

## **Assembly Standing Committee on Ways and Means**

Chair: Assemblyman Herman D. Farrell, Jr.

### **Testimony on the Impact of the Economic Crisis on the State Budget**

Thursday, November 13, 2008

Roosevelt Hearing Room C, Legislative Office Building, 2nd Floor  
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Preservation League of New York State

#### **Preservation League**

As New York's statewide preservation advocacy not-for-profit, the League has worked diligently to represent the public policy benefits of historic preservation, ranging from preservation's key role in economic redevelopment to its integral place in smart growth planning. If New York is to be successful in preserving open space, working farmland and curbing sprawl, economic development must be directed back to existing municipal infrastructure, and that will require recognition and reuse of New York State's extraordinary legacy of historic buildings in our commercial downtowns and residential neighborhoods alike.

Although New York State faces a severe budget challenge, now is the time to identify the tools and programs that target public and private reinvestment where it is most needed and in ways that most effectively leverage private and federal dollars for community renewal and economic reinvestment. From the League's perspective, historic preservation has a critical role to play in economic redevelopment and environmental policy in New York State, multiplying the policy benefits of continued budget and programmatic investment in such programs.

#### **Impact of Current and Proposed NYS Budget Cuts**

Like not-for-profit sectors in New York State, recently enacted and proposed budget cuts will have a significant impact on historic preservation organizations and activities. Grant programs will face cutbacks in available funding, and grants-in-aid will not be extended to local and regional organizations that play critical roles in historic preservation advocacy and technical services across the state. Funding for existing programs is being cut back and needed new programs apparently will not be established. Details regarding several programs that have a direct impact on the Preservation League and Colleague programs are referenced below, by category:

#### **EPF Funding -- OPRHP Historic Preservation Grants Program**

We are still evaluating cuts and core funding changes proposed by Governor Paterson relative to the Environmental Protection Fund (EPF). While no decrease was proposed to OPRHP's Municipal Parks and Historic Preservation Grants program funding line – the largest source of public funding for historic preservation capital projects in New York – proposed cuts in other program areas will have direct and indirect impacts to historic resources and cultural landscapes.

#### **NYSCA Funding – Preserve New York Grant Program**

We are expecting an across-the-board reduction in re-grant funding available for the Preserve NY program, administered by the Preservation League. This has been a highly successful program that funds historic structure reports, historic landscape reports, and cultural resource surveys, materials that are central documentation to structural rehabilitation and State and National Register listing. Since 1993, this program has leveraged over \$21 million dollars in matching funds and donations for 201 projects in 53 counties and represents a critical catalyst for local and regional preservation initiatives.

#### **NYSCA Funding – Grants in Aid Funding**

A number of member groups of the Preservation League's Colleague's program face a loss of funding from NYSCA due to mid-year program cutbacks. These professionally-staffed and all-volunteer preservation advocacy groups from across the state will be severely challenged in efforts to continue or expand programming as a result.

#### **EPF Funding – Proposed Capacity Building Grant Program**

The 2008-09 Executive Budget proposal included a new program line for capacity building grants for historic preservation organizations, to be administered by the Preservation League. Contacts in the Governor's Office indicate at this time that this program will not be proposed for funding in the 2009-2010 Executive Budget proposal. Addressing a significant need to expand the organizational, technical, and advocacy capacity of local organizations, program implementation is needed to support organizational development at a time of staff reassignments and hiring freezes at the State Historic Preservation Office.

Clearly, funding for historic preservation initiatives and programs has been severely cut in the existing and proposed "mid-year" budget corrections, and we expect such cuts to be similarly reflected in the proposed 2009-10 Executive Budget proposal. There should be no mistaking that historic preservation funding in many different formats, is taking a severe hit in the budget recalibration.

I want to shift my remarks at this point to addressing a program that needs to be included in the upcoming 2009-2010 New York State enacted budget, in order to advance the twin goals of economic renewal and community renewal. Next year's

budget will need to include some good news and incentives that signal New York State is committed to the role that economic renewal in our state must be built upon effective, targeted programs that deliver significant results to communities across New York State.

### **NYS Rehabilitation Tax Credit Expansion**

The League's priority public policy goal is enactment of an effective rehabilitation tax credit program in New York State. The existing NYS Rehabilitation Tax Credit program was established in 2006, but offers too low a level of incentive to spur redevelopment and rehabilitation in either the commercial or residential sectors. Additionally, the residential rehabilitation tax credit program is too narrowly restricted to ultra-distressed neighborhoods. It is abundantly clear that this program is not getting used, and is not serving New York State communities or economic development goals.

Since 2007, the Preservation League has proposed an expansion of the rehabilitation tax credit program to address these programmatic issues. A.30000, the focus of our legislative efforts in 2008, passed both the Assembly and Senate in 2008, and provided key program changes that would have dramatically accelerated program use of both the commercial and residential programs, as well as extended the reach of both programs to a wider range of municipalities and neighborhoods.

### **Program purpose**

The economic development benefits of an expanded program are numerous and cover a wide range of public policy goals for New York State. This program will direct reinvestment to downtowns and historic neighborhoods in urban, suburban and rural areas, catalyze the development of affordable housing units, aid the redevelopment of brownfields sites, and serve as an engine for tax base and job growth in locations that otherwise would not have attracted an equal level of investment.

Changes to the commercial historic property program are needed to provide a meaningful level of incentive and flexibility to rehabilitate a significant number of new projects above those aided by the federal rehabilitation tax credit. Changes to the historic residential property program should extend that program to a wider range of municipalities and greater range of neighborhoods within those municipalities.

### **Federal Rehabilitation Tax Credit Use in New York State**

The Federal Housing and Economic Recovery Act of 2008 included three amendments to the federal rehabilitation tax credit, the first changes we have seen in 22 years. The net effect of these provisions will be to create a much greater incentive for using the federal rehab credit.

The three provisions affecting the rehab credit include:

- Improved ability to lease rehabilitated structures to not-for-profits and governmental entities
- Alternative Minimum Tax relief for rehab projects twinned with the federal low-income housing credit (LITC)
- A requirement to consider historic character under State Qualified Allocation Plans (criteria for distributing the competitive Low Income Housing Tax Credit).

These changes, and the essential complement of an effective state-side credit are needed to counter a significant trend in federal rehabilitation tax credit use in New York State. A detailed look at federal rehabilitation tax credit data use in New York State from 1997-2005 reveals that:

- Of the nearly \$320 million in federal rehabilitation tax credits allocated to New York State projects, more than \$280 million was allocated to projects in New York City and the Boroughs.
- Of the \$40 million in federal rehabilitation credits allocated to projects outside of New York City, only \$12 million has been allocated to projects in ESDC's upstate region.

The lack of federal tax credit use in Upstate New York underscores the need for a complementary state-level rehabilitation tax credit to incentivize higher levels of rehabilitation investment, and return more federal dollars to New York State.

### **Budget Impacts**

The League estimates that there will be no cost for this program for at least 12-18 months, depending on the date set for program implementation. Projected revenue impacts build toward full implementation and consistent annual costs five years out. The Preservation League's estimated 5 year cost for an expanded commercial rehabilitation program, as configured under A.30000, follows:

<b>Year</b>	<b>Projected Credit Costs , Commercial Program</b>
2009-10	\$0
2010-11	\$2.5m
2011-12	\$12m
2012-13	\$21.5m
2013-14	\$26m

The residential program, as proposed for expansion, will generate minimal credit costs compared to the commercial program, less than \$1 million annually at full implementation by 2013-14.

With no fiscal cost for at least one year – longer if the program implementation date is pushed further out – program implementation will minimally cost New York State over the next two years while providing investors and developers in New York State's downtown and historic neighborhoods with the certainty that a significant new investment tool, designed to bridge the financing gap in more challenging real estate markets, will be available to spur property reinvestment.

### **Supporting Data – Economic Benefits**

#### **Economic Benefits Assessment - Maryland:**

- The Program is self-financing and does not require an outside revenue source.
- The total fiscal benefits of the Program, taken as a whole, far exceed the costs to the Treasury;
- The Program generates approximately 34 cents in tax revenues for every dollar of tax credit during construction before any claim can be made for the tax credit;
- The Program generates an average return to the State of approximately \$1.02 during the first year after a project's completion, and \$3.31 within five years after project completion for every dollar of tax credit earned.

Source: *FINAL REPORT of the GOVERNOR'S TASK FORCE on MARYLAND'S HERITAGE STRUCTURE REHABILITATION TAX CREDIT PROGRAM, January 2004.*

<http://www.preservationmaryland.org/pdf/Governor's%20Task%20Force%20Report%20on%20Heritage%20Tax%20Credit%202004.pdf>

#### **Economic Benefits Assessment - Missouri:**

- The economic and tax gains from the historic rehabilitation and heritage travel supported by the MHPTC offset much, if not all, of the \$74 million of the state cost of the program.

Source: *ECONOMIC IMPACTS of HISTORIC PRESERVATION in MISSOURI, December 2001.*

<http://dnr.mo.gov/shpo/RutgersStudy.pdf>

#### **Economic Benefits Assessment - Rhode Island:**

The accomplishments of such a program are most recently documented in a five-year study of the Rhode Island Historic Preservation Tax Credit program, released in September, 2007. The program's economic impacts have earned it the title of "most effective economic development program in Rhode Island history," according to Smart Growth Rhode Island.

Key findings of Rhode Island Rehab Tax Credit Economic Benefits Study:

- Current portfolio of completed and pending projects (277 projects) will leverage a total of \$2.46 billion in total economic activity.
- Every \$1 million in state tax credit investment will leverage \$5.35 million in total economic output.
- Rehabilitation activity will result in \$766.9 million dollar increase in assessable tax base and an estimated \$297.6 million in additional property tax revenue over the next 20 years.
- Offset of 24.3% of state tax credit expense during construction period. Incremental revenue streams offset an additional 18.3% of state tax credit expense.
- Nearly \$15 million in increased real estate tax collections and significant direct and indirect job and wage benefits.
- Without any intentional targeting of the program, 90% of the credits have been used in neighborhoods where average household incomes are below the state-wide median.
- 27% of the portfolio of completed and current projects is located on brownfields sites requiring environmental clean-up.
- Significant source of new affordable residential housing units: 20% of added new housing was subsidized affordable units
- Program is providing significant new opportunities for small project (< \$1 million) rehabilitation, assuring benefits to smaller communities, Main Street commercial corridors, etc.
- State tax credit provided key financial role allowing rehabilitation projects to meet threshold requirement for fair return on equity investment. The majority of projects would not have been pursued without the rehabilitation tax credit incentive
- Total investment in the 5-year period of State tax credit availability exceeds all of the rehabilitation activity of the previous 25-year period.
- State tax credit availability has leveraged a 700% increase in federal historic tax credit use. \$78 million in federal tax credit awards since 2001 (Rhode Island's program does not require federal credit usage).

Source: RHODE ISLAND HISTORIC PRESERVATION INVESTMENT TAX CREDIT  
ECONOMIC & FISCAL IMPACT ANALYSISs, September, 2007

<http://www.growsmartri.com/tax%20credit/Rhode%20Island%202007%20UPDATE%20FINAL0912.pdf>

## **Conclusion**

Implementation of an expanded New York State Rehabilitation Tax Credit program represents a targeted investment in the downtowns and historic neighborhoods that form the core of municipalities across New York State, and represents exactly the type of investment that New York State should make in difficult economic and budgetary times: a targeted tool that leverages significant federal and private investment and delivers proven results and benefits to municipalities across New York State.

The Preservation League urges the New York State Assembly to support inclusion of this program in the enacted 2009-10 New York State Budget.