

Senate Finance and Assembly Ways and Means Committees
Joint Legislative Hearing on the 2009-2010 Executive Budget Regarding
Economic Development Initiatives

Chair: Senator Carl Kruger
Chair: Assemblyman Herman D. Farrell, Jr.

Wednesday, February 3, 2009
Roosevelt Hearing Room C, Legislative Office Building
Albany, New York

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Historic Preservation's Key Role in Economic Stimulus and Recovery

As New York's statewide preservation advocacy not-for-profit, the League has worked diligently to represent the economic stimulus and public policy benefits of historic preservation, ranging from preservation's key role in economic redevelopment policy to its integral place in smart growth planning efforts.

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 across the Empire State.

Because New York State faces a severe budget challenge, now is the time to prioritize implementation of the tools and programs that target public and private reinvestment where it is most needed, in ways that most effectively leverage private and federal dollars for community renewal and economic reinvestment, and in ways that most aggressively and immediately meet economic stimulus benchmarks.

The program that meets these tests and serves these goals is an expanded New York State Rehabilitation Tax Credit. Legislation will shortly be introduced by Senator David Valesky and Assemblymember Sam Hoyt which will effectively and appropriately expand this program, direct stimulus and rehabilitation activity to distressed areas, and contain costs for New York State.

And the most important component of this stimulus program is this: it represents not the first, but the last dollars in to a project, requiring certification of project completion, and the prior leveraging of significant private and federal funding before New York State

issues program credits. Thus the economic stimulus and community renewal results are delivered in advance of any program costs to New York State.

The Preservation League, and a diverse and growing partnership of business leaders, municipal officials, economic development interests, and a wide array of environmental and preservation organizations are joining together in a campaign entitled "Reinvest New York" to promote inclusion of this program in the enacted 2009-2010 New York State Budget.

In pursuit of that goal, we'd appreciate the expanded program's inclusion in your respective Senate and Assembly budget proposals, and strong support for this program during budget negotiations.

NYS Rehabilitation Tax Credit Expansion

The Preservation League's paramount public policy goal is enactment of an effective rehabilitation stimulus program in New York State. A New York State Rehabilitation Tax Credit program was established in 2006, but it is clear from results to date that it offers too low a level of incentive to spur significant 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. As such, we can clearly see that this program is not currently 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 last year, passed both the Assembly and Senate in 2008 and provided key program changes that would have accelerated program use as well as extended the reach of both programs to a wider range of municipalities and neighborhoods. This program was unfortunately vetoed by Governor Paterson in September 2008, and New York missed the chance to enact a more robust rehabilitation stimulus program in 2008.

New legislation will be introduced shortly to focus the program on distressed areas where reinvestment is most needed and provide a higher level of financial incentive to catalyze private and federal reinvestment where it is most needed and most cost effective – in New York's existing downtowns and established neighborhoods.

Proposed Program Features

	A.30000 Passed by NYS Senate and Assembly	2009 Proposed Rehabilitation Stimulus Program
Qualified	National Register-listed	Same as A.30000

Buildings		
Geographic Restrictions	None: Available statewide: all National Register-listed commercial structures	Program limited to National Register-listed commercial structures in Distressed Areas (100% SMFI)
Credit Rate	10% (50% of federal credit value)	20% (100% of federal credit value)
Credit Cap	\$5 million	Same as A.30000
Transferability	Within business partnerships	Same as A.30000
Other Features: Sunset Provision	None	5-year program, sunset 12/2014

Budget Impacts

The League estimates that there will be no cost to New York State from 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 estimated 5-year costs of A.30000 were estimated as follows:

Year	Projected Credit Costs , A.30000
2009-10	\$0
2010-11	\$2.5m
2011-12	\$12m
2012-13	\$21.5m
<u>2013-14</u>	<u>\$26m</u>
5-Year Cost	\$62.3m

The proposed 2009 program likely represents a similar budget schedule and impact. Balancing the increase in credit rate is a restriction on program availability to distressed census tracts. Additionally, the 5-year sunset provision provides cost certainty to New York State. If this program does not deliver the significant construction and rehabilitation activity, the desired job retention and creation, significant levels of reinvestment and community pride, or urban and neighborhood renewal as we expect, then we can choose another course of action. But we expect this program to deliver big results at relatively modest cost to New York, and there is clear evidence from other states with robust rehabilitation tax credits that this can be the case for New York as well.

With no fiscal cost for at least one year – longer if the program implementation date is pushed further out – program implementation will cost New York State minimally 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.

Federal Rehabilitation Credit Use in New York State

An expanded Rehabilitation Stimulus Program represents an essential complement 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.

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

Twenty-eight other states have some form of rehabilitation tax credit to complement use of the Federal Rehabilitation Tax Credit Program, referenced above. In comparison, New York State's current program ranks in the bottom tier of incentives and program components. Presumably, it also ranks in the bottom tier of results. There is little disagreement regarding the affect of this program – it does not work. Our conversations with agency and Executive Chamber staff indicate that there is strong general support for an effective program, but concern that New York State cannot now afford a program that delivers meaningful results and stimulus. In contrast to these decisions, I want to note that two states, Maryland and Michigan, are actively seeking to expand their state rehabilitation tax credit programs in the current economic climate in recognition of the proven economic benefits of such programs in other states with robust programs.

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 aggressively support inclusion of this program in the enacted 2009-10 New York State Budget, and we would

welcome a bold stroke of the pen by Governor Paterson to sign this expanded rehabilitation stimulus program into law in 2009.