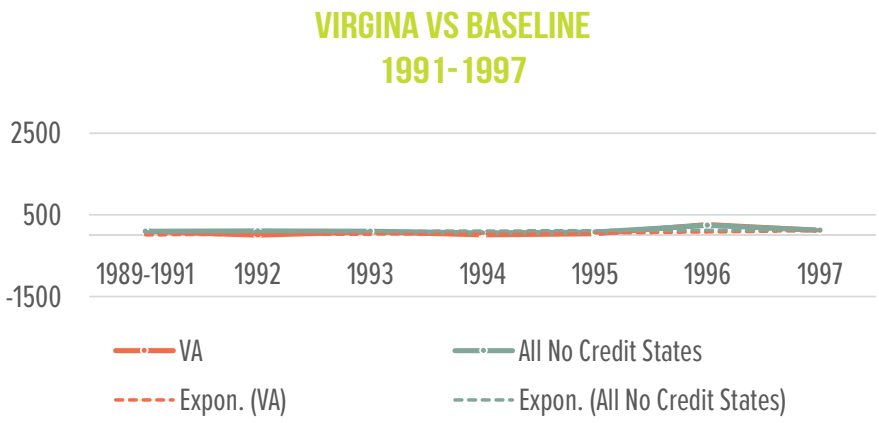


APPENDIX 2: COMPARISON STATES

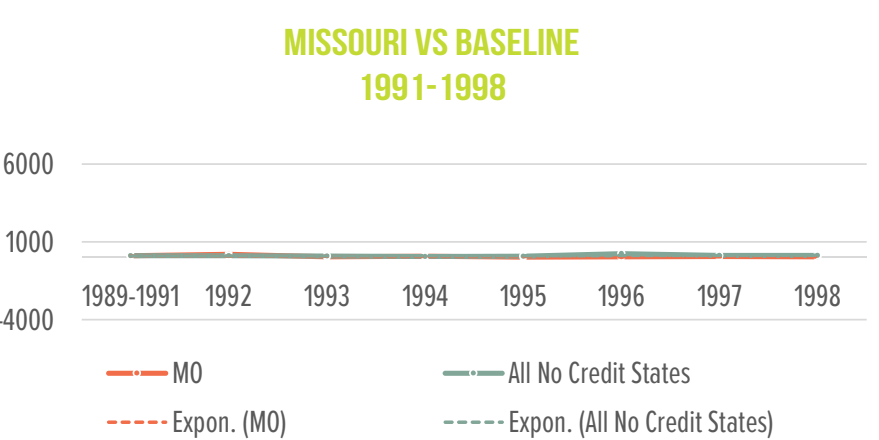
NEW YORK



VIRGINIA

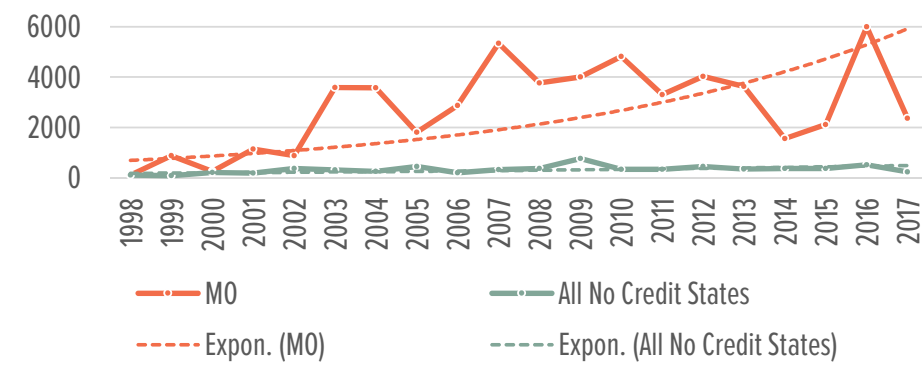


MISSOURI



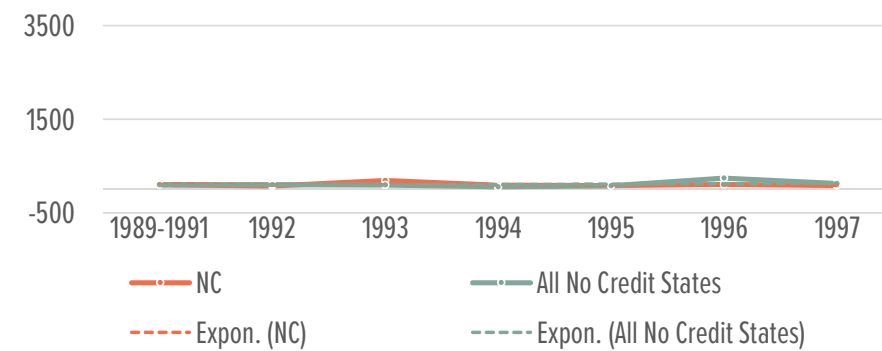


MISSOURI VS BASELINE  
1998-2017

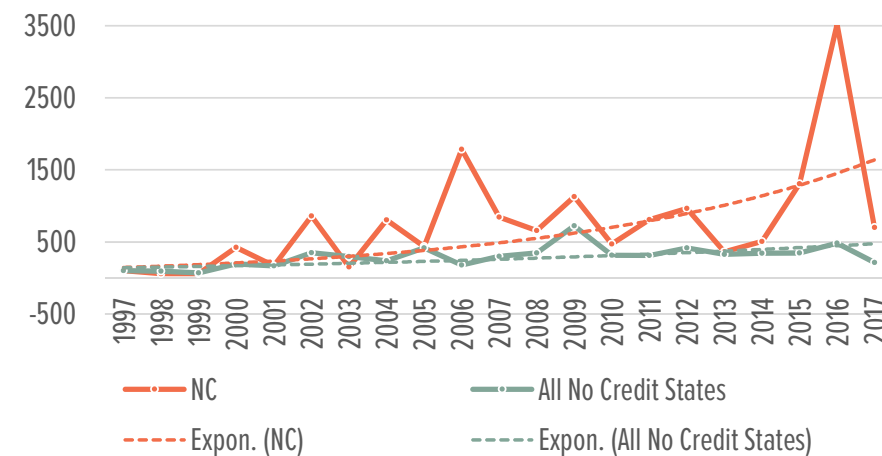


## NORTH CAROLINA

NORTH CAROLINA VS BASELINE  
1991-1997

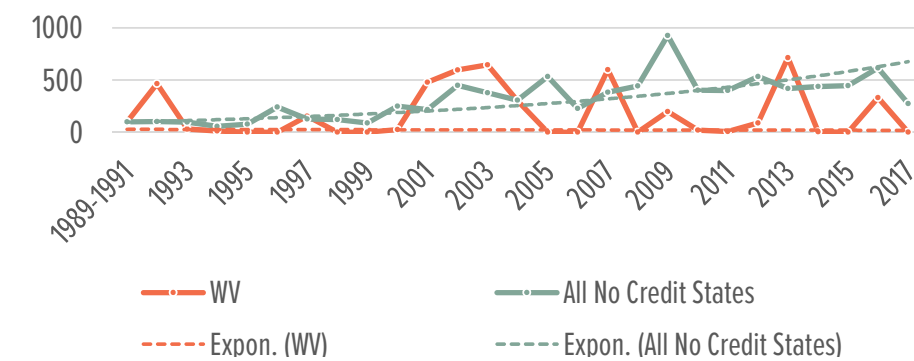


NORTH CAROLINA VS BASELINE  
1997-2017



## WEST VIRGINIA

WEST VIRGINIA VS BASELINE  
1991-2017







Erie Insurance Heritage Center



# THE MISSING KEY

A STUDY OF THE IMPACT AND POTENTIAL OF THE PENNSYLVANIA STATE HISTORIC TAX CREDIT  
MARCH 2019



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