

THE HISTORIC HOMEOWNERSHIP REHABILITATION CREDIT:  
A VALUABLE TOOL FOR NEIGHBORHOOD CHANGE

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## Chapter One – Introduction

Driving through the forgotten residential neighborhoods of any city in the United States, whether it be Richmond, Virginia or Albuquerque, New Mexico, the need for a Historic Homeownership Rehabilitation Tax Credit becomes readily apparent. The Historic Homeownership Rehabilitation Credit originated in a bill entitled the Historic Homeownership Assistance Act (HHAA), first introduced in the 103rd Congress in 1994.<sup>1</sup> A form of the Historic Homeownership Rehabilitation Credit was reintroduced in every subsequent Congress except for the 108<sup>th</sup> Congress. In the current, 110<sup>th</sup> Congress, the bill is part of the Preserve Historic America Act of 2007 (H.R. 610). The bill was drafted in order to reverse disinvestment and blight by encouraging owner-occupancy and homeownership in older urban neighborhoods. The credit would create a financial incentive for middle income residents to locate in disinvested historic districts. An innovative feature of the credit, called the mortgage credit certificate, would allow lower income families to use the credit as a means of acquiring the equity necessary for homeownership. This new influx of fiscal and social capital would result in the creation of stable mixed-income neighborhoods with rehabilitated historic fabric. In addition to promoting neighborhood change the bill also sought to ensure historically sensitive rehabilitations of the unique architectural fabric of older homes rather than allow the alternatives of demolition or mistreatment to continue.

The purpose of this thesis is to provide an analysis of the almost fifteen year movement for a federal Historic Homeownership Rehabilitation Credit, reasons why the credit has failed to pass Congress in the past, and why there should be continued

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<sup>1</sup> H.R. 5249, 103<sup>rd</sup> Congress, Second Session.

advocacy for amendments to improve the existing Federal Historic Rehabilitation Tax Credit (FHRTC).

The Historic Homeownership Rehabilitation Credit would expand the existing FHRTC for commercial structures to include owner-occupied housing individually listed on the National Register of Historic Places or listed as a contributing structure in a National or Local Historic District that has been certified as substantially meeting the criteria for listing on the National Register of Historic Places. As with the existing FHRTC, all renovations would have to be in keeping with the Secretary of the Interior's Standards for Rehabilitation. Unlike the existing federal credit, the HHAA (H.R. 5249) contemplated that project approvals would be made by the State Historic Preservation Office (SHPO), or in appropriate situations by Certified Local Governments (CLG), and would not be subjected to a secondary review by the National Park Service (NPS).<sup>2</sup> The proposed credit would provide a tax credit of 20% of all certified rehabilitation expenditures up to \$40,000.<sup>3</sup>

It is important to note that because it is a tax credit, and not a deduction, the full amount of the credit is subtracted directly from the total of the homeowner's income tax liability. Therefore it is a dollar for dollar reduction for the taxpayer. Qualified rehabilitation expenditures would have to exceed \$5,000 or the adjusted basis of the

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<sup>2</sup> The FHRTC requires project approvals from both the SHPO and the NPS. The CLG program was initiated in 1985 and allows the NPS to grant select local governments Certified Local Government status. The program is jointly administered by the SHPOs and the NPS and is a way of promoting preservation at the local level through the creation of partnerships and the dispersal of grant funds. Source: National Park Service Certified Local Government Website, [http://www.cr.nps.gov/hps/clg/clg\\_p.htm](http://www.cr.nps.gov/hps/clg/clg_p.htm), accessed April 8, 2007.

<sup>3</sup> \$40,000 limit for each principal residence, applies to individuals and married couples filing jointly. If a married couple filed separately the limit would be \$20,000 each. When originally proposed in the 103-105<sup>th</sup> Congresses the maximum limit on the credit was \$50,000. In the 106<sup>th</sup> Congress the limit on the credit was reduced to \$40,000 (106<sup>th</sup> Congress, H.R. 1172).

building, whichever is greater, unless the property is located in a distressed census tract, in which case the minimum would only be \$5,000, even if the adjusted basis is greater.

The success of the FHRTC both in terms of preserving built fabric and fostering local economies cannot be disputed. However, by excluding owner-occupied residences from the only financial incentive for historic preservation of private property at the federal level, the tax code, as is, discriminates against the significant majority of designated historic properties in the United States. A 1993 study by the NPS estimated that 72% of all buildings listed on the National Register of Historic Places are owner-occupied dwellings.<sup>4</sup> Furthermore, a homeownership rehabilitation credit would promote revitalization in areas not affected by the commercial rehabilitation tax credit. As Harry K. Schwartz, former director of Public Policy at the National Trust for Historic Preservation, states, “Because owner-occupied residences are normally located in residential neighborhoods rather than in commercial areas and downtowns, these incentives trigger visible improvements in the built environment in those parts of communities where people live, and not just where they work and shop.”<sup>5</sup>

In 1993 the Interagency Resources Division of the National Park Service conducted a study entitled “Estimating the Number of Historic Residential Buildings that Might Qualify for Proposed Federal Preservation Tax Incentives.”<sup>6</sup> The study concluded

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<sup>4</sup> National Park Service, Interagency Resources Division, “Estimating the Number of Historic Residential Buildings that Might Qualify for Proposed Federal Preservation Tax Incentives,” November 1993.

<sup>5</sup> Schwartz, Harry K., “State Income Tax Incentives for Historic Homeownership,” Preservation Law Reporter, June 1996, 1093.

<sup>6</sup> National Park Service, Interagency Resources Division, “Estimating the Number of Historic Residential Buildings that Might Qualify for Proposed Federal Preservation Tax Incentive,” November, 1993.



that, at that time, there were a total number of 585,656 residences that would potentially qualify for the credit. The study also found that 194,104 new residential listings would also potentially qualify for the credit when added to the Register over the next five years. With 779,760 historic properties potentially benefiting from the Historic Homeownership Rehabilitation Credit, it would be negligent for the preservation community to not continue to pursue the legislation. With such a high number of low-income families and individuals living in historic districts, equitable community development advocates would also be remiss in not supporting efforts to enact the credit.

The Historic Homeownership Rehabilitation Credit would provide an opportunity not only to ensure historically sensitive restoration of historic building fabric; it would also serve as a catalyst for equitable neighborhood change. There is a strong correlation between the historic neighborhoods of America's cities and poverty. Fifty-eight percent of all historic resources listed on the National Register of Historic Places are located in census tracts defined as distressed.<sup>7</sup> Thirty-two percent of households living below the poverty line live in historic neighborhoods.<sup>8</sup> Throughout all of the political campaigns to pass the Historic Homeownership Rehabilitation Credit, a primary goal of the tax credit has been to stimulate neighborhood change in blighted inner-city communities by providing an incentive for middle income individuals and families to move into disinvested areas. The goal of homeownership for very low-income families cannot be accomplished with a tax credit alone; however, the creation of stable, mixed-income neighborhoods with inherent social capital derived from historic fabric can be

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<sup>7</sup> Letter to Members of Congress from Clay Shaw and John Lewis, 2001.

<sup>8</sup> Rypkema, Donovan, "Historic Preservation and Affordable Housing: The Missed Connection," Forum Journal 17, no. 3 (2003).

accomplished with the Historic Homeownership Rehabilitation Credit. Without the credit, middle income families have no motivation to locate in older communities experiencing issues relating to abandonment. In the absence of the social and financial investments of new residents such neighborhoods will inevitably become blighted, if not already so, and their historic fabric, and more importantly citizens, will continue to be neglected or worse forgotten. In 2000 there were 505,739 buildings across the country located within Historic Districts in census tracts with poverty levels of 20% or more.<sup>9</sup> The Historic Homeownership Rehabilitation Credit could provide affordable housing for thousands of lower to middle income families currently priced out of many inner-city housing markets, as well as provide a means of stewardship for these abandoned structures.

The potential of the Historic Homeownership Rehabilitation Credit goes far beyond the traditional purview of historic preservation and seeks to address the persistent decline of urban areas in the United States despite a now mature back to the city movement. A visually pleasing structure in an unstable neighborhood is not that remarkable of an achievement, but a well preserved home in a stable neighborhood with increased financial and social capital is a worthwhile endeavor, which is why the Historic Homeownership Rehabilitation Credit has the potential to be a valuable tool for neighborhood change.

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<sup>9</sup> National Park Service. "Historic Districts and Historic Buildings in Poverty Areas as of July 24, 2000," National Park Service Cultural Resources Geographic Information Services, July, 2000.

## Chapter Two - The Federal Historic Rehabilitation Tax Credit for Commercial Structures

“Before the tax incentives, few accepted the idea that reusing historic buildings could be profitable. Today, few question it. That turnaround has had profound consequences for saving and reusing historic properties throughout the country.”

- Fran P. Mainella, former Director, National Park Service<sup>10</sup>

The above quotation is from a monograph celebrating the twenty-fifth anniversary of the Federal Historic Rehabilitation Tax Credit (FHRTC). The program is about to turn thirty, and optimism about its catalytic effect in historic downtowns has only continued to increase.

The first federal tax incentive for historic preservation was passed into law in 1976 as part of the Tax Reform Act of 1976, in which, among other less successful incentives for preservation, owners of historic buildings were allowed to claim an accelerated depreciation on their property. The credit was created in order to compensate for the perceived increase in economic risk associated with historic structures when compared to new construction. Two years later, in 1978 the FHRTC was passed into law, creating the credit for “certified rehabilitations” of income producing properties that, despite several programmatic modifications, continues to be heavily utilized today.<sup>11</sup>

In order for a project to qualify as a “certified rehabilitation” the property must be individually listed on the National Register of Historic Places, or listed as a contributing structure in a National Historic District or a certified Local Historic District. All “rehabilitations undertaken for the tax incentives [must be] consistent with the historic

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<sup>10</sup> National Park Service, “Federal Tax Incentives for Rehabilitating Historic Buildings, Twenty-fifth Anniversary Report,” Washington, D.C.: Heritage Preservation Services, Technical Preservation Services, 2001.

<sup>11</sup> For a timeline of the history of the FHRTC and efforts to pass the Historic Homeownership Rehabilitation Credit see Appendix A.

character of the property and only rehabilitations that are consistent with a property's historic character qualify for tax incentives.”<sup>12</sup> In order to make the certification process consistent the appropriate treatment of historic fabric in a rehabilitation project was formalized into the *Secretary of the Interior's Standards for the Rehabilitation of Historic Structures*, originally published in 1977 and revised in 1990. If a project does not meet the *Secretary's Standards*, no part of the credit may be claimed.

The Secretary of the Interior delegated the responsibility of certifying FHRTC projects to the National Park Service (NPS). The program is jointly administered by the NPS and the Internal Revenue Service (IRS) in conjunction with the State Historic Preservation Officers (SHPOs). When first created the FHRTC provided only a 10% tax credit; however, the Economic Recovery Act of 1981 altered many key aspects of the credit, including increasing the credit to 25% for certified historic structures (those individually listed on the National Register of Historic Places or listed as contributing structures in a National, or certified Local Historic District). The Economic Recovery Act of 1981 also allowed for a separate 15% credit for all qualified rehabilitation expenditures for any “non-historic” commercial structures over 30 years in age and a 20% credit for any “non- historic” commercial structures over 40 years in age.

Overall, the FHRTC has been extremely successful, despite programmatic and eligibility changes made to the credit in the Tax Reform Act of 1986 (P.L. 99-514, 100, Stat. 2085) that, for a short period, diminished use of the credit across the country. Use

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<sup>12</sup> “Federal Historic Rehabilitation Tax Credit Program: Recommendations for Making a Good Program Better,” National Park System Advisory Board Report, Sept. 2006, 2.

For complete definitions of the terms “qualified rehabilitated building”, “qualified rehabilitation expenditure”, and “certified rehabilitation” see Appendix B for a complete record of Section 47 of the Internal Revenue Code.

of the credit has rebounded and in fiscal year 2006 alone, \$4.08 billion was invested in 1,253 certified projects.<sup>13</sup> The cost to the U.S. Treasury for all FHRTC projects carried out in 2006 was less than \$817 million, with a five to one ratio of private investment to federal tax credits.<sup>14</sup> Furthermore, these figures do not include private investment in new construction which, although ineligible for the tax credit, often takes place in conjunction with rehabilitation projects. Since 1976 federal incentives for historic preservation have resulted in 33,937 rehabilitated properties and \$40.83 billion in private investment. These projects have resulted in the introduction of 363,675 housing units to the market, 86,508 of which are low and moderate-income units.<sup>15</sup> It is important to note that these were rental units and not for sale units. The FHRTC remains the only economic incentive for preservation of privately owned historic properties at the federal level. The range of buildings that have been rehabilitated using the credit includes structures of multiple diverse uses, architectural styles, and historical periods.

In 1986, when several other tax credit programs were completely abolished by Congress, the FHRTC and the Low Income Housing Tax Credit (LIHTC) were spared because of their proven effectiveness. However, the FHRTC was dramatically altered by the Tax Act of 1986. The revised tax code reduced the amount of the FHRTC from 25% to 20% of the adjusted basis of the property, and limited passive investment in historic tax credit projects. The IRS defines passive activity as “trade or business activities in

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<sup>13</sup> National Park Service, “Federal Incentives for Rehabilitating Historic Buildings Annual Report for FY2006,” Washington, D.C.: Heritage Preservation Services, Technical Preservation Services, February, 2007.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

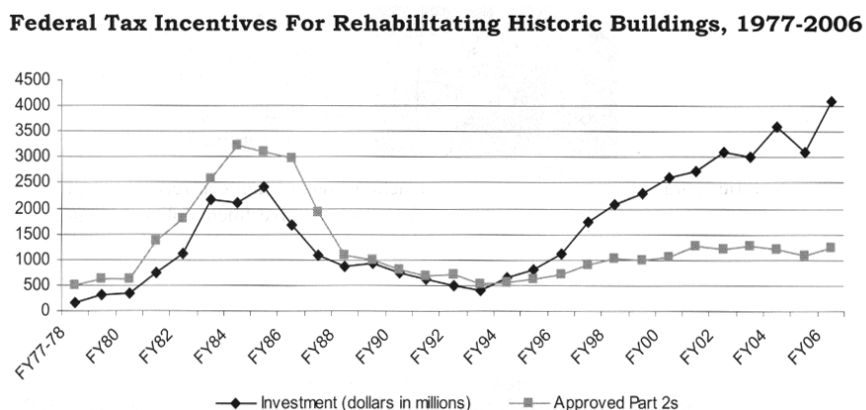
which you do not materially participate.”<sup>16</sup> Passive loss rules apply to any losses from passive activities. The 1986 Tax Act also resulted in the reduction of the credits for non-historic properties constructed prior to 1936 to a single 10% tax credit. This credit, although rarely used, is still part of the tax code; however, this thesis will focus exclusively on the tax credit for certified historic structures, since it affords the greater incentive for neighborhood change and preserves recognized historic fabric.

Use of the FHRTC dramatically decreased after the Tax Reform Act of 1986 (see Figure One on page 10). For almost an entire decade after the passage of the 1986 Tax Act preservationists tried to persuade the President and Congress to relax the restraints placed on the credit. In the 103rd Congress, H.R. 1566, the Historic Rehabilitation Tax Credit Expansion Act of 1993 and its companion bill in the Senate, S. 895, were introduced with the purpose of increasing the effectiveness of the FHRTC through a partial relaxation of the restrictions imposed in 1986. Primarily the bill was concerned with exempting the FHRTC from passive activity rules and eliminating the income cap restrictions. Currently the use of the credit is limited for individual taxpayers with incomes over \$200,000 claiming the credit and the credit cannot be claimed at all by individuals with incomes in excess of \$250,000. However, many in Congress viewed the relaxation of the tax passive-loss rules as creating a potential loop-hole, and any “fix” to the credit was deemed too costly to the federal treasury by the Republican majority, then in power. In what would prove a trend for all bills proposed to alter the FHRTC, the only truly vocal advocates for the amendments to the historic tax credit were preservationists.

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<sup>16</sup> IRS website, <http://www.irs.gov/taxtopics/tc425.html>, referenced Jan. 30, 2007.

Figure One



Despite no amendments to the legislation passed into law, after years of work by preservationists and city governments to publicize the benefits of the credit the FHRTC is once again widely used throughout the country (although the majority of all FHRTC projects are carried out in the eastern half of the country). Despite the fact that the number of projects completed each year has remained below pre-1986 levels, the total amount of money invested in projects has dramatically increased. This is in part due to the new limits placed in the Tax Act of 1986 on passive investment in FHRTC projects, which in turn had the effect of limiting individual private investment and made it so that large, publicly-owned corporations are now almost the exclusive investors in FHRTC projects. Therefore, although there are now fewer FHRTC projects than there were prior to the 1986 Tax Act, the projects are much bigger.

In the last decade the “selling” of tax credits has become a lucrative and common way to finance rehabilitation projects. The typical project structure is one in which a developer enters into a limited liability company (LLC) with a large investor in order to gain upfront capital for a project in exchange for the tax credits that the corporate

investor will be able to use to offset corporate income taxes, thereby increasing on paper the corporation's annual earnings, a key factor in valuing corporate stocks. The current version of the FHRTC is found in Section 47 of the Internal Revenue Code that was made effective November 5, 1990.<sup>17</sup>

Despite its broad and sustained success, over the last several years preservation advocates have identified several restrictions of the current FHRTC. These drawbacks include the incompatibility of the FHRTC and the LIHTC. The regulatory process of both programs makes it extremely difficult to utilize both credits in a single project. When the obstacle of combining the two credits is overcome, a basis reduction in the credits occurs and a portion of the credits must be forfeited. In addition, the FHRTC is structured in a way that makes it virtually impossible for non-profits to take advantage of the credit. Currently the tax law states that buildings owned by a non-profit entity are ineligible for the FHRTC because they do not have a tax liability. Non-profits that desire to fund a rehabilitation project of their structure with tax credits must go through an involved syndication process that reduces the amount of the credit that the non-profit organization is able to use toward the rehabilitation.<sup>18</sup> In theory this aspect of the tax credit makes sense--if there is no tax liability there should be no tax credit--except that the legislation was drafted in order to "encourage sensitive reuse of historic buildings,"<sup>19</sup> and a great many of the structures listed on the National Register or located in Historic Districts are owned and operated by non-profit organizations.

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<sup>17</sup> See Appendix B for a complete record of Section 47.

<sup>18</sup> Alperin, Kenneth, "The Historic Rehabilitation Tax Credit," Historic Preservation Law (Washington, D.C.: ALI-ABA, 2004).

<sup>19</sup> National Park Service, "Federal Tax Incentives for Rehabilitating Historic Buildings, Twenty-fifth Anniversary Report," Washington, D.C.: Heritage Preservation Services, Technical Preservation Services, 2001.



The most serious and frequently identified shortcoming of the current FHRTC is that the credit is only applicable to income-producing properties and therefore the hundreds of thousands of homeowners and potential homeowners within distressed and abandon historic residential neighborhoods cannot benefit from the only federal incentive for historic preservation. As Richard Moe, President of the National Trust for Historic Preservation, stated, “the focus [of the FHRTC] ought to be the broader utility of the credit for the greatest public good- which happens to be the revitalization of neighborhoods and communities of all kinds.”<sup>20</sup> Furthermore, there is no incentive for developers to rehabilitate and sell homes or condos in historic neighborhoods because, due to the recapture provisions, there is no way for a developer to claim the credit if they sell the units within five years of completing the rehabilitation, and there is no mechanism in place to allow them to pass on the credit to homeowners.

Beyond these shortcomings preservationists have also identified ways that the tax code could be altered to improve the FHRTC beyond its original intent. For example, the tax code currently allows for only one level of the historic tax credit at 20%. However, the National Trust for Historic Preservation and other preservation organizations have proposed that the tax code be altered to provide an increase in the percentage on which the credit is calculated for commercial projects carried out in high poverty areas. This could be as simple as increasing the credit to 25% or 30% of certified rehabilitation expenditures in areas identified by HUD as Enterprise or Empowerment Zones as proposed in the Community Restoration and Revitalization Act (H.R. 1043) currently before Congress.

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<sup>20</sup> “City Building and the Historic Rehabilitation Tax Credit,” ULI Public Policy Forum Series no. 663, February 6, 2001, 7.

Over the last few years three separate reports have been issued calling for improvements and changes to the tax code and the administration of the FHRTC. In June of 2003 the National Conference of State Historic Preservation Officers (NCSHPO) published a report entitled “Tax Act Review Reform Policy Paper” calling for a greater dialogue between the SHPOs and the NPS about the project review process since both entities are required to review all proposed projects. The report advocated for greater consistency between the two levels of review and a more streamlined process for applicants to follow.<sup>21</sup> In December of 2003 the Historic Preservation Development Council (HPDC) issued “Recommendations for Improving Administration of the Certified Rehabilitation Tax Credit Program.” This document sought to promote changes that would make the credit “more sensitive to the realities of the real estate development process.”<sup>22</sup> In response to these reports in August of 2004 the NPS issued a report entitled “Improving the Administration of the Federal Historic Rehabilitation Tax Credit Program: The National Park Service Response to Recommendations for Improvement.”<sup>23</sup> The report outlined the National Park Service’s plan to incorporate aspects of both rather critical reports into increasing the efficiency of the review process, improving the training available to project reviewers, and increasing the materials available to project sponsors unfamiliar with the process. In September of 2006 a report by the National Park Service Advisory Board Committee on the Federal Historic Rehabilitation Tax Credit Program

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<sup>21</sup> National Conference of State Historic Preservation Officers, “Tax Act Review Reform Policy Paper,” June 2003.

<sup>22</sup> “Recommendations for Improving Administration of the Certified Historic Rehabilitation Tax Credit Program,” Historic Preservation Development Council Working Group on Secretary’s Standards for Historic Rehabilitation, 2003.

<sup>23</sup> National Park Service, “Improving the Administration of the Federal Historic Rehabilitation Tax Credit Program: The National Park Service Response to Recommendations for Improvement,” Washington, D.C.: Heritage Preservation Services, Technical Preservation Services, 2004.

entitled, “Federal Historic Rehabilitation Tax Credit Program: Recommendations for Making a Good Program Better” addressed the usability of the credit, examining if the requirements of the FHRTC are clear to program users and how the interpretation of the *Secretary of the Interior’s Standards for Rehabilitation* could be codified to make the process more user-friendly?<sup>24</sup>

All of these reports were primarily concerned with the administration of the historic tax credit program. However, there is a long history of attempts to change the tax code itself in order to better serve the national goals of historic preservation and neighborhood revitalization. No attempt to change Section 47 of the tax code has sustained as much support for so long as the attempt to pass the Historic Homeownership Rehabilitation Tax Credit.

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<sup>24</sup> “Federal Historic Rehabilitation Tax Credit Program: Recommendations for Making a Good Program Better,” National Park System Advisory Board Report, Sept. 2006.

## Chapter Three – The Historic Homeownership Assistance Act (HHAA)

“It provides a way of making ownership in a rehabilitated older home more affordable to lower-income homebuyers. It provides an incentive for more affluent homebuyers to claim a stake in our older neighborhoods. It offers hard-pressed towns and cities the chance to put deteriorated property back on the tax rolls, to dispose of city-owned tax foreclosed properties, and to add new taxpayers to the local income-tax base. It offers developers, realtors and homebuilders a new realm of economic opportunity, and the chance to create both construction jobs and permanent jobs in revitalized neighborhoods and communities. And, not least in importance it offers us what may be our last chance to save the frayed and tattered fabric of our urban past.”

– Harry K. Schwartz, describing the Historic Homeownership Assistance Act<sup>25</sup>

### Conception and Goals of the Bill

At the end of the 103<sup>rd</sup> Congress, in the fall of 1994, Rep. Michael Andrews first introduced the Historic Homeownership Assistance Act (HHAA) to the House of Representatives. The purpose of the bill, as described above in September 1993 by one of its authors, Harry K. Schwartz, former Director of Public Policy at the National Trust for Historic Preservation, was to reverse disinvestment and blight in decaying urban neighborhoods by providing incentives to rehabilitate and occupy historic buildings. The bill was drafted as a series of amendments to the current Federal Historic Rehabilitation Tax Credit (FHRTC) of the Internal Revenue Code of 1986, as opposed to creating a totally new bill or section of the tax code.

The bill was initiated, researched, authored, and promoted by the National Trust for Historic Preservation. An expansion of the FHRTC became the key component of the National Trust’s solution to the large scale abandonment of urban neighborhoods across the country that had begun in the 1960’s. Many cities across the country lost and have

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<sup>25</sup> Schwartz, Harry K., “A Federal Historic Rehabilitation Tax Credit for Homeownership: Proposing a New Way to Revive Our Communities,” Historic Preservation News (Oct./Nov. 1994), 17.

continued to lose significant population in the past four decades. Those cities not declining in total population have nonetheless lost significant portions of their middle class residents, leaving behind cities with a populace divided between the extreme ends of the income spectrum- the very wealthy and the very poor. Urban flight had already reached epidemic status in 1971 when the National Survey of Housing Abandonment reported that “entire neighborhoods housing hundreds of thousands of central-city dwellers are in advanced stages of being abandoned by their owners.”<sup>26</sup> This trend only continued- in the ten years between 1980 and 1990 the city of Chicago alone lost 41,000 housing units to blight and abandonment, Philadelphia lost 10,000, and St. Louis 7,000.<sup>27</sup> Faced with these numbers, many in the preservation community saw a place for historic preservation to play a role in the revitalization of America’s inner cities. Rather than allow the demolition by neglect of the individual structures, there needed to be a way to entice middle income individuals and families to remain in or move into these homes and rehabilitate them. This reinvestment on an individual basis would encourage an improvement in city services and amenities in the neighborhood, discouraging further flight and helping to create more stable mixed-income neighborhoods. The credit also gave preservationists, frustrated by unsuccessful attempts to return the FHRTC to its pre-1986 state, a place to focus their energy.

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<sup>26</sup> Schwartz, Harry K., “A Federal Historic Rehabilitation Tax Credit for Homeownership: Proposing a New Way to Revive Our Communities,” Historic Preservation News (Oct/Nov 1994), 14.

<sup>27</sup> Ibid., 14.

## Contents of the Bill

The HHAA, as drafted, allowed for a 20% credit toward federal income tax to homeowners who “substantially” rehabilitated or purchased qualified historic homes, with a maximum allowable credit of \$50,000 (the equivalent of \$200,000 in rehabilitation expenditures).<sup>28</sup> “Substantially” was defined as investing at least the same amount of money in qualified rehabilitation expenditures as the adjusted basis of the home. The adjusted basis of a property, simply described, is the cost of the property minus any depreciation deductions taken, and plus the cost of capital improvements made to the building. The value of the land underlying the building is not included in the adjusted basis of the building. Qualifying properties would include single and multi-family residences, condominiums, and co-ops, and the residential portion of mixed-use properties individually listed on the National Register of Historic Places, individually listed on a local register certified by the Secretary of the Interior, or listed as a contributing structure in a National or Certified Local Historic District. The home would have to be owned by the taxpayer and function as the principal residence of the taxpayer applying for the credit. As with the FHRTC all rehabilitations would be required to meet the *Secretary of the Interior’s Standards for the Rehabilitation of Historic Structures*. However, special consideration would be granted in “targeted areas” such as Enterprise or Empowerment Zones.<sup>29</sup> These special considerations include taking into account “the risk of further deterioration or demolition of such a building in the event that certification is denied because of the failure to preserve such interior elements and the effects of such

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<sup>28</sup> In the 106<sup>th</sup> Congress the limit on the credit is reduced to \$40,000 (106<sup>th</sup> Congress, H.R. 1172).

<sup>29</sup> H.R. 1172, 1999, See full text of bill in the Appendix C.

deterioration or demolition on neighboring historic properties.”<sup>30</sup> Expenditures would be required to equal or exceed \$5,000 or the adjusted basis of the property, whichever is greater, unless the property is located in an Enterprise or Empowerment Zone or a census tract targeted as “distressed”, in which case the minimum rehabilitation expenditures would only be \$5,000.<sup>31</sup>

For all projects receiving the credit, 5% of the total rehabilitation expenditures would have to be spent on the exterior. The credit could be used to offset federal income tax liability in future years if there were not sufficient liability to claim the credit in one year. Unused credit could be carried forward until exhausted, but would not be allowed to carry back to previous years. If the homeowner sells the property within five years of the completion date of the rehabilitation, the credit would be subject to partial or full recapture depending on how much time has passed.

The “pass through” feature of the bill would allow developers who rehabilitated a property to sell the credit along with the home to a homeowner, thus avoiding the

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<sup>30</sup> H.R. 1172, 1999, Section 25B.

<sup>31</sup> Enterprise and Empowerment Zones were created by the Clinton administration in 1994 as part of a federal program to target urban and rural communities in need of revitalization. The Empowerment Zones and Enterprise Communities are identified by Housing and Urban Development (HUD), and the United States Department of Agriculture (USDA). “The Empowerment Zones/Enterprise Communities program is a federal government-wide effort to enable the self-revitalization and growth of distressed urban and rural areas throughout the nation. In December 1994, 105 socio-economically distressed areas were designated to receive focused federal assistance based on strategic plans for economic and human development. The EZ/EC designees [receive] flexible grants through a special provision in the SSBG [Social Services Block Grant] Program, tax incentives, and a commitment of additional types of Federal support to implement these plans over a ten-year period.” Source: U.S Dept. of Health and Human Services website, [http://www.acf.hhs.gov/programs/ocs/ez-ec/fs\\_ezec.html](http://www.acf.hhs.gov/programs/ocs/ez-ec/fs_ezec.html), accessed Feb. 6, 2007.

A “distressed census tract” is defined by the Community Reinvestment Act (CRA) as a census tract with an unemployment rate of at least 1.5 times the national average, a poverty rate of 20% or more, a population loss of 10% between the previous and most recent decennial census, or a net migration loss of 5% or more over the five year period preceding the most recent census, (CRA; 12 USC 2901).

recapture provision. In targeted areas or Enterprise or Empowerment Zones, taxpayers with insufficient tax liability would be permitted to convert the credit to a mortgage credit certificate that could be presented to a lender in order to obtain a reduction in the interest rate or funds for a down payment for the mortgage on the rehabilitated property. The lending institution could then claim the full amount of the credit in order to offset their own tax liability.

Throughout the campaign to pass the HHAA there was an ongoing discussion of whether or not the credit should be targeted, meaning only applicable to certain qualifying individuals or neighborhoods that could most benefit from the credit. With an interest in investigating the effects of targeting the credit, Preservation Action and the National Park Service conducted a study in 1997 to determine the percentage of National Register of Historic Places districts that were located in census tracts with median family incomes of 80%, 100%, and 150% of the statewide median family income for the state in which the district is located. The results of the study, which randomly sampled fourteen states, indicated that approximately 39.7% of all National Register historic districts were located in census tracts with median family incomes of 80% or less of the statewide median family income. Sixty-two percent of all historic districts were located in census tracts with median family incomes at or below the statewide median income and 85.2% of historic districts were located in census tracts at or below 150% of the statewide median income.<sup>32</sup> A separate, more detailed, study carried out by the National Park Service Cultural Resources Geographic Information Services in 2000 looked individually

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<sup>32</sup> Figures based on 1997 data prepared by Preservation Action and the National Park Service using 1990 census data, from the Preservation Action archives.



at National Register Historic Districts across the country in order to determine the overlap of historic districts and poverty areas.<sup>33</sup> The study went so far as to determine the number of contributing buildings in each state located in an impoverished historic district. In Louisiana alone there were 44,632 contributing buildings located in historic districts in census tracts with more than 20% of the population living below the poverty threshold.<sup>34</sup> In half of all states, 50% or more of all of the contributing buildings in that state were located in a National Historic District within a census tract with 20% or more households living below the poverty threshold. In 28 states 50% or more of all of the contributing buildings located in a historic district were located in census tracts with a poverty level of 20% or greater.

What both of these studies illustrate is that across the country there is a consistent overlap between areas of urban poverty and historic districts. When the HHAA was under consideration in the House Committee on Ways and Means opponents of the bill claimed the opposite, maintaining that only the wealthy lived in historic districts and that a credit aimed at improving historic districts would only benefit the rich.<sup>35</sup> This is clearly not the case; however, in order to appease those who continued to label the bill as a credit for the very wealthy, the last time the HHAA was introduced, during the 107<sup>th</sup> Congress, the so-called “Gold Coast Amendment” was included in the bill limiting use of the credit to only those historic districts located in census tracts with a median family income less

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<sup>33</sup> “Historic Districts and Historic Buildings in Poverty Areas as of July 24, 2000,” National Park Service Cultural Resources Geographic Information Services, July, 2000.

<sup>34</sup> The poverty threshold, determined by the US Census Bureau, is the level of income that a household needs to maintain in order to not be considered in “poverty”. There are different thresholds based on the number of individuals in a household, but the thresholds are the same across the country. In 2004 the poverty threshold for a family of four was \$19,484 (Source: US Census Bureau)

<sup>35</sup> Susan West Montgomery, former President of Preservation Action, interview by the author, July 31, 2006.

than twice the statewide median income. However, there was never any provision in the bill to target the credit based on individual taxpayer's incomes. As Harry K. Schwartz explains, "since the proposal is intended to encourage a socio-economic mix of residents in urban areas and help increase real estate and wage tax bases and stimulate economic development in cities and smaller communities, individual taxpayers would be eligible for the credit without regard to income"<sup>36</sup> Since the intent of the credit is to improve specific neighborhoods, it only makes sense that eligibility for the credit be based solely on location.

From its inception the HHAA bill took into consideration the increased workload a homeownership credit would create for the FHRTC project reviews and provided for the elimination of duplicate reviews by the SHPOs and NPS that occur with FHRTC projects. The HHAA would have allowed the Secretary of the Interior to enter into cooperative agreements with the SHPOs, permitting a single definitive review of owner-occupied projects claiming the credit to be performed by the SHPO, diminishing the amount of additional oversight that would be necessary to manage the program at the federal level. Previous recommendations that the NPS delegate more decision making responsibility to the SHPOs had been rebuked in the past due to IRS and Congressional reluctance to allow state officials to oversee a federal tax program. However, the LIHTC is an example of a very successful federal tax program managed by state housing finance agencies, though it is important to note that the LIHTC has an annual volume cap while the FHRTC and the proposed Historic Homeownership Rehabilitation Credit do not.

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<sup>36</sup> Schwartz, Harry K., Draft "A Proposal to Provide Homeowner Assistance under the Federal Historic Rehabilitation Tax Credit," Sept. 15, 1993, Preservation Action Archives.

Additionally, the HHAA would have required an application fee for all projects that could have been used as a source of revenue to fund staff positions at reviewing agencies.

A consideration of the amount of additional work that the credit would create for already understaffed SHPOs is critical to any discussion of the homeownership credit and the authors of the HHAA were cognizant of the effect the credit would have on the NPS and SHPOs. As Harry K. Schwartz explained, the requirement of a significant investment in order to be eligible for the credit (minimum adjusted basis or \$5,000 unless located in a distressed area) was “expressly designed to screen out small-scale rehabs.”<sup>37</sup> However, by decreasing the required minimum investment and lobbying for a less strict interpretation of the *Secretary of the Interior’s Standards* in distressed areas, the HHAA was creating a significant workload for the project reviews in those targeted areas. There are a significant number of historic homes located in distressed areas and to provide additional flexibility in interpreting the *Secretary’s Standards* that have been upheld after years of scrutiny in these areas, not only would require more time in individual project review by necessitating separate individual project criteria, but also would interject a degree of inconsistency to the historic tax credit program. Inconsistent interpretation of the *Secretary’s Standards* has been one of the primary complaints of users of the FHRTC and there is no need to allow for the encoding of such practices in the law. It is correct to want to further incentivize distressed neighborhoods and reducing the required level of investment does that. However, there is no need to allow for a relaxation of the rehabilitation standards, especially since one of the primary purposes of the

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<sup>37</sup> Schwartz, Harry K., Letter to Ed Norton, 30 November 1994, Preservation Action Archives. Washington, D.C.

homeownership credit is to preserve historic fabric in a historically sensitive manner. Distressed communities deserve the same treatment as the rest of the nation's historic districts.

The HHAA would avoid any concerns about passive-loss relating to investments in commercial FHRTC because the credit would be claimed by the owner living in the rehabilitated structure. As Harry K. Schwartz pointed out, "there is nothing passive about making one's home in a newly rehabilitated building."<sup>38</sup> The "pass-through" feature of the bill was seen as critical to the authors and advocates of the bill, who believed that most of those applying for the credit would not be sweat-equity investing individuals, but rather developers. As Schwartz explained, "We assume most of the work will be done by (experienced) developers, who will know what is needed to comply with the Secretary's Standards."<sup>39</sup> This would also cut down on the perceived heavy increase in workload for project reviewers because developers who had completed FHRTC projects in the past would already be familiar with what treatments are permitted under the *Secretary's Standards*. Furthermore, for financial reasons a developer would be more inclined to take on a whole block of residential rehabilitation at one time rather than just an individual home. The developer could group all the homes on the block into one project and could seek approval for the rehabilitation of the whole block at one time. Under this arrangement an entire residential block would be rehabilitated in keeping with the *Secretary's Standards* with only one approval necessary from the SHPO.

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<sup>38</sup> Schwartz, Harry K., "A Federal Historic Rehabilitation Tax Credit for Homeownership: Proposing a New Way to Revive Our Communities," Historic Preservation News Oct/Nov 1994, 15.

<sup>39</sup> Schwartz, Harry K., Letter to Ed Norton, 30 November 1994, Preservation Action Archives. Washington, D.C.

## Politics of the Bill

As with previous advocacy for changes to the FHRTC after the 1986 Tax Act, HHAA received nominal support from organizations outside of the historic preservation community. The bill, like previous bills related to the FHRTC, did not garner enough dedicated support from more diverse interests and the primary supporters of the bill remained preservationists. There should have been broad based support from the many entities that would directly benefit from the credit, such as cities, affordable housing advocates, community development organizations, and urban developers and builders. Cities would benefit through increased real property, sales, and income taxes. Community Development Corporations (CDCs) and other community groups could use the credit to revitalize targeted neighborhoods. The mortgage credit conversion and interest rate conversion aspect of the credit make homeownership an option for many who might otherwise be priced out of the market. Increased rehabilitation activity would obviously benefit homebuilders, and the “pass-through” feature of the credit would allow developers to take advantage of the credit. Through significant efforts by Preservation Action, the national grassroots lobby for preservation, and the National Trust, other entities outside of the immediate realm of preservation were made aware of the potential impact the HHAA could have had for their interests. Preservation Action created an entire campaign, entitled “Home Again”, for the bill aimed at informing city leaders and others outside the preservation community about the bill. The materials produced and disseminated by the campaign included a video aimed at non-preservationists that explained how the credit would work, as well as later economic studies with proforma analysis studying specific examples of the savings the credit could garner on specific

projects in cities across the country. It was only after repeated requests for hard numbers that the proforma analysis was carried out, and the results of the “Home Again” studies were not published until 1998.

It is no coincidence that the 106th Congress, which followed the publication of the first study of the overlap of historic districts and poverty areas and the proforma analysis, saw the greatest number of cosponsors for the bill. The 106<sup>th</sup> Congress concluded with 225 Representatives signed on as co-sponsors of HHAA. Despite this broad support, the bill remained trapped in the House Committee on Ways and Means. With only 15 of 39 members of the committee signed on as cosponsors, the bill never garnered enough support to make it to the floor.<sup>40</sup> Furthermore, when the bill was discussed in the committee those members of the committee who did support the bill failed to make it one of their top priorities. So while the bill was popular in the 106<sup>th</sup> Congress, there was not a strong agitation to favor the bill over other legislation that might more directly benefit a Representative’s constituents.<sup>41</sup>

Perhaps even more detrimental to the bill was the lack of a strong individual champion for the bill. Rep. Clay Shaw (R-FL) introduced the HHAA in the 105<sup>th</sup>, 106<sup>th</sup>, and 107<sup>th</sup> Congresses. However, he was not particularly active in recruiting additional cosponsors, or in keeping the House aware of the bill.<sup>42</sup> Moreover, the advocacy campaigns for the bill did not translate into significant or sustained pressure directly on

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<sup>40</sup> See Appendix D for a chart comparing illustrating the changing the political aspects of all bills directly relating to the Historic Homeownership Rehabilitation Credit.

<sup>41</sup> When the bill was referred to the House Committee on Ways and Means, the members of the committee who were cosponsors of the bill, such as Barbara Kennelly, would choose other legislation more directly affecting their constituents to bring to the attention of the Chairman of the committee. Source: Nellie Longworth, founder and former President of Preservation Action, interview with by the author, August 11, 2006.

<sup>42</sup> Nellie Longworth, founder and former President of Preservation Action, interview by the author, August 11, 2006.

Congress by organizations not directly allied with historic preservation. Perhaps of equal importance when considering reasons why the bill did not pass is the fact that the primary beneficiaries of the bill, the low-income families trapped in decaying urban neighborhoods, do not and historically have not possessed a great deal of political power.

The bill received the most sustained and aggressive support from the National Trust for Historic Preservation, Preservation Action, and the National Conference of State Historic Preservation Officers (NCSHPO). Other organizations that formally endorsed the bill at various times when it was before Congress include: America's Community Bankers, the International Downtown Association, National Association of Homebuilders, and the U.S. Conference of Mayors. Preservationists were late in recruiting the help of many of these groups tangentially interested in the bill and many did not endorse the bill until the 106<sup>th</sup> and 107<sup>th</sup> Congress when the bill had already been before Congress for at least four years. Despite this wide range of support, leadership at Preservation Action during the campaign for the bill maintain that the only organizations actively lobbying Congress and carrying out publicity campaigns to inform the public about the bill were the historic preservationists.<sup>43</sup>

Despite changes in the tactics and targeted audience made by advocates for the HHAA over the many years that the bill was active in Congress, the message always remained the same. Throughout the campaign the anticipated recipients of the credit were middle income families and the overarching goal of the bill was to place middle income residents in rehabilitated homes in neighborhoods experiencing abandonment in order to create stable mixed-income neighborhoods. Those most benefiting from the

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<sup>43</sup> Susan West Montgomery, former President of Preservation Action, interview by the author, July 31, 2006.

credit were not necessarily those who would use the credit. Low-income families whose neighborhoods would become safer and have more amenities due to an influx of more affluent residents would stand to gain significantly from the credit even if they were unable to rehabilitate a home themselves. The mortgage credit certificate conversion feature of the bill was developed in order to make it possible for some lower-income families to use the credit and become homeowners. This would not only improve the quality of life in the neighborhood, but also promote asset building among the lower-income families in these neighborhoods. Frequently individuals or groups who believed they were representing the interests of these low-income families would bring up the issue of the potential negative impact of the HHAA for these residents if the increased rehabilitation activity resulted in gentrification. Gentrification is the process in which low-cost, deteriorated housing stock in disinvested neighborhoods undergoes physical rehabilitation which is usually accompanied by an increase in property values and an influx of wealthier residents. Rep. Charles Rangel (D-NY), who represents Harlem and was a member of the Ways and Means Committee, was one of the most adamant on this issue. However, the most often cited negative effect of gentrification is displacement, and the HHAA was targeted at neighborhoods experiencing blight with the goal of bringing residents into abandoned homes. How can a tax credit that brings residents into empty homes cause displacement? This idea coupled with overwhelming research showing the benefits of mixed-income neighborhoods did eventually lead many who represented the low-income residents of neglected urban neighborhoods to endorse the bill. In the 106<sup>th</sup> Congress the bill received the endorsement of the Congressional Black Caucus.



More important than any of the shortcomings in advocating for the bill is the fact that the political climate at the time that the bill was introduced was not conducive to passing an additional tax credit that was perceived, or that could have been portrayed, as taking money away from the federal treasury. A Republican majority that wanted to cut taxes and limit government expenditures controlled the House of Representatives from the 104<sup>th</sup> to the 109<sup>th</sup> Congress, almost the entire period during which the HHAA was before the House. Rep. Bill Archer, who served as chairman of the House Ways and Means Committee in the 104<sup>th</sup> to the 106<sup>th</sup> Congresses, repeatedly stated the mantra “no new tax credits,” and made this a goal of his tenure as Chairman. In fact, the bill was actually never even brought to a full vote because it remained stalled in the Ways and Means Committee. Despite a bipartisan majority of cosponsors in the 106<sup>th</sup> Congress, the HHAA failed to pass the House because, as preservation advocate Nellie Longworth explains, there was not an effective champion for the bill in the House and the cosponsors of the bill on the Ways and Means Committee did not make HHAA one of their primary objectives.<sup>44</sup>

In order to make the bill more appealing to advocates and less controversial to opponents a number of changes were made over the course of the five Congresses and eight years in which it was before Congress.<sup>45</sup> For example, the “co-op clause” was added to the bill in the 104<sup>th</sup> Congress as a way to make the credit act as an incentive to developers as well as individual homeowners. Condominium developments were always included in the bill. In the 105<sup>th</sup> Congress the mortgage credit certificate conversion

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<sup>44</sup> Nellie Longworth, founder and former President of Preservation Action, interview by the author, August 11, 2006.

<sup>45</sup> See Appendix D for a chart illustrating the changes made to the HHAA between the 104<sup>th</sup> and the 107<sup>th</sup> Congresses.

clause was inserted into the bill. Although the ability to convert the tax credit into a mortgage credit was included in the bill from the beginning, this additional clause enabled the mortgage credit in “distressed” communities to be taken to a lender and used to reduce the down payment on the mortgage, rather than just reducing the interest rate. This alteration to the bill reflects what the authors of the bill saw a greater need for down payment assistance, rather than lower monthly interest payments, in assisting lower income people in efforts to achieve homeownership.<sup>46</sup> Homeownership is a key component of asset building. Asset building is the concept of building wealth by encouraging savings and investment in non-depreciable property such as homes. Programs that promote asset building have emerged as the preferred alternative to federal aid as a means to fight poverty. In the 106<sup>th</sup> Congress, in an attempt to appease members of Congress and their staffs who continued to raise concerns that the credit would only benefit the very wealthy and drastically affect treasury revenues, the limit on the total amount of credit that could be claimed was reduced from \$50,000 to \$40,000. And in the 107<sup>th</sup> Congress, the HHAA was amended yet again so that only historic districts located in census tracts with a median family income less than twice the statewide median family income could qualify for the credit. As with lowering the limit on the credit in the previous Congress, this change was made in response to criticism that the credit would benefit wealthy people already living in exclusive neighborhoods. Additionally, targeting the bill in this way partially addressed the lingering perception in Congress that the bill would take away significant revenue from the treasury. Prohibiting use of the bill in very wealthy neighborhoods was touted as a way to ensure that the very wealthy would not

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<sup>46</sup> Information in a correspondence to the author, from Harry K. Schwartz, April 4, 2007.

benefit from the credit. While it did limit the number of eligible properties, in reality more than one study showed that very few eligible properties were actually located in such wealthy communities.

The idea that the HHAA was going to rob the coffers of the U.S. Treasury of a significant sum of money was to a large extent perpetuated by the Joint Committee on Taxation's scoring of the bill in the 105<sup>th</sup> Congress. The staff members of the Joint Committee on Taxation are the professionals that prepare the official revenue estimates for all proposed Congressional legislation affecting the tax code.<sup>47</sup> The Committee is required to present all revenue estimates as point estimates, one dollar figure rather than a range of possibilities. This dollar figure is commonly referred to as a bill's "score".<sup>48</sup> During the 104<sup>th</sup> Congress the Joint Committee on Taxation scored the bill at \$239 million over a five year period. In 1995 an independent economic study had projected a revenue loss of less than \$250 million over five years.<sup>49</sup> At the very end of the 105<sup>th</sup> Congress the Committee scored the bill at \$2 billion, eight times the score announced two years previously.<sup>50</sup> The perception in Congress at the time the score was released was that the score represented an estimate of the amount of money the U.S. treasury would be forfeiting due to use of the credit over a five year period. The very costly estimate essentially killed discussion of the HHAA in the Ways and Means Committee in the 105<sup>th</sup>

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<sup>47</sup> The Joint Committee on Internal Revenue Taxation was formed in 1926 in order to create "a procedure by which the Congress could be better advised as to the systems and methods employed in the administration of the internal revenue laws with a view for legislation in the future." Source: Joint Committee on Taxation website: <http://www.house.gov/jct>, accessed Feb. 27, 2007.

<sup>48</sup> Joint Committee on Taxation website: <http://www.house.gov/jct>, accessed Feb. 27, 2007.

<sup>49</sup> "Comparison of the Current Historic Rehabilitation Tax Credit (26 U.S.C S47) with Recent Legislative Proposals to Expand its Use and Effectiveness," National Trust for Historic Preservation, March 1995.

<sup>50</sup> "Supplement to Estimate of Revenue Effects of the 'Historic Homeownership Assistance Act,' April 1997," quoted in: Longsworth, Nellie, "Homeowner's Tax Credit Stonewalled," Preservation Action Alert, May 1997, 1.

Congress. It was not until later that it was made apparent to everyone that the estimate was in fact a ten year rather than a five year estimate.<sup>51</sup> By that time the damage was already done and the bill did not move forward.

### The Community Restoration and Revitalization Act

The 107<sup>th</sup> Congress actually saw a decrease in the number of cosponsors for the HHAA from the previous Congress. At this time preservationists accepted the defeat of the HHAA and, once again led by the National Trust for Historic Preservation, switched gears. Instead of advocating for a Homeownership Rehabilitation Credit in the 108<sup>th</sup> Congress, the National Trust initiated legislation that would instead increase the usefulness of the FHRTC for commercial structures. The Community Restoration and Revitalization Act (H.R. 5378) was first introduced on November 17, 2004, at the end of the 108<sup>th</sup> Congress. The bill was originally sponsored by Representatives Robert Portman (R-OH) and William J. Jefferson (D-LA). The bill was conceived as “a package of amendments (to Section 47 of the Internal Revenue Code) that would further the mission of the FHRTC by spurring greater investment in smaller commercial projects and ‘main street projects in older neighborhoods- particularly where there is a critical need for affordable housing and community revitalization.’”<sup>52</sup> To accomplish these goals the bill provided for full capture of credits when combining the FHRTC with the LIHTC, more favorable rules for use of the credit by tax exempt organizations, and an increase in

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<sup>51</sup> “Supplement to Estimate of Revenue Effects of the ‘Historic Homeownership Assistance Act,’ April 1997,” quoted in: Longworth, Nellie, “Homeowner’s Tax Credit Stonewalled,” Preservation Action Alert, May 1997, 1..

<sup>52</sup> National Council of State Historic Preservation Officers (NCSHPO) website, [www.ncshpo.org](http://www.ncshpo.org) accessed June 1, 2006.

the credit for buildings located in “high cost” or “distressed” areas. In distressed areas the credit would be determined by valuing the certified rehabilitation expenditures at 130% of their face value. In addition, the credit would be increased for “smaller” projects in which the total amount of the qualified rehabilitation expenditures did not exceed \$2 million. In such smaller projects the credit would be calculated at 40% of the first \$1 million invested and the standard 20% for any remaining investment up to \$2 million. This amendment was aimed at improving the financial incentives for Main Street development projects. The bill also contained a “condo clause”, stipulating that the credit would not be subject to recapture if the property were to be converted to a condominium development. The bill also made changes to the 10% credit for non-historic properties, allowing rental housing to be eligible for the credit while changing the definition and thereby the criteria for eligibility of “older buildings” from “built before 1936” to “fifty years old or older”.<sup>53</sup>

Shortly after reintroducing the bill as H.R. 659 in the 109<sup>th</sup> Congress, Rep. Portman left office; however, the bill was reintroduced on June 30, 2005 by Representatives Phil English (R-PA) and William J. Jefferson (D-LA). The bill was sent to the House Committee on Ways and Means and never received any discussion on the House floor. The bill was reintroduced yet again as H.R. 1043 in the 110<sup>th</sup> Congress on February 14, 2007 by Representatives Phil English (R-PA) and Stephanie Tubbs Jones (D-OH). Both English and Tubbs are senior members of the Ways and Means Committee. A companion bill (S. 584) was introduced in the Senate by Senators Blanche Lincoln (D-AR), Gordon Smith (R-OR), and Mary Landrieu (D-LA). Due to a shift in

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<sup>53</sup> H.R. 5378, 108<sup>th</sup> Congress.

party leadership and the fact that both cosponsors of the House bill are senior members of the Ways and Means Committee the National Trust is optimistic that the bill will pass both Houses and be passed into law during the 110<sup>th</sup> Congress.<sup>54</sup>

### The Preserve Historic America Act

In May of 2006 Rep. Russ Carnahan (D-MO) introduced what can best be described as an ideal bill for historic preservation, the Preserve Historic America Act of 2006 (H.R. 5420). Rep. Carnahan's strong interest in preservation comes from his first hand knowledge of the success of the FHRTC and the state historic credit tax credit program, including a credit for historic homeowners, in Missouri. Missouri ranks number one in the country in the number of FHRTC projects carried out each year and has a nationally recognized and successful state tax credit for commercial projects and owner-occupied certified historic structures.

Previously, in May of 2005 Rep. Carnahan introduced the Historic Rehabilitation Enhancement Act of 2005 (109<sup>th</sup> Congress, H.R. 2488). The purpose of this bill was to ensure that proceeds from the transfer of transferable state historic rehabilitation tax credits and refunds of state taxes received by taxpayers claiming state historic rehabilitation tax credits could not be counted as income for the purposes of determining federal income tax liability.<sup>55</sup> The Preserve Historic America Act of 2006, reintroduced in January of 2007 to the 110<sup>th</sup> Congress as the Preserve Historic America Act of 2007 (H.R. 610), is far broader in scope and is divided into two sections. The first section,

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<sup>54</sup> Emily Wadhams, Director of Public Policy, National Trust for Historic Preservation, interview by the author, March 15, 2007.

<sup>55</sup> Historic Rehabilitation Enhancement Act of 2005, H.R. 2488 (2005).

entitled “Expansion of Incentives for Building Rehabilitation,” lists a series of amendments to section 47 (a) of the IRC of 1986 that would improve the existing FHRTC. The second section of the bill outlines a Historic Homeownership Rehabilitation Credit. The Preserve Historic America Historic Homeownership Credit, like the HHAA version, built on the existing credit for commercial structures; however, the new proposal differs slightly from its predecessor.

The alterations to the existing FHRTC outlined in the Preserve Historic America Act include increasing the certified historic rehabilitation tax credit for income producing properties from 20% to 25%, the pre 1986 Tax Act level. The bill also seeks to correct what was most likely an oversight in the original bill, substituting “building must be at least 50 years old” in order to qualify for the non-historic 10% credit rather than the current wording of the bill, which states that only buildings placed in service prior to 1936 are eligible for the 10% credit. This amendment was also part of the Community Restoration and Revitalization Act. The bill also reduces by 50% the basis adjustment for projects utilizing both the LIHTC and the FHRTC, permitting a greater allowable credit for paired projects.

The bill seeks to promote revitalization in risky or “difficult development areas” by increasing the credit for buildings in “high cost areas.” This would be achieved in the same manner proposed in the Community Restoration and Revitalization Act by calculating the amount of the credit in such projects as 130% of the actual cost of the rehabilitation expenditures.<sup>56</sup> In a similar vein of encouraging projects that might not otherwise take place, the FHTRC would be increased to 35% and the minimum required

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<sup>56</sup> H.R. 610, Jan 22, 2007, Section 2 (E).

investment would be decreased to “50% of the adjusted basis” or \$3,000 whichever is greater, for “eligible small rehabilitation” projects defined as those in which the qualified rehabilitation expenditures are less than \$2,000,000.<sup>57</sup> In what would assuredly be a controversial provision if the bill were ever to be seriously debated in the House Committee on Ways and Means or the Senate Finance Committee, the bill would exempt the FHRTC from passive loss rules. The bill also recognizes the popular practice of entering into LLCs in order to transfer the credit from the building’s owner to a financial institution or corporation, and would amend the IRC to allow the outright transfer of the credit. In permitting the credit to be assigned to any individual selected by the initial taxpayer, the bill would negate the need to enter into the LLC in order to transfer credits.

The Historic Homeownership Rehabilitation Credit section of the Preserve Historic America Act of 2007 is in principle the same as the HHAA. Both bills propose a 20% federal income tax credit for owners of certified historic homes who rehabilitate their properties in keeping with the *Secretary of the Interior’s Standards* and spend at least 5% of the rehabilitation expenditures on the exterior of the home.

In fact, the language of the Historic Homeownership Rehabilitation Credit in the Preserve Historic America Act is word for word copied from the HHAA, with a few notable exceptions. The most notable exception is that the Preserve Historic America version is a targeted credit, meaning that use of the credit is only permitted in areas considered most in need of the credit. The bill totally dispenses with Enterprise and Empowerment Zones and states that the credit could only be claimed in “qualified census tracts” defined as “census tracts in which the median income is less than twice the

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<sup>57</sup> H.R. 610, Jan 22, 2007, Section 2 e(2).



statewide median income.”<sup>58</sup> This targeting is the same as the 107th Congress version of the HHAA (H.R. 1172). As in the HHAA version, income levels in census tracts would be determined by the most recent decennial census for which data is available. The Preserve Historic America bill also details a method for discounting the value of the credit when converting the credit to a mortgage certificate.<sup>59</sup> The bill also includes an additional section on the transfer of the credit between spouses in case of divorce. However, aside from these three additions the bill contains an exact copy of the credit as contained in the HHAA.

Since the text of the bill has not changed, the main hope for passing the Historic Homeownership Rehabilitation Credit in the 110<sup>th</sup> or subsequent Congresses would appear to be the fact that the composition of Congress has changed, the priorities of Congressmen have changed, or the sophistication of advocates for historic preservation in the United States has changed.

The first necessary change occurred on November 7, 2006 when the Republican party that had controlled the House of Representatives for the past twelve years and the Senate for the last four years failed to gain the necessary votes to retain control of either body in the midterm election. However, several of the key supporters of historic preservation legislation in both the House and Senate were moderate Republicans who lost their seats in the 2006 election, so not everything about the change in majority was to the advantage of the Historic Homeownership Rehabilitation Credit or other preservation

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<sup>58</sup> H.R. 610, Jan 22, 2007, Sec 3 (d)(3).

<sup>59</sup> “by using a discount rate equal to 65% of the average of the annual Federal mid-term rate and the annual Federal long-term rate applicable under section 1274(d)(1) to the month in which the taxpayer makes an election and compounded annually,” HR. 610 Jan 22,207, Sec 3(3).

legislation. Probably of most importance to the future of the Historic Homeownership Rehabilitation Credit is the fact that the new Chairman of the House Committee on Ways and Means in the Democratic Congress is Charles Rangel (D-NY). Rangel, the onetime vocal opponent to the HHAA because of his concerns about gentrification, has since become a believer in the potential for the Historic Homeownership Rehabilitation Credit to become a positive tool for neighborhood change and is now a cosponsor of the Preserve Historic America Act of 2007. There is reason to believe that the level of awareness on issues of historic preservation has similarly increased across Congress as a whole regardless of party affiliation. Historic preservation is on the radar of more members of Congress and for an increasing number of them it has become a primary issue. One manifestation of this change is that in 1993 Representatives Michael Turner (R-OH) and Brad Miller (D-NC) formed the Historic Preservation Caucus in the House of Representatives. There are currently 103 members of the Caucus. The Caucus functions as a forum for Representatives to collaborate on ideas that could foster the preservation and economic development of historic resources in their local districts and on a national level. For these reasons it is conceivable that Congress could be more receptive to a bill to improve or expand the FHRTC.

The changing composition and mindset in Congress could prove meaningless however, if advocates for historic preservation legislation at the federal level have not learned from their previous shortcomings and improved their methods of communicating their message to members of Congress and their constituents. Lawmakers want to see statistical evidence that legislation will accomplish its aims and the general public wants

to know how the legislation is going to affect them personally. Advocates for the Historic Homeownership Rehabilitation Credit must address both of these concerns.

The preservation community is currently divided between supporting the Preserve Historic America Act of 2007 and the Community Restoration and Revitalization Act. The National Trust is rightfully jaded after years of effort put forth on behalf of the Historic Homeownership Rehabilitation Credit and has not yet endorsed the Preserve Historic America Act or made any attempt to publicize the existence of the bill, choosing instead to focus on the Community Restoration and Revitalization Act. The two bills can co-exist, but since there is such a significant overlap in the proposed amendments, with the notable exception of the homeownership credit, then it would be advantageous for the sponsors of the two bills to come together and reach a common ground that will bring their supporters together, rather than confuse them with two separate bills.<sup>60</sup>

In 2001 leaders in the fields of real estate development, public policy and historic preservation convened in Washington D.C. at an Urban Land Institute Policy Forum entitled “City Building and the Historic Rehabilitation Tax Credit.” The forum produced four principles that the participants felt were vital for any legislative reform of the FHRTC. The principles identified were:

recommended changes must avoid putting at risk either the existing statutory authority for the historic rehabilitation tax credit or the historic homeowner’s tax credit proposal, legislative proposals must be scored as having no significant revenue cost, changes must avoid any revisions that might be deemed as permitting abusive tax shelters, all recommended legislative changes should lend themselves to packaging into a vehicle that would promote community redevelopment.<sup>61</sup>

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<sup>60</sup> See Appendix E for a chart comparing the HHAA, Community Restoration and Revitalization Act and the Preserve Historic America Act.

<sup>61</sup> “City Building and the Historic Rehabilitation Tax Credit,” ULI Public Policy Forum Series no. 663, February 6, 2001, 9-10.

The only bill currently before Congress with a Historic Homeownership Rehabilitation Credit, The Preserve Historic America Act of 2007, does not fit within this framework. In attempting to do away with the passive-loss regulations of the Tax Reform Act of 1986 and increasing the value of the credit the bill is already viewed by many as a means of providing a tax shelter and as too costly for the U.S. Treasury. The public policy department at the National Trust has long-term plans to reintroduce the Historic Homeownership Rehabilitation Credit in a later Congress.<sup>62</sup> The Trust should follow the recommendations of the ULI Policy Forum in drafting the legislation. And when advocating for the credit should seek support from a broad range of organizations, while targeting specific members of Congress with influence on tax policy.

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<sup>62</sup> Emily Wadhams, Director of Public Policy, National Trust for Historic Preservation, Interview by the author March 15, 2007.

## Chapter Four- The Economics of a Historic Homeownership Rehabilitation Credit

“People mistakenly view preservation as an elitist activity, not as a tool to revitalize inner-city, low-to moderate-income neighborhoods.”

- Carl Westmorland, Mount Auburn Good Housing Foundation<sup>63</sup>

### Preservation as Smart Growth

Despite the now mature “back to the city” movement, many urban residential neighborhoods continue to decline into areas of disinvestment and blight. Concurrently we are continuing to consume previously undeveloped land at the edges of urban centers in order to accommodate an increasing demand for housing while facing rising costs in energy, raw materials, and land. Historic preservation, and more specifically the Historic Homeownership Rehabilitation Credit, simultaneously addresses both of these alarming trends. The utility of historic preservation as a tool for smart growth was outlined in a report from the Urban Land Institute Public Policy Forum titled “City Building and the Historic Rehabilitation Tax Credit” as follows:

As policy makers focus on issues that promote smart growth, they should look at what can be done to foster greater preservation activity. Preservation concentrates development activity in areas with established infrastructure and utilities. It recycles resources and conserves energy. It protects our cultural heritage, promoting identity and providing a sense of place and belonging that is rarely ever achieved through the development of ‘green field areas’. In short, preservation embodies smart growth.<sup>64</sup>

In order to combat the large scale abandonment of urban neighborhoods, “cities must follow the development strategy that worked so well for the now-thriving suburbs by

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<sup>63</sup> Gratz, Roberta Brandes. “The Living City: How America’s Cities are being Revitalized by thinking Small in a Big Way.” The Preservation Press, National Trust for Historic Preservation, 1994, 71.

<sup>64</sup> “City Building and the Historic Rehabilitation Tax Credit.” ULI Public Policy Forum Series NO. 663. February 6, 2001, 12.

placing primary emphasis on becoming an attractive place to live.”<sup>65</sup> The “back to the city” movement proves that proximity to cultural amenities and work has become a driving factor of the in-migration of upper and middle income families to cities. However, convincing middle income families to invest in areas undergoing abandonment requires further inducement. As Ronald Utt states, “years of unchecked deterioration and diminished levels of construction and renovation activity have caused a disproportionate share of the urban housing stock to become obsolete or deteriorated- or both. Cities must encourage new construction or substantial renovation by private entrepreneurs.”<sup>66</sup> Cities have not been helped by the decades of federal policy promoting sprawl, including transportation and home financing initiatives that favored new construction. But the attitude of federal lawmakers to regional planning is changing. In 1999 Senators Carl Levin (D-MI) and Jim Jeffords (I-VT) formed the Senate Smart Growth Task Force and in 2003 the Saving America’s Cities Working Group of the House of Representatives was formed.

### The Homeownership Crisis in Urban America

Homeownership has been a federal priority since the conclusion of World War II, yet in 2006 the Center for Housing Policy released a study that concluded that low to moderate- income working families with children are less likely to be homeowners now than they were in the late 1970’s.<sup>67</sup> The study pointed out that while overall

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<sup>65</sup> Utt, Ronald, “What to do About Cities,” The Heritage Foundation Backgrounder, Executive Summary. Washington, D.C.: The Heritage Foundation, September 1, 1998, 10.

<sup>66</sup> Ibid., 25.

<sup>67</sup> Center for Housing Policy, “Locked Out: Keys to Homeownership Elude Many Working Families with Children,” Center for Housing Policy Press, March, 2006.

homeownership rates are the highest ever on record, this is mostly due to increasing homeownership among upper-income families.<sup>68</sup> Defining upper income as above 120% of the local area median income, the study found that the homeownership rate for upper-income families with children was 90.8% “while the rate for their low-to moderate-income counterparts was significantly lower at 59.6 percent.”<sup>69</sup> The study also found that overall homeownership rates in cities are 49% less than rates in suburbs and non-metro areas, regardless of income.<sup>70</sup> A separate Department of Housing and Urban Development (HUD) study entitled “Our Cities Face a Housing Gap” concluded similarly that “central city residents of all income levels are less likely to own a home than suburban residents with similar incomes.”<sup>71</sup> Additionally the study found that in many major cities homeownership rates decreased from 1990 to 2000. Within these cities HUD found that “underserved tracts were somewhat more likely to experience significant declines in homeownership rates” between 1990 and 2000.<sup>72</sup> This shows that federal efforts to increase homeownership in distressed areas by increasing emphasis on lending through Government Sponsored Enterprises (GSEs) have not been effective.<sup>73</sup> Overwhelmingly the underserved and distressed neighborhoods are the historic neighborhoods that declined when the middle and high income population migrated to the suburbs. Thirty-two percent

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<sup>68</sup> The Homeownership rate is the percentage of total occupied units which are owner-occupied. Almost 70% of Americans now own their home; the second quarter of 2004 saw the highest ever homeownership rate at 69.2%.

<sup>69</sup> Center for Housing Policy, “Locked Out: Keys to Homeownership Elude Many Working Families with Children,” Center for Housing Policy Press, March, 2006.

<sup>70</sup> Ibid.

<sup>71</sup> “HUD Report: Our Cities Face a Housing Gap,” *Reality Times* July 17, 1998.

<sup>72</sup> “The Distribution of Homeownership Gains during the 1990s Across Neighborhoods: Executive Summary,” United States Department of Housing and Urban Development, Office of Policy Development and Research, Prepared by Christopher E. Herbert and Bulbul Kaul, January 2005, viii.

<sup>73</sup> Government Sponsored Enterprises (GSEs) are financial service corporations created by Congress in order to reduce interest rates for borrowers, they have been primarily aimed at reducing homeowner’s mortgage rates.

of households below the poverty line live in older and historic homes.<sup>74</sup> Donovan Rypkema, principal of Place Economics, a preservation-based real estate and economic consulting firm, illustrates the impact of this figure when he frames the issue this way, “if today we had to replace the older historic homes currently occupied by households below the poverty level, using the most cost-effective of federal housing programs, it would cost the American taxpayers \$334 billion.”<sup>75</sup> The consequence of the low homeownership rate in distressed communities is that low-income families are trapped in a cycle of renting and a disproportionate share of their income is allocated to housing.

A discussion paper published by the Brookings Institution Center on Urban and Metropolitan Policy identified the primary barrier to low-income homeownership as “an interaction between insufficient incomes to meet monthly obligations of homeownership and a lack of down payment and closing costs.”<sup>76</sup> The authors of the paper conclude that the most effective strategy to address both of these barriers is to “offer a tax credit to investors who fund low-interest mortgages for first-time homebuyers.”<sup>77</sup> This strategy is essentially the same as the mortgage credit certificate and mortgage credit certificate conversion aspects of the Historic Homeownership Rehabilitation Credit. Financial incentives for homeownership become even more important in neighborhoods with historic housing stock because, although potential residences might be structurally sound, the financial costs of rehabilitation can be prohibitive. The costs of acquisition and

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<sup>74</sup> Rypkema, Donovan, “Historic Preservation and Affordable Housing: The Missed Connection,” *Forum Journal* 17, no. 3 (2003): 3.

<sup>75</sup> *Ibid.*, 8.

<sup>76</sup> Collins, Michael J., Eric S. Belsky, and Nicholas P. Retsinas, “Towards a Targeted Homeownership Tax Credit,” Brookings Institution Center on Urban and Metropolitan Policy and Joint Center for Housing Studies, Harvard University, i.

<sup>77</sup> *Ibid.*



rehabilitation can exceed the fair market appraised value of the property after rehabilitation. In order to balance this equation for the individual homeowner and developer a homeowner tax credit specific to historic properties is imperative.

### The Economics of Rehabilitation and Revitalization

The economics of revitalizing urban residential neighborhoods should be assessed at two scales, the individual housing unit and the overall benefits of historic rehabilitation in declining urban neighborhoods. Policies that address both of these levels are necessary to affect positive neighborhood change. As outlined in “Home Again in Philadelphia”, “solutions to the problems caused by population decline are complex, requiring a broad matrix of social, economic, and political strategies. One remedy however, stands out: incentives that make homeownership in the city an attractive alternative to suburban living and that help transform older neighborhoods into affordable and appealing places to live.”<sup>78</sup>

Donovan Rypkema concludes that any study of the economics of historic preservation will reveal that preservation is “an economically sound, fiscally responsible, and cost-effective response to the challenges of today’s economic environment.”<sup>79</sup> When compared to other industries historic preservation proves to be one of the greatest job-generating economic development options available. The Federal Historic Rehabilitation Tax Credit (FHRTC) projects approved in 2006 directly created 61,397 new jobs

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<sup>78</sup> “Home Again in Philadelphia: Revitalizing Philadelphia with the Historic Homeownership Assistance Act,” Preservation Action and Heritage Consulting Group, Preservation Alliance for Greater Philadelphia, 1999, 1.

<sup>79</sup> Rypkema, Donovan D., The Economics of Historic Preservation: A Community Leader’s Guide (Washington, D.C. : National Trust for Historic Preservation Press, 2002), 6.

nationwide, with an average of 49 jobs resulting from each project.<sup>80</sup> Because it is so labor intensive historic preservation dollar for dollar creates more jobs than new construction. The jobs being created by preservation activity are higher paying jobs because they require a certain level of skill. Furthermore, the jobs created are local jobs such as carpenters, painters, and electricians, as opposed to jobs related to the manufacture of materials for new construction, which are rarely located in the same city as the rehabilitation activity. The local economic effects of rehabilitation activity also continue well beyond the scope and time of the individual rehabilitation project. Rypkema identifies some of the more far reaching economic benefits of historic building rehabilitation as: “new businesses formed; private enterprise stimulated; increased property values, enhanced quality of life, sense of neighborhood and community pride; new jobs created; increased property sales and taxes; and pockets of deterioration and poverty diluted.”<sup>81</sup>

Many of the benefits of historic rehabilitation activity occur without direct government involvement. However, there are many existing local, state, and federal incentives for historic preservation because government leaders have recognized the financial and social benefits of preservation activity. Financial incentives for historic preservation “attempt to affect market forces in a way that recognizes community values

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<sup>80</sup> NPS, Federal Incentives for Rehabilitating Historic Buildings Annual Report for FY2006.

<sup>81</sup> Rypkema, Donovan D., The Economics of Historic Preservation: A Community Leader’s Guide (Washington, D.C. : National Trust for Historic Preservation Press, 2002), 15.

and makes conservation of the local history and heritage found in the built environment financially feasible.”<sup>82</sup>

In a case study analysis of combining historic preservation and income class integration James R. Cohen identified the goals of the historic homeownership credit. Cohen states that “the challenges for the historic preservation movement in the United States are to combine structural restoration with maintenance of low-income residents and to include minority neighborhoods in preservation projects.”<sup>83</sup> The underlying theory of the historic homeownership credit is the same concept that Cohen and many of his colleagues advocate, that the creation of mixed-income neighborhoods is the most effective strategy for mitigating the concentration of the poor and preventing displacement from gentrification. The negative consequences of isolation of the poor include: underfunded public services including schools, loss of retail establishments and local job opportunities, and lack of positive role models. As Cohen states, “many people consider the return of middle- and higher income people a prerequisite for revitalizing urban areas.”<sup>84</sup> There must be a financial incentive in order to make disinvested neighborhoods attractive to middle and upper-income families and individuals. The Historic Homeownership Rehabilitation Credit would create this financial incentive while also ensuring the historic integrity of the rehabilitated structures. What many critics of the HHAA bill failed to realize is that the credit would be ineffective in accomplishing its

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<sup>82</sup> Petersen, John E., and Susan G Robinson, “The Effectiveness and Fiscal Impact of Tax Incentives for Historic Preservation: A Reconnaissance for the City of Atlanta,” Chicago: The Government Finance Research Center of the Government Finance, 1988.

<sup>83</sup> Cohen, James R., “Combining Historic Preservation and Income Class Integration: A Case Study of the Butchers Hill Neighborhood of Baltimore,” *Housing Policy Debate* 9, no. 3 (1998), 663.

<sup>84</sup> *Ibid.*, 664.

goal of bringing wealth into low-income neighborhoods if it was targeted at the poorest of the poor. However, the credit would allow existing homeowners to stay in their homes and take advantage of rising home values, increased job opportunities, and increased social capital. All of these aspects of positive neighborhood change could perhaps allow existing low-income residents to enter into the middle-income bracket.

### What is Successful Neighborhood Revitalization?

Elise M Bright, Professor of Urban Studies, defines successful revitalization as “changes that improve the existing resident’s quality of life.”<sup>85</sup> Bright determines that quality of life is related to living in a neighborhood that provides “safety, services, shelter, and social capital.”<sup>86</sup> To this list should also be added a means of asset building. Truly equitable preservation-led neighborhood revitalization projects are those in which the existing lower-income residents benefit and are able to stay in the neighborhood that is accessible to multiple incomes and races. In 1998 HUD published an analysis of neighborhoods across the country that, “over an extended period, managed to maintain ethnic and racial diversity.” Almost every neighborhood identified was “made up of older historic housing and the vast majority of the diverse neighborhoods were either National Register Historic Districts, local districts, had a concentration of historic structures, or a combination of all three.”<sup>87</sup>

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<sup>85</sup> Bright, Elise M, Reviving America’s Forgotten Neighborhoods (New York: Garland Publishing, 2000), 6.

<sup>86</sup> *Ibid.*, 6.

<sup>87</sup> Rypkema, Donovan, “Historic Preservation and Affordable Housing: The Missed Connection,” Forum Journal 17, no. 3 (2003): 15.

Preservation-based community development has become a goal of many Community Development Corporations (CDCs). This is in part due to the National Trust for Historic Preservation's Community Partners Program, but is also a result of the proven success of preservation-based revitalization projects across the country. For example, the result of sustained efforts on the part of a local CDC in Baltimore, Maryland's historic Butcher Hill neighborhood resulted in a "demographic and socioeconomic profile [that] reflects a mixed-income neighborhood with diverse household types, containing affordable housing for lower-income residents and convenient locations for professional workers employed in downtown Baltimore."<sup>88</sup>

### Economic Impact Reports

Many states have conducted and published reports on the economic impact of historic preservation activity in their state. The overwhelming conclusion of the reports is that historic preservation can result in substantial and diverse economic benefits. These benefits are both *direct*, *indirect*, and *induced* and relate to increases in employment, income, wealth, and taxes.<sup>89</sup> The process of rehabilitating historic properties creates positive economic activity and when the project is completed the economic benefits of a historic structure versus new construction remain higher because of the potential for heritage tourism and related activities. The Georgia economic impact study concluded that "preservation can encourage new construction and other

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<sup>88</sup> Cohen, James R., "Combining Historic Preservation and Income Class Integration: A Case Study of the Butchers Hill Neighborhood of Baltimore," *Housing Policy Debate* 9, no.3 (1998), 686.

<sup>89</sup> *Direct* economic impact of preservation consist only of the labor and material purchases made for preservation. *Indirect* impacts include investments in goods and services by industries that manufacture products used in preservation projects. *Induced* impact refers to household expenditures of workers involved either directly or indirectly with preservation activity.

development programs that contribute to the number of amenities available to local residents, again increasing their quality of life.”<sup>90</sup> A separate report on “Economic Development through Historic Preservation in Georgia” concluded that, “The amount of private capital invested in preservation efforts in Georgia compared to the public investment in technical assistance and financial incentives for historic preservation is about \$15 private to \$1 public.”<sup>91</sup>

“The Economic Impacts of Historic Preservation in New Jersey” concluded that, “annual direct economic effects, calculated conversely, include \$123 million in historic rehabilitation, \$432 million in heritage tourism spending, and \$25 million in net spending by historic sites and organizations, for a total of \$580 million.”<sup>92</sup> The New Jersey study also concluded: “the economic benefits of historic preservation (e.g., total job creation, and increases in income and GDP [Gross Domestic Product] per \$1 million invested) surpass those of such alternative investments as new housing or commercial construction.”<sup>93</sup> For example, in New Jersey, for every \$1 million invested in historic non-residential rehabilitation 38.3 jobs are created as compared to the same amount spent on new construction or highway construction, which only generates 36.1 or 33.6 jobs respectively.<sup>94</sup> Additional economic impact studies that have been carried out in other states reinforce the findings of historic rehabilitation activity discussed in the Georgia and

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<sup>90</sup> Rypkema, Donovan D., The Economics of Historic Preservation: A Community Leader’s Guide (Washington, D.C. : National Trust for Historic Preservation Press, 2002), 29.

<sup>91</sup> Ibid., 33.

<sup>92</sup> “Partners in Prosperity: An Economic Impact Study of Preservation in New Jersey,” Center for Urban Policy Research, Rutgers, David L. Listokin and Mike L. Lahr, principle investigators, 6.

<sup>93</sup> Ibid., 11.

<sup>94</sup> Ibid.

New Jersey studies' findings that preservation makes economic sense on both a local and regional scale.

### What Type of Neighborhood and How Many Neighborhoods Would Actually Qualify for the Credit?

In order to discuss the economics of rehabilitation of specific properties that would benefit from the Historic Homeownership Rehabilitation Credit it is important to assess what type of neighborhoods would actually qualify. As discussed in the previous chapter, there have been multiple analyses of the number of buildings that would qualify for the Historic Homeownership Rehabilitation Credit on a national scale. In order to further understand the impact of the targeting mechanism of the proposed credit, a study was carried out by the author to determine the affects of lowering the qualifying household income.

The credit as currently proposed would only be applicable in historic districts located in census tracts with a median household income less than twice the statewide median household income. As a preservationists, the author like the original authors of the HHAA bill would prefer that all historic homes be eligible for the credit so that as many properties as possible would be rehabilitated according to the *Secretary's Standards*. However, due the failure of the bill to pass Congress in the past because of its perceived cost to the treasury, it is worth investigating the affects of further limiting the use of the credit by lowering the maximum median household income. The Geographic Information System (GIS) survey, developed by the author, examined two cities, Philadelphia and Savannah, in order to provide a spatial and numerical understanding of

the effects of targeting the credit.(See Appendix G for the maps and charts produced in this study) The maps and tables produced in this survey illustrate the alignment of historic districts and median household income for both cities and show that even if the credit is limited to historic districts located in census tracts with a median income of 80 percent or less of the statewide median income, there are still Historic Districts in both cities that would qualify for the credit.

The statewide median household income in Philadelphia in 2000 was \$40,106. With 150% or less of the statewide median household income (\$60,159) as the qualifier, 35 of the city's 41 Historic Districts would qualify for the credit. If the qualifier is lowered to 100% or less of the statewide median household income, 24 Historic Districts would qualify for the credit. If the qualifier is further lowered to 80% or less of the statewide median household income (\$32,085), only 16 districts would qualify for the credit. In Savannah, with a Georgia statewide median income of \$42,433, twelve of the city's thirteen Historic Districts would qualify for the credit if the criteria were location in a census tract with 150% or less of the statewide median household income (\$63,649). If the criterion is lowered to include only districts in census tracts with 100% or less of the statewide median income then seven districts qualify. If 80% (\$33,946) or less of the statewide median income is used to determine eligibility for the credit then only 6 of Savannah's 13 Historic Districts would qualify. In both cities limiting eligibility to Historic Districts in census tracts with a median household income of 80% of the statewide median household income decreases the number of eligible districts by half. This would be a drastic measure simply to decrease the potential score of the bill by the Joint Committee on Taxation. If changes are to be made to the proposed credit in future



bills it is advisable that the credit should be limited to no lower than 100% of the statewide median income. This is especially true since, as the maps showing home values and Historic Districts illustrate, many historic districts located in census tracts with incomes of 100% of the statewide median income still have very low home values.

The maps representing the alignment of median home values by census tract and Historic Districts show that in both cities there are affordable homes located in Historic Districts. Many of the most affordable homes would likely require what realtors refer to as “sweat-equity” in order to rehabilitate them. By stipulating that the adjusted basis of the property be expended in the rehabilitation the credit implies that acquisition costs would be low. The Historic Homeownership Rehabilitation Credit was created to provide a financial incentive to individuals or developers to move into disinvested urban neighborhoods and rehabilitate deteriorated housing stock. The credit would also provide a means for existing residents in distressed areas, where the minimum investment is lower, to perform substantial maintenance and renovation work.

The tables and corresponding maps of the historic districts for each city outline at what benchmarks each Historic District would qualify for the credit and the median home value for the dominant census tract in each historic district. Both the names for the districts and the fact that some of them have no reported home values indicate that some of the districts that would potentially qualify for the credit are not actually residential neighborhoods and therefore would not actually benefit from a tax credit for owner-occupied housing. Further research into the building stock in each district in both cities would be beneficial to a study of the utility of the Historic Homeownership Rehabilitation Credit as a tool for neighborhood change.

## The “Home Again” Studies - Case Studies of Specific Residential Properties

In 1998, at the height of support for the Historic Homeownership Assistance Act (HHAA) in Congress, Preservation Action began working in conjunction with Heritage Consulting Group and local preservation organizations to produce a series of proforma analyses of the potential effect of the Historic Homeownership Rehabilitation Credit on actual residences in cities across the country.<sup>95</sup> The “Home Again” series of reports provided hard numbers that allowed advocates for the credits to explain how the credit would operate at the scale of an individual project. (See Appendix H for a reproduction of the “Home Again” Studies) Philadelphia and Savannah, the two cities studied by the author to determine the significance of targeting the credit, were two of the cities selected for the Home Again study. The reports illustrate the three different ways that the credit could be utilized: reduction in tax liability, reduction in mortgage interest rate, and reduction in down payment. The last option is only available in census tracts identified as “distressed”.

In Philadelphia the Home Again study identified four residences that illustrate how the Historic Homeownership Rehabilitation Credit could be used by individual families, either alone or in conjunction with other local incentives, by private developers, or by CDCs. The case study of a family using the credit as the only rehabilitation incentive was a three story row house located at 2208 Brandywine Street in the Spring Garden National Register Historic District. The purchase price of the property was determined to be \$76,000 and qualified rehabilitation expenditures were estimated as

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<sup>95</sup> Heritage Consulting Group is a national firm, headquartered in Portland, Oregon, specializing in historic preservation and real estate development.

\$94,589. Twenty percent of the rehabilitation expenditures would result in a federal tax credit of \$19,695. The credit could be claimed outright or used to decrease the interest rate on the mortgage. In the second scenario the interest rate was decreased from 8.75% to 7.29% with a monthly mortgage payment of \$1,285.03, compared to a monthly payment of \$1,439.98 if the credit is not applied to the mortgage certificate. The study concludes that “either way, the tax incentive makes it possible for them [the family] to rehabilitate a historic property in the city at a price that is competitive with moving to the suburbs.”<sup>96</sup>

The Spring Garden District example and others in the study required a buyer’s cash equity between \$35,000 and \$53,000, which seems unrealistic for first time homebuyers. However, a case study of another three story row house in a proposed local historic district in Philadelphia shows two options for how the credit could be used to acquire the home with only \$4,861 in cash equity needed from homebuyers. Moreover, if the mortgage certificate is applied to the down payment no cash equity would be required. The mortgage credit conversion would be permitted in this example because the property is located in a “distressed” census tract. The purchase price of the home would be \$20,670 with \$63,365 necessary rehabilitation expenditures, resulting in a credit of \$12,655. Use of the credit would result in monthly mortgage payments as low as \$469.52. This monthly payment corresponds to a minimum household income of only \$20,122. This figure was determined by assuming the conventional debt to income ratio

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<sup>96</sup> “Home Again in Philadelphia: Revitalizing Philadelphia with the Historic Homeownership Assistance Act,” Preservation Action and Heritage Consulting Group. Preservation Alliance for Greater Philadelphia, 1999, 6.

of 28%.<sup>97</sup> This case study also illuminates the potential of the credit as a tool for CDCs. The study discusses the utility of the credit for the Greater Germantown Housing Development Corporation, the CDC active in the Penn-Knox/Wister district where the house is located. The CDC could take on the role of the developer and pass the credit on to homebuyers. As the Home Again study concludes, “CDCs can use the tax credit, along with existing homeownership incentives, to create affordable housing for low-income households.”<sup>98</sup>

The need for a historic homeownership credit is well illustrated in Savannah, Georgia where the “Home Again in Savannah” study noted that in the targeted historic districts vacancy rates were 25% or higher, with 14,000 housing units described as being in “substandard condition” [but] suitable for renovation”.<sup>99</sup> Like the Philadelphia study the report was comprised of four case studies. However, the Savannah case studies were able to take into consideration the additional financial incentives for rehabilitation provided by the state of Georgia in the form of that state’s Rehabilitated Historic Property Tax Assessment Freeze Program.<sup>100</sup> “Home Again in Savannah” also showed how the credit could be used in conjunction with local programs such as financial assistance in the

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<sup>97</sup> “Home Again in Philadelphia: Revitalizing Philadelphia with the Historic Homeownership Assistance Act,” Preservation Action and Heritage Consulting Group, Preservation Alliance for Greater Philadelphia, 1999, 12. In administering its housing assistance programs the U.S Department of Housing and Urban Development (HUD) applies the standard that no household should pay more than 30% of its income in rent.

<sup>98</sup> Ibid., 12.

<sup>99</sup> “Home Again in Savannah: Applying the Proposed Federal Historic Homeownership Tax Credit: Four Case Studies,” Preservation Action and Heritage Consulting Group, City of Savannah, 1998, 3.

<sup>100</sup> In 2002 the state of Georgia enacted a law allowing for a state income tax credit for the rehabilitation of historic properties, including owner-occupied dwellings.

removal of lead paint. The case studies in Savannah ranged from a 1,431 square foot bungalow to a 30,000 square foot Second Empire style residence.

The case study of the small bungalow at 603 West 38<sup>th</sup> Street in the Cuyler-Brownsville Historic District illustrates how the tax credit can be used to make the down payment on the house, requiring no equity from the homeowner. The fixed monthly mortgage payment to finance acquisition of the property and carry out all necessary rehabilitation would be \$639.54.<sup>101</sup> This low monthly mortgage payment corresponds to an annual household income of only \$27,409, calculated with a 28% debt ratio.

The case study of a two story duplex located at 218 East Bolton Street in the Victorian Historic District illustrates how the savings made possible by using the credit to acquire a reduced interest rate can greatly exceed the face value of the credit. The purchase price of the property was determined to be \$40,000. The qualifying rehabilitation expenditures were estimated to be \$166,983, resulting in a credit of \$33,397. However, when the credit is used to “buy down” the mortgage interest rate from 7.0% to 5.28% on a 30-year fixed mortgage, the resulting savings from the lower interest rate is \$79,988.<sup>102</sup> The equity required from the owner to acquire the property is \$12, 924 and the monthly mortgage payment would be \$1,326.62. Due to the state assessment freeze program the property taxes would remain at \$606.50 per year for eight years after the project is completed.

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<sup>101</sup> “Home Again in Savannah: Applying the Proposed Federal Historic Homeownership Tax Credit: Four Case Studies,” Preservation Action and Heritage Consulting Group, City of Savannah, 1998, 9.

<sup>102</sup> Ibid., 13.

Increasing property taxes is the most cited negative effect of gentrification, so state or local initiatives that address the issue of rising property taxes in neighborhoods experiencing revitalization are important. It is significant to note that Georgia's Tax Assessment Freeze Program is applicable only to the owners of substantially rehabilitated historic properties. While this might further encourage homeowners to purchase and rehabilitate distressed historic homes it does not take into account the increase in the assessed value and therefore the increase in property taxes of neighboring properties that have not been rehabilitated. It is critical to point out that any increase in assessed value means that a property is increasing in value and allowing the owner to capitalize on an existing asset. The pre-existing homeowners in neighborhoods experiencing revitalization are able to build wealth without having to invest any funds in their property, so in reality gentrification does not hurt existing homeowners in the long term, even though their property taxes will increase due to higher assessment values. Renters whose monthly housing payments would potentially rise due to the increasing popularity of the neighborhood as a place to live are perhaps the only group negatively affected by gentrification.

The "Home Again" case studies illustrate on an individual project scale the "but for" nature of the Historic Homeownership Rehabilitation Credit. Without the credit any of the projects outlined in the proforma analysis could not be undertaken by a middle income family or individual. The studies also illuminate the important role that banks would play in the rehabilitation process if the credit were to be passed into law. Unless homeowners opt simply to claim the credit against their federal income tax liability, a lending institution that can convert the credit into a decreased interest rate or down

payment is critical to the success of the credit as a tool for neighborhood change. The Community Reinvestment Act (CRA; 12 USC 2901) requires lending institutions to assist in low income housing and financing. Banks participating in the mortgage certificate program of the Historic Homeownership Rehabilitation Credit would meet this federal requirement.

The “Home Again in Savannah” study included a five year estimate of the potential rehabilitation activity the HHAA would create in Savannah. Of the total 4,614 eligible contributing residential structures in Savannah’s historic districts it was estimated that over a five year period 385 housing units would be rehabilitated, generating \$13.625 million in private investment at the cost of \$2.725 million to the Federal Treasury.<sup>103</sup>

What the “Home Again” studies, state economic impact of preservation reports, and scholarly discussions all conclude is that residential revitalization through historic preservation as a local, state, and federal policy can be easily justified by economic analyses. Beyond simple justification by the number, the Historic Homeownership Rehabilitation Credit addresses two issues that are at the forefront of federal and local economic policy: smart growth and homeownership.

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<sup>103</sup> These figures were determined by assuming “that 5% of the contributing residential units will be rehabilitated under the historic homeowner’s rehabilitation credit program each year. This 5% annual rate is roughly double the utilization of rate for the historic rehabilitation investment tax credit for commercial properties prior to the Tax Reform Act of 1986. Of the total 1,544 potential units, 385 (25%) will be rehabilitated using the historic homeowner’s tax credit over five years.” Source: “Home Again in Savannah: Applying the Proposed Federal Historic Homeownership Tax Credit: Four Case Studies,” Preservation Action and Heritage Consulting Group, City of Savannah, 1998, 18.

## Chapter Five - State Homeowner Rehabilitation Tax Credit Programs

Currently 28 states have instituted a historic rehabilitation tax credit program. In 24 of these states owner-occupied housing is eligible for the credit. (See Appendix I for a complete list) Most of the state tax credit programs are modeled on the Federal Historic Rehabilitation Tax Credit (FHRTC) for commercial structures. Moreover, many of the states that do not offer historic homeowner tax credits provide other financial incentives, such as property tax abatements or grants, in order to promote the historic rehabilitation of private property within the state. Some states offer both tax credits and other tax incentives at the local and state level.<sup>104</sup> Because many of the state tax programs have been in place for over twenty years, it is possible to assess their success to help determine the potential of a federal historic homeownership rehabilitation credit.

A general assessment of all state tax incentives for historic rehabilitation programs reveals that many of the state programs are under-utilized. In a study of six state historic homeownership tax credit programs, the percentage of the total number of eligible properties that actually utilized the credits ranged from a low of .09 percent in Maryland to a high of 1.76 percent in Utah.<sup>105</sup> This is due to many factors, including lack

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<sup>104</sup> All state and local tax incentives are subject to what many in the field refer to as the “federal penalty.” Because state and local taxes are normally deductible for federal income tax purposes, any incentive that reduces state and local taxes also increases a taxpayer’s federal income tax liability by decreasing deductibles. Furthermore, when state tax credits are transferred to a third party the seller is considered as having a short-term capital gain on the proceeds of the sale that is typically taxed at 35% for corporate sellers. In 2005 Rep. Russ Carnahan [D-MO] introduced the Historic Rehabilitation Enhancement Act of 2005 (H.R. 2488), to prevent the federal government from taxing gains from state historic rehabilitation tax credits and refunds from refundable tax credits.

<sup>105</sup> This study was conducted prior to the implementation of a new historic tax program in Maryland. The methodology of the study assumed that the state criteria for eligibility are the same as for the FHRTC. The percentages were derived by calculating the average number of projects undertaken in each state per year divided by the number of eligible properties. Source: Schwartz, Harry K., “State Income Tax Incentives for Historic Homeownership,” Preservation Law Reporter 15, 1093-2007 (1996).



of a budget for publicity to increase public awareness of the credit, as well as legislative flaws in the programs. What is clear from analysis is that the states that offer tax credits over other options, such as tax abatements, have been the most successful in encouraging private historic rehabilitation. The states where homeowners tax credits have been effective in promoting substantial rehabilitation activity prove that tax credits can be tremendously successful tools for residential rehabilitation. These successfully implemented state programs, in fact, served in part as models for the proposed federal Historic Homeownership Rehabilitation Credit.

State tax credits vary considerably from state to state; however, because the state programs are all broadly based on the FHRTC, they share some basic elements: criteria to determine what buildings qualify for the credit, standards to ensure that the rehabilitation maintains the architectural and historic integrity of the building, outlines of what expenses qualify as certified rehabilitation expenditures and what percentage of these expenditures the credit is based on, a minimum amount of investment required to participate in the program, and a procedure and government body to administer the program.<sup>106</sup> In all states that have historic tax credits a project that utilizes the FHRTC is also eligible for the state program, although sometimes only at a reduced rate. This “piggy-backing” the federal and state credits can make projects lucrative investments for developers.

Many states lack the funds necessary to carry out an in-depth assessment of their historic homeowner tax credit programs. However, some programmatic assessments

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<sup>106</sup> Schwartz, Harry K., “State Tax Credits for Historic Preservation,” Model Public Policies, National Trust for Historic Preservation (May/June 2006), 1.

have been completed and will be discussed later in this chapter. These studies provide statistical evidence of the positive benefits of state historic homeowner tax credit programs. Additionally, general assessments of all state historic rehabilitation tax credits have been carried out and allow for an understanding of what structure state homeownership credits should take in order to be most effective.

### Limitations and Pitfalls of Some State Tax Credits

When considering financial incentives for either commercial or owner-occupied historic structures, at the state level there are reasons to favor property tax relief over income tax incentives. In some states income tax credits are not even an option because there is no state income tax. Furthermore, although most property owners must pay state property taxes, not all property owners have a sufficiently high income to be subject to state income tax. The lower the state income tax liability, the more likely a historic rehabilitation tax credit will be underutilized.<sup>107</sup>

Although all state income tax credits for historic rehabilitation are essentially structured the same way, many states have imposed statutory limitations that have adversely affected the usefulness of their credits. For example, many states limit the utility of their programs for owner-occupied housing by imposing high minimum investment requirements for individual projects, by having relatively low ceilings on the amount of credit that can be claimed per project, or by maintaining low annual aggregate caps on the total dollar amount of rehabilitation credits awarded within the state annually.

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<sup>107</sup> Schwartz, Harry K., "State Income Tax Incentives for Historic Homeownership," Preservation Law Reporter 15, 1093-2007 (1996), 1096.

States that require a large minimum investment thereby prevent middle and lower-income people from using the credits and will promote more elaborate renovations over simple rehabilitations to prevent deferred maintenance. Most states offering credits for owner-occupied residences have deviated from the “substantial rehabilitation test” of the FHRTC that requires an investment of \$5,000 or the “adjusted basis” of the property, whichever is greater, opting instead for lower or no minimum investment requirements. States, such as New Mexico, with no minimum investment requirements have demonstrated that the lack of a minimum investment requirement can result in the credit being used for smaller maintenance projects. As Robyn Powell of the New Mexico State Historic Preservation Office explains, “Most of the projects that we approve range from about \$2,000 to \$10,000.”<sup>108</sup> This is not necessarily a negative outcome since the biggest threat to any historic property is deferred maintenance.

In most state programs the limits on the amount of credits that can be awarded to an individual project are not an issue for owner-occupied housing rehabilitations in which the projects are typically smaller and less expensive than those involving commercial properties. The states with individual project capping for owner-occupied housing generally have caps in the range of \$20,000 - \$50,000 and allow the homeowner to carry the credit forward as necessary. However, Rhode Island has a maximum allowable credit for owner-occupied housing of \$2,000 a year. Although unused credits can be carried forward, such a minimal financial incentive is not enough by itself to encourage

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<sup>108</sup> Beaumont, Constance E. and Elizabeth G. Pianca, Revised by Sydney A. Becker and Harry K. Schwartz, “State Tax Incentives for Historic Preservation: A State-by-State Summary,” National Trust for Historic Preservation, September 2005, 97.

rehabilitation. Likewise, Georgia hinders the utility of its credit by limiting the amount of credit available for owner-occupied housing to \$5,000 over a ten year period.<sup>109</sup>

Many states offer a higher level of credit for owner-occupied housing than commercial structures, in recognition of the lack of a federal tax incentive for homeowners. For example, the West Virginia program allows for a 20% tax credit for residential structures, but only a 10% credit for income producing properties.<sup>110</sup> Most state tax credits for rehabilitation of owner-occupied residences range between 20 and 30 percent of all qualified rehabilitation expenditures. Some states, including Indiana, Iowa, and Delaware, place limits on the total value of credits available annually statewide. If the limit is reached, property owners are often forced to postpone projects until the following year when credits will be available. In Indiana, with a credit of 20%, a required minimum investment of \$10,000, and an annual statewide cap on credits for owner-occupied housing projects of \$250,000, even if every project in a given year was a modest \$10,000 project only 125 residences would be eligible for the credit throughout the state in a given year. Although this is more of an issue for larger commercial projects, statewide caps can reduce the overall effectiveness of a state's historic tax credit program. As Harry Schwartz explains, "even if the annual credit is relatively high, the very act of imposing a cap alters the nature of the program and can produce a perverse result, rewarding projects that do not require an incentive while excluding projects that

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<sup>109</sup> Beaumont, Constance E. and Elizabeth G. Pianca, Revised by Sydney A. Becker and Harry K. Schwartz, "State Tax Incentives for Historic Preservation: A State-by-State Summary," National Trust for Historic Preservation, September 2005, 5.

<sup>110</sup> Ibid., 19.

cannot proceed without the state incentive.”<sup>111</sup> Schwartz’s analysis has also revealed that states that “have resisted capping have had an economic advantage in attracting capital for historic preservation.”<sup>112</sup>

One of the primary reasons behind the resurgence in the use of the FHRTC following the Tax Act of 1986 was the fact that preservationists and developers were able to devise legal means through which to transfer the credits from one party to another. Efforts to provide a means of transferring state homeowner credits have not been successful because the dollar amounts of the credits are typically too low to make transferring the credit lucrative.<sup>113</sup> An alternative to transferring credits that has proven successful at the state level is refundable state homeowner rehabilitation credits. The transferability or refundability of credits is critical to the success of state programs, since state income tax rates are always lower than federal income tax rates and often property owners are eligible for credits well beyond what they could possibly use. Some states, such as Virginia and Missouri, allow the taxpayer to outright sell or convey the credits to a third party. The Maryland tax credit for homeowners is fully refundable. Since altering its program to allow the credit to be converted into a cash refund the Maryland tax credit for homeowners has become the most successful and heavily utilized of all state homeowner tax credit programs.<sup>114</sup> Refundability is simple: the amount of the credit in excess of the current year’s tax liability is paid in cash to the taxpayer. However, with

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<sup>111</sup> Schwartz, Harry K., “State Tax Credits for Historic Preservation,” Model Public Policies, National Trust for Historic Preservation (May/June 2006), 1.

<sup>112</sup> *Ibid.*, 2.

<sup>113</sup> Information in a correspondence to the author, from Harry K. Schwartz, April 4, 2007.

<sup>114</sup> *Ibid.*

the exception of Iowa which allows for a refund up to 75% of the value of the excess credit, no other states offer refunds.

Two aspects of the proposed federal historic homeownership rehabilitation credit relate to the transferability of credit: the mortgage credit certificate program and the developer pass-through feature. Without a means to convert the credit into either a reduction in mortgage interest rates or a down payment, many moderate and lower-income families are excluded from state historic homeowner tax credit programs. In the absence of an incentive for developers to take on multi-unit projects, state homeowner credits rely solely on individual initiative and result in scattered rehabilitation rather than large scale revitalization. The absence of a pass-through in all state tax credit programs is the main reason that, although the programs have been widely used in many of the states, no state's historic tax credit for homeowners has resulted in reversing the trends of abandonment and blight in urban neighborhoods. As Schwartz explains, "the most efficient way to carry out historic rehabilitation of housing stock, both for lower-income as well as more affluent homebuyers, is through non-profit and for-profit developers. But unfortunately, the state tax credit laws in place were not drafted to accommodate a situation in which a developer acquires a historic building, rehabilitates it in accordance with the *Secretary's Standards*; and sells it to a homebuyer."<sup>115</sup> Recognizing that developers might not be attracted to smaller scale homeowner rehabilitation projects,

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<sup>115</sup> Beaumont, Constance, Smart States, Better Communities: How State Governments Can Help Citizens Preserve their Communities (Washington, D.C.: National Trust for Historic Preservation Press, 1996), 95.

Schwartz has since determined that at the state level refundability is the most important aspect of any historic homeowner program.<sup>116</sup>

The negative effects of the measures applied by state legislatures to state tax credit programs in order to reduce their fiscal effects on state budgets should be taken into consideration when discussing any changes to the proposed federal Historic Homeownership Rehabilitation Credit. State tax credits for rehabilitation have proven that high minimum required investments, individual project caps, annual aggregate caps, and lack of transferability or ability to refund the credit can be detrimental to the success of a homeownership rehabilitation tax credit program.

#### Successful State Historic Tax Credit Programs

A general rule for successful state rehabilitation tax credits identified by Constance Beaumont is that the “incentive should be generous enough to motivate property owners to make investments in preservation that they might not otherwise make, but it should not be so large that it shifts an undue tax burden onto other tax payers.”<sup>117</sup> The states that have followed this rule and provided an adequate level of incentive have experienced substantial increases in historic rehabilitation activity involving both commercial and homeowner projects. The state of Missouri has a truly successful tax credit for commercial properties. In 2000 an estimated \$480 million dollars was spent on

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<sup>116</sup> Information in a correspondence to the author, from Harry K. Schwartz, April 4, 2007.

<sup>117</sup> Beaumont, Constance, Smart States, Better Communities: How State Governments Can Help Citizens Preserve their Communities (Washington, D.C.: National Trust for Historic Preservation Press, 1996), 99.

rehabilitating historic properties in the state of Missouri alone.<sup>118</sup> The increased tax base that results from rehabilitated historic properties benefits all local residents, not just those living or working in the newly renovated buildings. Additionally, most state tax credits for rehabilitation require that all work carried out be in keeping with the *Secretary's Standards*, ensuring that a neighborhood's distinctive architectural features will remain intact. This further increases property values, and in some cases promotes economic activity from heritage tourism.

Use of the North Carolina historic homeownership credit has greatly expanded since the program was overhauled in 1997. In 1998 alone 134 residential projects were approved, totaling \$10 million in rehabilitation expenditures.<sup>119</sup> As with the FHRTC for commercial structures, state historic homeowner's tax credit programs have enabled projects that otherwise would not have been financially feasible to take place. A 2004 study assessing the Maryland Heritage Structures Rehabilitation Tax Credit Program reported that "50% of Homeowners who utilized the State Tax Credit for their personal residence reported that "the credit was necessary for the project to go forward."<sup>120</sup>

Perhaps most applicable to a study of the utility of a historic homeownership rehabilitation credit as a tool for neighborhood change is an analysis of the composition of residential neighborhoods containing the highest number of completed Missouri Historic Preservation Tax Credit (MHPTC) projects. Six of the nine neighborhoods with

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<sup>118</sup> "Economic Impacts of Historic Preservation in Missouri," Center for Urban Policy Research, Rutgers University, December 2001, 29.

<sup>119</sup> Information about the North Carolina Historic Tax Credit Program found in, "Special Property Tax Assessments for Rehabilitated Historic Buildings in South Carolina: An Evaluation and Report to the South Carolina Department of Archives and History," Prepared by Harry K. Schwartz, March 1999, 22.

<sup>120</sup> "Final Report of the Governor's Task Force on Maryland's Heritage Structure Rehabilitation Tax Credit Program," Presented January 2004.



the most projects were located in St. Louis. The remaining neighborhoods were located in Kansas City, Lexington, and Jefferson City. All of the neighborhoods were described as having “a strikingly higher minority population than the state as a whole [and] census information shows that median household incomes for these urban core areas are lower than the state average.” Additionally, eight of the nine neighborhoods were identified as “distressed.”<sup>121</sup> The study accounted for this pattern of activity by noting that “the older housing units have a significantly higher rate of vacancy than the state and a lower rate of owner occupancy.”<sup>122</sup> The MHPTC study shows that if tax credits that provide a financial incentive for historic rehabilitation of residential properties in distressed urban neighborhoods are in place they will be used.

The question then becomes: if state programs can be so successful then why do we need a federal historic homeownership rehabilitation credit? The simple answer is that less than half of all states have historic homeowners credit programs. Moreover, all state tax credit programs are inherently hindered by the fact that many taxpayers do not have a substantial enough state tax liability to make the application of the credit toward a significant residential rehabilitation worthwhile and some states do not even have an income tax. This is especially true of the middle and lower middle income families that the HHAA bill targeted. Lower-income families, which would benefit from a mortgage credit certificate program that would allow them to convert the credit into a lower interest rate on their mortgage, are entirely unable to take advantage of state income tax credit programs for preservation. Allowing for a complete refund of the

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<sup>121</sup> “Economic Impacts of Historic Preservation in Missouri,” Center for Urban Policy Research, Rutgers University, December 2001, 126.

<sup>122</sup> Ibid.

credit would benefit low-income residents and therefore, refundability is a provision that authors of future bills containing a historic homeownership rehabilitation credit should consider. Additionally, many state programs lack a stipulation allowing developers to pass through the credit to homebuyers, essentially obstructing large scale rehabilitation projects for homeownership.

Not all state historic homeowner credits are as effective as those in Missouri, Maryland, and North Carolina. Many state programs are inherently flawed. In discussing state tax credits for historic preservation, Constance Beaumont observes that “a poorly designed program can give the illusion that the state favors private-sector investment in historic preservation but provide little, if any, real stimulus to preservation.”<sup>123</sup> In terms of a historic homeowner tax credit “poorly” designed would mean: lack of refundability or transferability, too low of an aggregate cap, or too high of a minimum investment requirement.

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<sup>123</sup> Beaumont, Constance, Smart States, Better Communities: How State Governments Can Help Citizens Preserve their Communities (Washington, D.C.: National Trust for Historic Preservation Press, 1996), 92.

## **Chapter Six- Disaster Relief and the Historic Homeownership Rehabilitation Credit**

### The Historic Preservation Disaster Relief Assistance Package

Prior to Hurricane Katrina and Hurricane Rita which followed only four weeks later, the two states with the greatest number of impoverished historic districts were Louisiana and Mississippi, the two states most affected by the storms.<sup>124</sup> The total area of land declared a federal disaster zone after the storms totaled 90,000 square miles.<sup>125</sup> Within this area 700,000 Gulf Coast residents were impacted by the storm. Following the storms there was a movement among preservationists, led by the National Trust for Historic Preservation, to temporarily expand the Federal Historic Rehabilitation Tax Credit (FHRTC) in areas affected by the storms to include residential property. The National Trust was joined by the American Institute of Architects (AIA), and many other local, state, and national organizations in lobbying Congress for a Historic Preservation Disaster Relief Package that would be comprised of grants and tax incentives.

The Congressional Budget Office estimated the value of damage to residential structures from Katrina to be between \$17 billion and \$33 billion.<sup>126</sup> As Richard Moe, President of the National Trust, repeatedly stated in the aftermath of the storm, Hurricane Katrina could easily be construed as the worst cultural disaster in American history. The area hit hardest by the storm contained some of the greatest concentrations of historic fabric anywhere in the United States. The high winds and subsequent flooding affected all

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<sup>124</sup> National Park Service, "Historic Districts and Historic Buildings in Poverty Areas as of July 2000," National Park Service Cultural Resources Geographic Information Services, July, 2000.

<sup>125</sup> Bernstein, Mark A., Julie Kim, Paul Sorenson, Mark Hanson, Adrian Overton, and Scott Hiromoto, Rebuilding Housing Along the Mississippi Coast: Ideas for Ensuring an Adequate Supply of Affordable Housing, RAND Gulf States Policy Institute, 2006, xi.

<sup>126</sup> Congressional Budget Office Testimony before the Committee on the Budget, U.S. House of Representatives, October 6, 2005.

types of historic housing stock, from antebellum mansions to lower income neighborhoods, like the historically African-American community of Turkey Creek, near Biloxi, Mississippi.

The preservation community learned from the Northridge Earthquakes in 1994 and the Mississippi River floods of 1993 that federal agencies' first impulse after wide scale residential damage from natural disasters is to initiate large-scale teardowns in the name of public safety. In order to keep the Gulf Coast from losing these important representations of its cultural heritage, the preservation community decided to promote a tax credit that would financially reward individual owners of historic houses for rehabilitating their homes rather than allowing them to be demolished. Not all homes affected by the storm would have been eligible for the credit, as many were not historic and many more were beyond repair. However, in New Orleans alone there are twenty neighborhoods listed on the National Register of Historic Places, thereby making many of the 37,000 historic residences they contain eligible for the credit.<sup>127</sup> In Mississippi, the state most affected by the storm, more than 134,000 homes were damaged and 65,000 destroyed completely.<sup>128</sup>

In the aftermath of the storm hundreds of bills relating to the recovery of the Gulf Coast were introduced in Congress. Many legislators and national organizations were concerned about how physically and economically to rebuild quickly, but few were focused on the historic assets threatened by the storm. Norman Koonce, Chief Executive

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<sup>127</sup> Koonce, Norman L., Executive Vice President and Chief Executive Officer, American Institute of Architects, Statement before the United States House of Representatives Committee on Government Reform Subcommittee on Federalism and the Census, November 1, 2005.

<sup>128</sup> Bernstein, Mark A., Julie Kim, Paul Sorenson, Mark Hanson, Adrian Overton, and Scott Hiromoto, Rebuilding Housing Along the Mississippi Coast: Ideas for Ensuring an Adequate Supply of Affordable Housing, Rand Gulf States Policy Institute, 2006, 1.

Officer of the AIA, summarized why many thought a comprehensive package of both tax credits and grants was necessary to ensure the preservation of historic residential neighborhoods when he stated:

Rebuilding communities is complex, difficult and costly work. In addition, restoring a community's historic structures requires money, time, experienced craftsmen, and better and more durable materials than replacing them with new or temporary structures. To encourage community residents and assist with the rebuilding effort, the AIA believes the federal government should provide those affected with a package of grants and tax incentives. The combination of grants and tax incentives that the AIA proposes today is designed to leverage local dollars, attract outside investment, restore buildings, and revitalize communities.<sup>129</sup>

The proposed Disaster Relief Historic Homeowner Assistance Credit would have provided a credit equal to 30% of all qualified rehabilitation expenditures made by homeowners living in historic homes located in the Hurricane Disaster Area.<sup>130</sup> Unlike the previous HHAA legislation the minimum investment threshold would be set at \$5,000 as opposed to the "adjusted basis of the property or \$5,000 whichever is greater" clause of the FHRTC. The total amount of credit for which any one project would be eligible was set at \$40,000, the same as the proposed historic homeownership rehabilitation credit. The credit would be refundable for lower income taxpayers.<sup>131</sup> As proposed, the tax credit would be a one-time pilot program that would expire at the end of 2010. The credit was conceived of as part of the Historic Preservation Disaster Relief Assistance Package. The Package was developed by preservation organizations and Rep. Jim McCreary (D-

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<sup>129</sup> Koonce, Norman L., Executive Vice President and Chief Executive Officer, American Institute of Architects, Statement before the United States House of Representatives Committee on Government Reform Subcommittee on Federalism and the Census, November 1, 2005.

<sup>130</sup> Only areas officially declared "Hurricane Disaster Areas" by the President would qualify.

<sup>131</sup> Lower income taxpayers were defined in the proposal as individuals with an annual income equal to or less than \$30,000 or \$60,000 for married couples filing jointly.

LA) and Sen. Mary Landrieu, and though it was discussed at length on Capitol Hill, a version of the Package containing the homeowner credit was never formally introduced in either the House or Senate as part of a bill.

In addition to the homeowner credit, the Disaster Relief Package also asked Congress to relax the enforcement of recapture penalties for already approved FHTRC projects for commercial structures. The preservation community felt that it would be doubly harsh to penalize financially owners of FHTRC properties still within the limits of the five year recapture period if their property was damaged beyond repair because of the storm.

The Disaster Relief Package also asked Congress to create a \$60 million fund, which would expire after two years, to disperse grants for the repairing of historic properties damaged by the storm. The Historic Preservation Disaster Relief Grant Program would provide financial assistance to “preservation projects and planning, including the preservation, stabilization, restoration, and repair of historic structures and sites listed on or eligible for the National Register, and for business and technical assistance for Main Street districts.”<sup>132</sup> Projects that receive insurance payments or other state and federal financial aid would still be eligible for the Historic Preservation Disaster Relief Grants. The grants would be administered by each eligible state’s State Historic Preservation Office (SHPO).

Turkey Creek, a community settled by free slaves in 1866 and still serving as a neighborhood to many of those same slaves’ descendants, served as an example of how

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<sup>132</sup> Koonce, Norman L., Executive Vice President and Chief Executive Officer, American Institute of Architects, Statement before the United States House of Representatives Committee on Government Reform Subcommittee on Federalism and the Census, November 1, 2005.

much was at stake if the historic residential communities of the Gulf Coast were not rehabilitated after the storm. In discussing the need for a Disaster Relief Historic Homeowner Assistance Tax Credit, Derrick C. Evans, Executive Director of the Turkey Creek Community Initiatives, stated,

the task [of rebuilding] will require assisting low income owners of potential heritage structures to bring their buildings up to code while also meeting the Interior Secretary's standards for historical recognition. My earnest hope is that what was not a priority before Hurricane Katrina will become one now. Our failure in this regard will only engender a massive, avoidable and additional loss of collective American heritage in the wake of a storm that has harmed enough already.<sup>133</sup>

Patty Gay, Executive Director of the Preservation Resource Center of New Orleans, highlighted the importance of targeting homeowners when granting assistance when she stated, "buildings, historic or otherwise, will not be restored without residents."<sup>134</sup> Gay outlined the importance of the homeowner credit for the City of New Orleans when she testified that, "should the federal government be concerned about economic recovery and sustainability in New Orleans, there should be a requirement that the city have a plan in place that acknowledges the economic importance of attracting homeowners back to their homes, and a plan that provides for restoration of the livability of as many existing residences as possible."<sup>135</sup>

The Disaster Relief Package for Historic Properties was a forward thinking, long-term approach to providing aid. Fortunately, there was immediate aid provided to the owners of historic properties. FEMA, the National Trust, the National Conference of

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<sup>133</sup> Evans, Derrick C., Testimony before the House Government Reform Subcommittee on Federalism and the Census, November 1, 2005.

<sup>134</sup> Gay, Patricia H. Written Testimony submitted to the House Committee on Government Reform Subcommittee on Federalism and the Census, October 21, 2005.

<sup>135</sup> Ibid.

State Historic Preservation Officers (NCSHPO), and the Association for Preservation Technology (APT) partnered with local preservation organizations, volunteer architects and preservationists, and state historic preservation offices to field technical inspection teams. As H.T. Holmes, Director of the Mississippi Department of Archives and History, testified to Congress, “One of the truly rewarding aspects of this operation has been the ability to provide property owners with accurate evaluations of the condition of their historic buildings and guidance on how or whether to proceed with rehabilitation.”<sup>136</sup> It is only logical that after offering such professional assistance the preservation community would want to provide financial assistance to homeowners that would allow them to follow through with their advice and restore their homes in the proper manner.

#### The Recovery Package as Awarded

When the federal government did finally provide financial aid for historic properties damaged by Katrina and Rita, it came in the form of grants rather than tax credits. On April 4, 2006 the Senate Appropriations Committee approved a \$106 million hurricane relief bill that included \$80 million for historic home owners in Alabama, Mississippi, and Louisiana. No state would be awarded more than 65 percent of the total. The National Trust celebrated the awarding of the funds, as President Dick Moe stated “These funds represent the targeted relief that is desperately needed to save the region’s unique heritage.” The federal grants “will go a long way toward assisting property owners, particularly low- and moderate income owners of historic homes who

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<sup>136</sup> Holmes, H.T., Director of the Mississippi Department of Archives and History, Testimony before the House Government Reform Subcommittee on Federalism and the Census, October 21, 2005.



didn't have flood insurance, to rebuild and reoccupy their homes in the Gulf Coast, and thus help bring their communities back to life.”<sup>137</sup> Mississippi, the state that was awarded the greatest portion of the funds, estimated that it would probably give 90 percent of its historic property money to owner-occupied dwellings in the state's three coastal counties and the three adjacent counties to the north. These same six counties which received the majority of the damage from the storm had been designated by the U.S. Congress the “Mississippi Gulf Coast National Heritage Area” in 2004. Furthermore, having learned about the potential benefits of a historic homeowner tax credit from the time spent advocating for the Disaster Relief Historic Homeowner Assistance Tax Credit, Louisiana and Mississippi both adopted state income tax credits for historic owner-occupied residences. Louisiana's historic homeowner tax credit program passed in 2005, and Mississippi's in 2006.

A year and a half after the storm, many displaced by Hurricane Katrina still have not returned to their neighborhoods. The storm displaced the wealthy and the poor throughout Alabama, Louisiana, and Mississippi, but the storm had a disproportionate affect on housing for low-income residents. Factors aside from the lack of a homeowner's tax credit hindered and have continued to slow the restoration of historic properties after the storm. Following the storm, the Internal Revenue Service ruled that rehabilitation expenses funded through insurance settlements could not qualify for the FHRTC. Factors at work outside of the economics of rebuilding include the fact that

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<sup>137</sup> The National Trust for Historic Preservation website, <http://www.cr.nps.gov/nr/>, accessed June 30, 2006.

even a year after the storms many people were waiting for the 2006 hurricane season to end before starting to rebuild.<sup>138</sup>

### Lessons Learned from Lobbying for the Disaster Relief Assistance Act- When are Tax Credits the Right Tool for the Job?

A logical question to ask at this time is: if a historic homeowners tax credit cannot be passed in the face of something as horrific as the damage from Hurricane Katrina, how could it ever get it passed? In the author's discussions with preservation leaders in states affected by the storm, it became clear that, in fact, tax credits are not necessarily a good tool for dealing with the aftermath of natural disasters. After a disaster- when time is the most important factor, and when victims can already claim personal property losses to offset their federal income tax liability- is not when a tax credit is needed. Additionally, in order for homes to become livable again as soon as possible, the immediate availability of funds is necessary for home repairs following a storm. Tax credits would not benefit homeowners until filing for taxes in the following fiscal year. Furthermore, the majority of the people displaced by Hurricane Katrina were renters.<sup>139</sup> A tax credit for homeowners would be of no benefit to these individuals.

This is not to say that a federal historic homeownership tax credit would not help preserve historic homes in the path of natural disasters. The problem is that the credit needs to be in place prior to the disaster and not hastily put together in the wake of a catastrophe. The number one threat to any historic structure is deferred maintenance. A

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<sup>138</sup> David Preziosi, Executive Director Mississippi Heritage Trust, Interview by the author July, 2006.

<sup>139</sup> "The Mardi Gras Index: The State of New Orleans by Numbers Six Months After Hurricane Katrina," A Special Report of the Gulf Coast Reconstruction Watch, A Project of the Institute for Southern Studies/Southern Exposure, 2006, 3.

historic homeownership tax credit is needed before natural disasters occur in order to insure necessary maintenance and retrofitting so that homes are better able to survive hurricanes, earthquakes, floods, and other wide spread devastation. One of the reasons why the damage from Katrina was so great was because, as Derrick Evans explains, “when Katrina hit, these communities were already blighted. Most of these homes had never met what is currently the Gulfport city code for houses. A lot of people didn’t have insurance...out here we have the least capacity to recover. It is an issue of class: the lowest level of recoverability.”<sup>140</sup> By requiring that an amount equal the adjusted basis of the property be spent in order to qualify for the credit it is assumed that only substantial renovation projects, that would exceed maintenance, would qualify for the Historic Homeownership Rehabilitation Credit. However, in “distressed” census tracts, which include many of the areas affected by Katrina and Rita, the minimum required investment would only be \$5,000. The cost of a new roof or other exterior maintenance can easily exceed \$5,000. The Historic Homeownership Rehabilitation Credit would provide a means for homeowners living in distressed areas to perform necessary maintenance tasks and potentially make these homes less susceptible to damage from natural disasters in the future.

A study of affordable housing in the aftermath of Hurricane Katrina, conducted by the RAND Gulf States Policy Institute in the months following the storm, concluded that, “in the distribution of federal recovery funds, special priority should be devoted to the needs of lower-income households with limited access to alternate financial resources

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<sup>140</sup> Greenberg, Ben, “Ground Zero of Someone Else’s Future: Interview with Derrick C. Evans, Director of the Turkey Creek Community Initiatives,” Dollars and Sense 264 (2006), 5.

at their disposal.”<sup>141</sup> The study also illuminated the need for policies that would increase the long-term affordability of homeownership by recognizing the financial burden that periodic home repairs place on many households. This is especially true in historic neighborhoods where more frequent repairs are often necessary. The Gulf Coast study proposed legislation that would “create opportunities and incentives for builders, lenders, and insurers to include considerations for the operational costs of a home.”<sup>142</sup> What the RAND study observed in 2006 is what the proponents of the HHAA bill recognized in 1993: the incremental actions that could be partially funded by a federal historic homeowner tax credit can all add up to preserving a historic house. The House of Representatives and the Senate were able to recognize the futility of a disaster relief historic homeowner assistance tax credit; however, it is now the job of the preservation community to demonstrate how different the effects of the storm would have been had a historic federal homeownership tax credit been in place and how useful the credit could be in revitalizing neighborhoods across the country, threatened not by natural disasters, but rather by the economic downturn of America’s cities.

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<sup>141</sup> Bernstein, Mark A., Julie Kim, Paul Sorenson, Mark Hanson, Adrian Overton, and Scott Hiromoto, Rebuilding Housing Along the Mississippi Coast: Ideas for Ensuring an Adequate Supply of Affordable Housing, RAND Gulf States Policy Institute, 2006, xiv.

<sup>142</sup> *Ibid.*, xv.

## **Chapter Seven - Why Tax Credits are Preferable to Other Programs in Promoting Revitalization in Historic Neighborhoods**

It could be argued that there are multiple programs already in place to address the need for neighborhood revitalization in older U.S. cities. However, the Historic Homeowner Rehabilitation Credit differs from all existing residential neighborhood redevelopment programs in three fundamental ways: the credit is targeted primarily at moderate income families (yet it would still be usable by low income families); it would leverage private investment five times that of the federal cost of the program; and, most importantly for historic preservation, it would promote the proper stewardship of historic housing stock. (See Appendix J for a chart comparing the Historic Homeownership Rehabilitation Credit to alternative programs)

### Overview of Alternative Programs

The concept of the Community Development Corporation (CDC) has become very familiar in recent years because almost any organization can qualify as a CDC. There is in fact no established legal definition for CDCs. All CDCs are non-profit entities with community-based leadership, and are typically active in housing development and job creation. CDCs first emerged in the late 1960's and since then the number of active CDCs in the United States has grown to over 3,600.<sup>143</sup> A 1999 survey of CDC leaders concluded that CDCs were responsible for the creation of over 37,500

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<sup>143</sup> National Congress for Community Economic Development (NCCED) website: <http://www.ncced.org>, accessed August 1, 2006.

units of affordable housing and 12 million square feet of commercial and industrial space every year.<sup>144</sup>

CDCs typically target low income populations. Although most CDCs operate on the scale of a single neighborhood some encompass entire cities or regions. Smaller scale CDCs are more common because of the reliance of successful CDC programs on a working relationship with a group of existing local stakeholders. Funding for CDCs is typically derived from local investment partners and federal funding, and is often supplemented with funding from the federal Community Development Block Grant (CDBG) program.

The CDBG program was created by the Housing and Community Development Act of 1974. The stated objective of the program is to “provide resources and flexibility to local officials for determining development in their communities.”<sup>145</sup> All communities receiving CDBGs must use the funds to “benefit low and moderate income persons; prevent or eliminate slums or blight; or be designed to meet an urgent community development need.”<sup>146</sup> Over the past thirty years the CDBG program has awarded funds in excess of \$108 billion to state and local governments for community development projects. The largest single use of the funds has been the rehabilitation of affordable housing stock. There is no incentive or requirement within the CDBG program to restore these residential properties in a historically sensitive manner. However, if the properties are rental properties they would be eligible for the Federal Historic Rehabilitation Tax

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<sup>144</sup> Community Wealth Ventures, Inc. website, <http://www.community-wealth.org>, accessed August 1, 2006.

<sup>145</sup> “Preserving America: Historic Preservation and Heritage Tourism in Housing and Community Development,” United States Department of Housing and Urban Development, September, 2004, 1.

<sup>146</sup> Ibid.

Credit (FHRTC). If the funds are used to rehabilitate single family for-sale housing stock, as is commonly the case, then no regulations or incentives exist on the federal level to ensure that the properties would be treated in a historically sensitive manner.

The selection process for receiving CDBG funds is highly competitive. Allocation of funds is determined by a “community’s population, poverty levels, growth rate, housing over-crowding, and the age of housing stock.”<sup>147</sup> In order to receive funds, grantees must develop and submit to the Department of Housing and Urban Development (HUD) a “Consolidated Plan” in which the governing body receiving the funds must outline goals and timelines for all programs receiving CDGB funding. The plan must include descriptions of ways in which community development projects will encourage the involvement of low and moderate income persons in the planning and execution of the project. Additionally, the Consolidated Plan must specify sources of local funding because a key component of the CDBG program is the requirement of matching local funds. The task of preparing a Consolidated Plan can be extremely time consuming and CDBG oversight requires that grantees periodically report on their progress and assess how well they are following the plan. There is a considerable amount of money devoted to staff salaries to prepare the grant proposals and Consolidated Plans at the state and local level, as well as staff requirements at the federal level for allocating and overseeing the grants.

The CDBG program is a successful program for helping to address the housing crisis among low and moderate income families in the United States. For example, in

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<sup>147</sup> Department of Housing and Urban Development (HUD) website, [www.hud.gov](http://www.hud.gov), accessed July 2006.

2004 alone CDBGs helped more than 11,000 households become new homeowners.<sup>148</sup> However, increasingly CDBG funds are being allocated to exclusively commercial projects, and if this trend continues then affordable housing will most likely suffer.<sup>149</sup> Additionally, the CDBG program costs the federal government far more annually than any estimate of the Historic Homeownership Rehabilitation Credit. In the 2006 Fiscal Year alone \$4.7 billion was allocated through CDBGs. Most importantly, from a preservation perspective, CDGBs do not target historic properties or provide any incentive to rehabilitate historic properties or neighborhoods in a historically sensitive manner.

In contrast to large scale federal programs such as CDBGs are small local initiatives such as Community Land Trusts (CLT). Land trusts promote residential neighborhood revitalization by targeting low and moderate income individuals and families. Like a CDC, land trusts are private non-profit corporations, but their primary goal is to reduce absentee homeownership and promote local control of land. The concept of the CLT as a way to ensure the long-term affordability of housing in an area evolved in the 1960's. In a CLT all land is held in perpetuity by the trust, with building ownership remaining in private hands. This allows residents who remain in the neighborhood to capture any increases in property value. Some CLTs maintain ownership of a few residential structures and rent them out as a way of providing affordable rental housing for low income residents and a way of generating income. The initial task of acquiring the land requires a significant level of outside funding and the

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<sup>148</sup> Department of Housing and Urban Development (HUD) website, [www.hud.gov](http://www.hud.gov), accessed July 2006.

<sup>149</sup> Ibid.



creation and management of the CLT relies on sustained involvement from a motivated group of stakeholders.

Due to the complex legal nature of the land trust arrangement, and the value that Americans inherently place on owning their own plots of land, CLTs are still very few in number, with only 162 active land trusts in United States.<sup>150</sup> Nonetheless, many CLTs are located in disinvested neighborhoods and have proven successful in allowing whole communities to benefit from gentrification. The residents of Boston's Dudley Street neighborhood gladly welcomed redevelopment and in-migration after forming a CLT. Successful land trusts are located in areas that are already experiencing positive neighborhood change and an influx of new residents. What a CLT cannot do is offer a financial incentive to encourage middle income residents to move into a distressed neighborhood.

This chapter has highlighted Community Land Trusts, CDBGs, and CDCs because, like the Historic Homeownership Rehabilitation Credit, they are examples of comprehensive approaches to neighborhood revitalization with goals beyond the single task of creating affordable housing units. The federal Low Income Housing Tax Credit (LIHTC) has been successful in the task of producing and rehabilitating low-income housing units. In 1992 the LIHTC accounted for nearly 56 percent of all federally funded rental units in production.<sup>151</sup> In the years between 1995 and 2004, 35% of all LIHTC

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<sup>150</sup> Institute for Community Economics website: <http://www.iccclt.org>, accessed March 18, 2007.

<sup>151</sup> Cohen, James R., "Combining Historic Preservation and Income Class Integration: A Case Study of the Butchers Hill Neighborhood of Baltimore," *Housing Policy Debate* 9, no. 3 (1998), 666.

projects were rehabilitation projects.<sup>152</sup> As discussed previously in chapter two, there is currently a basis reduction that applies when the LIHTC and the FHRTC are used in conjunction. Amending Section 47 of the Federal Tax Code to make it easier and more advantageous to combine the two credits, as proposed in both The Community Restoration and Rehabilitation Act (H.R. 1043) and the Preserve Historic America Act (H.R. 610), would greatly improve the utility of the LIHTC and the FHRTC in historic neighborhoods.

The goal of the federally administered Moving to Opportunity (MTO) program is the same as one objective of the Historic Homeownership Rehabilitation Credit: to create mixed-income neighborhoods. The MTO approach uses the Tenant Based Assistance Housing Choice Voucher Program, more commonly referred to as Section 8 to provide vouchers for low-income families to relocate into more affluent communities.<sup>153</sup> The program has been relatively successful, yet many scholars have criticized the program for creating a spatial mismatch between the neighborhoods where the low-income residents live and where they can find employment. What the MTO program does not promote is the in-migration of middle-income residents into traditionally lower-income areas in order to achieve a mix of incomes in distressed residential neighborhoods. It is not hard to see the potential for success in a program that allows middle-income residents with greater fiscal capital, which affords greater mobility and larger social networks, to move

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<sup>152</sup> “HUD National Low Income Housing Tax Credit (LIHTC) Database: Projects Placed in Service through 2004, Data Tables,” Prepared for the U.S. Department of Housing and Urban Development by Abt Associates Inc., December 20, 2006, 2.

<sup>153</sup> Shroder, Mark, “Moving to Opportunity: An Experiment in Social and Geographic Mobility.” U.S. Department of Housing and Urban Development, Office of Policy and Development Research,” *Cityscape : A Journal of Policy Development and Research*, 5, no. 2, (2001).

into a disinvested area, as opposed to a program that moves low-income residents with limited resources and social capital into new neighborhoods.

### Comparative Advantages of Tax Credits for Promoting Homeownership in Historic Districts

The Historic Homeownership Rehabilitation Credit responds to a need that no other program is meeting. It would provide an incentive for middle income households to locate in abandoned historic homes in order to induce positive neighborhood change. Unlike any other community revitalization initiatives, the Historic Homeownership Rehabilitation Credit would specifically target historic homes and middle income families to create mixed-income neighborhoods with historic character that foster sustainable communities. All of the other programs discussed in this chapter are worthy, effective programs, but they do not share the same objectives as the Historic Homeownership Rehabilitation Credit and therefore there is a need for the credit despite the existence of what may appear to be similar, if not competing programs. On the contrary, the alternative programs are in fact complementary. CDCs and CLTs could both utilize the Historic Homeownership Rehabilitation Credit when operating in historic neighborhoods. In the same manner, projects funded with CDBGs could further benefit from a Historic Homeownership Rehabilitation Credit.

From a pragmatic perspective it is important to note that tax credits are a market driven approach that could be used across the country and not just in communities that have established nonprofit or government assistance. Community Development Block Grants, Land Trusts, and Community Development Corporations all require significant

local oversight and a combination of federal and local funding. Unlike grants, the primary source of funds in a historic tax credit project would come from private investment. Tax credits are a market-driven approach in which the amount of the incentive is directly proportional to the amount of qualified rehabilitation expenditures. With grants there is always the possibility that the amount of the grant will exceed or fall short of the funds actually needed to carry out the project. As the Governor’s Task Force on Maryland’s Heritage Structure Rehabilitation Tax Credit concluded, “conversion of the program to direct grant form would destroy its effectiveness as an incentive for private investment.”<sup>154</sup> The Historic Homeownership Rehabilitation Credit could be used by any homeowner or developer within any National Register or qualified local historic district anywhere in the country. Moreover, Land Trusts, CDBC, and CDCs require the cooperation of many individuals and groups at many levels of government in order to be effective and there are many historic districts that are not currently served by any of the three alternative programs. Additionally, all non-profit entities, including CLTs and CDCs, are heavily reliant on grants for funding. Grants, and particularly CDBGs, require cumbersome grant writing, grant writing specialists, and increased government oversight. The necessary administrative oversight for a Federal Historic Homeownership Rehabilitation Credit involving the IRS, NPS, and SHPOs is already in place because the FHRTC already exists.

In terms of the opportunity for large scale change it is important to note that

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<sup>154</sup> “Final Report of the Governor’s Task Force on Maryland’s Heritage Structure Rehabilitation Tax Credit Program,” Presented January 2004.

developers prefer to work with tax credits over grants because grants are deemed highly unpredictable by developers and commercial investors. This is primarily because grants are subject to political manipulation. A credit, once enacted, is not subject to annual budget adjustments. Furthermore, developers prefer credits that can be “sold” upfront to help finance rehabilitation costs.

Despite some shared objectives, the goals and mechanisms of the Historic Homeownership Rehabilitation Credit differ enough from existing community development programs to justify the implementation of the Homeownership Credit. Furthermore, the structure of a tax credit allows for greater flexibility within the program, requires less funding for administrative oversight, and is less susceptible to political manipulation than programs that rely on federal grants. For these reasons it is reasonable to continue to advocate for the Historic Homeownership Rehabilitation Credit despite the existence of related programs at the local and federal level.

## Chapter Eight - Conclusion

“Over the past several decades cities throughout the United States have experienced a decline in the middle-income residents, a problem that must be reversed because there is no such thing as a viable, functional city without an urban middle class.”<sup>155</sup>

– Patricia Gay, Executive Director Preservation Resource Center of New Orleans

In the absence of incentives targeted toward integrating the middle class into lower-income historic residential neighborhoods, blight and abandonment will only continue to grow in America’s cities. The Historic Homeownership Rehabilitation Credit provides a means to revitalize neighborhoods where disinvestment has occurred, and to create mixed-income neighborhoods that offer affordable housing to families and individuals with a range of incomes.

The Federal Historic Rehabilitation Tax Credit (FHRTC) has proven to be an extremely successful tool for leveraging private investment in historic commercial properties. Like the FHRTC, a Historic Homeownership Rehabilitation Credit would promote historically sensitive rehabilitation of historic fabric and allow for the preservation of significant community assets that contribute to a neighborhoods’ marketability and sense of place. Moreover, the efficacy of the Historic Homeownership Rehabilitation Credit would go beyond the FHRTC because it would provide an incentive for a positive compositional change in the population of distressed neighborhoods as well as provide a means of asset building for the lower-income residents currently living in these communities.

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<sup>155</sup> Gay, Patricia H., Written Testimony submitted to the House Committee on Government Reform Subcommittee on Federalism and the Census, October 21, 2005.

Throughout the long struggle to pass the Historic Homeownership Rehabilitation Credit there has been discussion amongst preservationists as well as lawmakers as to who the credit really targets and who would be the primary beneficiaries of the credit. Surprisingly, these two groups are not the same. The credit requires an expenditure equal to the adjusted basis of the property, necessitating that that a house be worth very little or that a substantial sum of money be invested in its rehabilitation. For this reason it was rightfully assumed by the authors of the legislation that the credit would most often be claimed when a home is purchased and then immediately rehabilitated either by the homeowner or by the developer who would pass the credit onto the homeowner. In both of these scenarios the group targeted by the credit is moderate income individuals or families.

Research, discussed in this thesis, has concluded that there is currently a homeownership crisis for moderate income families looking to become homeowners in America's cities. The credit would be most heavily utilized in areas where there is an abundance of abandoned housing stock, meaning less than stable neighborhoods. Without the financial and emotional investment of middle-income residents in these neighborhoods there is every reason to expect that the trends of abandonment, blight, and poverty will continue. With the credit existing residents of historic neighborhoods would be motivated to rehabilitate their homes in a historically sensitive manner and potentially increase the value of their primary asset, an outcome that without the credit is doubtful at best. The lowering of the minimum investment to \$5,000 in "distressed" census tracts would allow people with very low incomes to use the credit in order to rehabilitate or maintain their existing residence. The mortgage credit certificate conversion aspect of

the bill would allow those with lower incomes to achieve homeownership by providing them with funds for a down payment. The end result of wide scale use of the credit in a “distressed” neighborhood would be a decrease in the number of vacant and blighted properties and a neighborhood with residents of a range of incomes and inherent social capital derived from the well preserved historic fabric.

Past efforts to enact a Historic Homeownership Rehabilitation Credit have failed, but preservationists can learn from previous efforts and take advantage of the change in the Congressional agenda in order to advocate successfully for a credit in the future. In order for a bill containing the Historic Homeownership Rehabilitation Credit to pass, it would need to have well documented and plausible utility beyond the stewardship of historic fabric, and the Joint Committee on Taxation would need to determine that the credit would not divert significant funds from the Treasury. Updated analysis of the economics of the credit on both the scale of the individual residence and the neighborhood is an area of research that should be pursued. Additionally, although the Joint Committee on Taxation is required by law to keep all requests for revenue estimates confidential, it would be beneficial for any future advocacy of the credit to conduct a current, thorough, and independent evaluation of the potential revenue loss from the credit in present day dollar figures. This would include a current evaluation of how many properties would potentially qualify for the credit.

Any successful advocacy for the credit will have to illustrate that the credit is not just about saving old homes. The Historic Homeownership Rehabilitation Credit is about equitable neighborhood revitalization which includes: homeownership and asset building, economic growth, preserving a sense of place, stewardship of historic fabric, and most



importantly reversing abandonment and blight. We cannot continue to ignore declining urban neighborhoods. In doing so we lose valuable historic resources and most recklessly neglect entire groups of people. A Historic Homeownership Rehabilitation Credit would simultaneously address the physical as well as the social issues of historic urban neighborhoods on the national scale.

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## Appendix A

### Timeline of the Historic Homeownership Rehabilitation Credit

- 1976 – First historic rehabilitation tax incentive passed into law in the Tax Reform Act of 1976, owners of historic buildings allowed to claim accelerated depreciation
- 1977 – Community Reinvestment Act (CRA; 12 USC 2901) passed into law
- 1978 – Federal Historic Rehabilitation Tax Credit (FHRTC) passed into law as part of the Revenue Act of 1978
- 1981 – Economic Recovery Act of 1981 changes many key aspects of existing FHRTC, including increasing the rehabilitation credit for certified structures to 25%
- January 1, 1984 – New Mexico becomes the first state to institute a state rehabilitation tax credit for historic preservation available for owner-occupied dwellings
- 1986 – 1986 Tax Act drastically changes the FHRTC by reducing credit to 20% and limiting passive investment
- 1988 – North Carolina institutes a state rehabilitation tax credit program available for owner-occupied dwellings
- 1989 – Rhode Island institutes a state rehabilitation tax credit program available for owner-occupied dwellings
- 1990 – West Virginia institutes a state rehabilitation tax program, in 2000 the credit becomes available for homeowners
- November 5, 1990 – Current version of the FHRTC, found in section 47 of the Internal Revenue Code, a re-codification of the 1986 version of the credit; becomes effective
- 1991 – Colorado institutes a state rehabilitation tax credit program available for owner-occupied dwellings
- 1993 – Utah institutes a state rehabilitation tax credit program available for owner-occupied dwellings

- May 5, 1993 (legislative day April 19) – Sen. Pryor [D-AR] introduces Historic Rehabilitation Tax Credit Expansion Act of 1993, H.R. 895 to amend the Internal Revenue Code of 1986 to alter the passive activity limitation and alternative minimum tax, referred to the Senate Finance Committee
- 1994 – Indiana institutes a state rehabilitation tax credit program available for owner-occupied dwellings
- 1994 – The National Trust for Historic Preservation formed a Community Partners Program (CPP) in order to initiate partnerships between community development and historic preservation groups at the national, state, and local level
- Oct 7, 1994 – Rep. Michael Andrews [D-TX] and 2 cosponsors introduce the Historic Homeownership Assistance Act (HHAA), H.R. 5249, the first bill introduced before Congress to alter section 47 of the 1986 Tax Act for the purpose of allowing private homeowners to take advantage of the FHRTC, presented at the very end of the 103<sup>rd</sup> Congress, referred to the House Committee on Ways and Means
- May 17, 1995 – Rep. Clay Shaw [R-FL] reintroduces the HHAA, H.R. 1662, in the 104<sup>th</sup> Congress, referred to House Committee on Ways and Means
- June 29, 1995 (legislative day June 19) - Sen. John H. Chafee [R-RI] introduces HHAA, S. 1002 to the Senate, 9 cosponsors, referred to Senate Finance Committee
- May 16, 1996 – Rep. J.C. Watts [R-OK] introduces The American Community Renewal Act, H.R. 3467 to allow for the designation of “Renewal Communities” and tax incentives and aid to such communities first introduced to Congress, referred to the House Committee on Ways and Means
- 1997 – Maryland and Virginia both institute state rehabilitation tax credit programs available for owner-occupied dwellings
- March 19, 1997 – Rep. Clay Shaw [R-FL] reintroduces the HHAA, H.R. 1134 to the House of Representatives in the 105<sup>th</sup> Congress, 132 cosponsors, referred to the House Committee on Ways and Means
- March 20, 1997 – Sen. John H. Chafee [R-RI] reintroduces the HHAA, S. 496 to the Senate in the 105<sup>th</sup> Congress, 26 cosponsors, referred to the Senate Finance Committee
- 1998 – Missouri and Wisconsin both institute state rehabilitation tax credit programs available for owner-occupied dwellings

- June 1998 - Symposium cosponsored by the NPS and Historic Preservation Education Foundation called “Affordable Housing, Combining the Tax Credits” identifies significant discrepancies between the FHRTC and LIHTC and proposes plans to make pairing the two credits more simple and lucrative
- 1999 – Michigan institutes a state rehabilitation tax credit program available for owner-occupied dwellings
- 1999 – Sen. Carl Levin [D-MI] and Sen. Jim Jeffords [I-VT] form the Senate Smart Growth Task Force
- March 17, 1999 – Rep. Clay Shaw (R-FL) reintroduces HHAA, H.R. 1172 to the House, there is great support for the bill in the 106<sup>th</sup> Congress, a bipartisan majority of the House are cosponsors, referred to the House Committee on Ways and Means
- March 18, 1999 – Sen., John H. Chafee [R-RI] reintroduces HHAA, S.664 to the Senate in the 106<sup>th</sup> Congress, 39 cosponsors
- April 27, 1999 – Sen. Kay Bailey Hutchison [R-TX] introduces the Commercial Revitalization Tax Act of 1999, S. 889 to Congress, to revitalize “empowerment zones” and “enterprise communities”, referred to the Senate Finance Committee
- June 11-15, 1999 - United States Conference of Mayors adopts a resolution at the 67<sup>th</sup> Annual conference of Mayors to endorse the HHAA
- 2000 – Connecticut, Iowa, and North Dakota institute state rehabilitation tax credit programs available for owner-occupied dwellings
- December 2000 – The New Markets Tax Credit (NMTC) Program enacted as part of the Community Renewal Tax Relief Act, H.R. 5662
- 2001 – Delaware and Kansas both institute state rehabilitation tax credit programs available for owner-occupied dwellings
- 2001 – The Urban Land Institute Policy Forum hosts “City Building and the HRTC”, concludes that it is unnecessarily difficult to combine LIHTC with the FHRTC
- 2001 – Historic Preservation Development Council (HPDC) formed as an affiliate of the National Housing and Rehabilitation Association in partnership with the National Trust with the goal of making the FHRTC more effective

- March 22, 2001 - Rep. Clay Shaw [R-FL] and Rep. John Lewis [D-GA] reintroduce HHAA, H.R. 1172 in the 107<sup>th</sup> Congress, 154 cosponsors, referred to the House Committee on Ways and Means
- May 21, 2001 – Sen. John Breaux [D-LA] reintroduces HHAA, S.920 to the Senate, 11 cosponsors, referred to the Senate Finance Committee
- June 13, 2001 – Draft created of proposed amendment to Internal Revenue Code of 1986 to allow an Income Tax Credit for the provision of Homeownership Development, draft eventually becomes the “Home at Last Tax Credit”
- 2002 – Georgia institutes a state rehabilitation tax credit program available for owner-occupied dwellings
- 2002 – President Bush includes the “Renewing the Dream” Tax Credit, a 50% tax credit to investors in projects for homeowners with incomes less than 80% of the state median income, in fiscal year 2002 budget
- Feb. 14, 2002 – Rep. William Jefferson [D-LA] introduces the Home at Last Tax Credit of 2002, H.R. 3774, to amend the Internal Revenue Code to provide a credit to promote homeownership among low-income individuals purchasing homes in census tracts targeted by HUD for reinvestment and redevelopment, referred to the House Committee on Ways and Means
- October 16, 2002 – Sen. John Kerry [D-MA] introduces the Community Development Homeownership Tax Credit Act, S. 3126, to amend the IRC of 1986 to allow an income tax credit for the provision of homeownership and community development, referred to the Senate Finance Committee
- 2003 - South Carolina institutes a state rehabilitation tax credit program available for owner-occupied dwellings
- 2003 – Saving America’s Cities Working Group of House of Representatives formed
- April 10, 2003 – Sen. John Kerry [D-MA] reintroduces the Community Development Homeownership Tax Credit Act, S. 875, referred to the Senate Finance Committee
- August 2004 – NPS issues paper entitled, “Improving Administration of the Federal Historic Rehabilitation Tax Credit Program”, a compilation of two separate reports on the issue by the National Conference of State Historic Preservation Officers (NCSHPO) and the Historic Preservation Development Council (HPDC)

- November 17, 2004 – Rep. Robert Portman [R-OH] and Rep. William J. Jefferson [D-LA] introduce the Community Restoration and Revitalization Act of 2004, H.R. 5378 to the House in the 108<sup>th</sup> Congress, 9 cosponsors, referred to the House Committee on Ways and Means
- 2004 – Missouri ranked number one by the NPS in the number successfully completed projects utilizing the FHTRC
- 2005 – Louisiana institutes a state rehabilitation tax credit program available for owner-occupied dwellings
- Feb. 8, 2005 – Rep. Robert Portman [R-OH] introduces the Community Restoration and Revitalization Act of 2005, H.R. 659 referred to the House Committee on Ways and Means
- April 12, 2005 – Rep. William J. Jefferson [D-LA] introduces the Renewing the Dream Tax Credit Act, H.R. 1549, to amend the Tax Code of 1986 to allow an income tax credit for the provision of homeownership and community development, referred to the House Committee on Ways and Means
- April 20, 2005 – Sen. Rick Santorum [R-PA] reintroduces the Community Development Homeownership Tax Credit Act, S.859, 16 cosponsors, referred to the Senate Finance Committee
- May 19, 2005 – Rep. Russ Carnahan [D-MO] introduces the Historic Rehabilitation Enhancement Act of 2005, H.R. 2488, to prevent the federal government from taxing gains from state historic rehabilitation tax credits, referred to the House Committee on Ways and Means
- June 30, 2005 – Reps. Phil English [R-PA] and William Jefferson [D-LA] reintroduce the Community Restoration and Revitalization Act of 2005, H.R. 3159, 55 cosponsors, referred to the House Committee on Ways and Means
- 2005 – For the second consecutive year Missouri ranks number one in the country in the number of successfully completed projects utilizing the FHTRC
- 2006 – Kentucky, Mississippi, Oklahoma, and New York institute state rehabilitation tax credit programs available for owner-occupied dwellings
- May 18, 2006 – Rep. Russ Carnahan [D-MO] introduces the Preserve Historic America Act of 2006, H.R. 5420, to the House, 23 cosponsors, referred to House Committee on Ways and Means

January 22, 2007 – Rep. Russ Carnahan [D-MO] introduces the Preserve Historic America Act of 2007, H.R. 610, to the House, 21 cosponsors, referred to the House Committee on Ways and Means

February 14, 2007 – Reps. Phil English (R-PA) and Stephanie Tubbs Jones (D-OH) introduce the Community Restoration and Revitalization Act of 2007, H.R. 1043, 44 cosponsors, referred to the House Committee on Ways and Means. A companion bill (S.584) was introduced on the same day in the Senate by Senators Blanche Lincoln (D-AR), Gordon Smith (R-OR), and Mary Landrieu (D-LA), referred to the Senate Finance Committee

\* Gray font denotes activity at the state level

\*\* The only state tax credit programs included in this timeline are those with homeowner tax credits; Maine, Massachusetts, Montana, and Vermont all have state rehabilitation tax credit programs that are not applicable to owner-occupied dwellings

## Appendix B

### Section 47 of the Internal Revenue Code

## Internal Revenue Code, Section 47

### REHABILITATION CREDIT

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This Act became law on November 5, 1990 (Public Law 101-508; 26 U.S.C. 47). It is the current version of the certified rehabilitation section previously contained in Section 48(g) of the Internal Revenue Code of 1986 [26 U.S.C. 48(f)]. The Act has not been amended since the re-codification into Section 47. Public Law 95-600 (1978) and six amendments contributed to the development of the rehabilitation credit while it was codified in 26 U.S.C. 48(g).

Rehabilitation credit

### Section 47

26 U.S.C. 47(a),  
Amount of credit

(a) For purposes of section 46, the rehabilitation credit for any taxable year is the sum of—

(1) 10 percent of the qualified rehabilitation expenditures with respect to any qualified rehabilitated building other than a certified historic structure, and

(2) 20 percent of the qualified rehabilitation expenditures with respect to any certified historic structure.

26 U.S.C. 47(b),  
Correct timing for  
claiming credit, in  
general

(b)(1) Qualified rehabilitation expenditures with respect to any qualified rehabilitated building shall be taken into account for the taxable year in which such qualified rehabilitated building is placed in service.

Progress expenditure-  
related recapture,  
coordination with  
subsection (d)

(2) The amount which would (but for this paragraph) be taken into account under paragraph (1) with respect to any qualified rehabilitated building shall be reduced (but not below zero) by any amount of qualified rehabilitation expenditures taken into account under subsection (d) by the taxpayer or a predecessor of the taxpayer (or, in the case of a sale and leaseback described in section 50(a)(2)(C), by the lessee), to the extent any amount so taken into account has not been required to be recaptured under section 50(a).

26 U.S.C. 47(c),  
Definitions

(c) For the purposes of this section—

Qualified rehabilitated  
building, in general

(1)(A) The term “qualified rehabilitated building” means any building (and its structural components) if—

(i) such building has been substantially rehabilitated,

(ii) such building was placed in service before the beginning of the rehabilitation,

External wall test for  
non-certified historic  
structure

(iii) in the case of any building other than a certified historic structure, in the rehabilitation process—

## Internal Revenue Code, Section 47

(I) 50 percent or more of the existing external walls of such building are retained in place as external walls,

(II) 75 percent or more of the existing external walls of such building are retained in place as internal or external walls, and

(III) 75 percent or more of the existing internal structural framework of such building is retained in place, and

(iv) depreciation (or amortization in lieu of depreciation) is allowable with respect to such building.

Requirement for non-certified historic buildings

(B) In the case of a building other than a certified historic structure, a building shall not be a qualified rehabilitated building unless the building was first placed in service before 1936.

Substantial rehabilitation defined, in general

(C)(i) For purposes of subparagraph (A)(i), a building shall be treated as having been substantially rehabilitated only if the qualified rehabilitation expenditures during the 24-month period selected by the taxpayer (at the time and in the manner prescribed by regulation) and ending with or within the taxable year exceed the greater of—

(I) the adjusted basis of such building (and its structural components), or

(II) \$5,000.

The adjusted basis of the building (and its structural components) shall be determined as of the beginning of the 1st day of such 24-month period, or of the holding period of the building, whichever is later. For purposes of the preceding sentence, the determination of the beginning of the holding period shall be made without regard to any reconstruction by the taxpayer in connection with the rehabilitation.

Special rule for phased rehabilitations

(ii) In the case of any rehabilitation which may reasonably be expected to be completed in phases set forth in architectural plans and specifications completed before the rehabilitation begins, clause (i) shall be applied by substituting “60-month period” for “24-month period.”



## Internal Revenue Code, Section 47

Provisions for lessees	(iii) The Secretary shall prescribe by regulation rules for applying this subparagraph to lessees.
Reconstruction	(D) Rehabilitation includes reconstruction.
Qualified rehabilitation expenditures, in general	(2)(A) The term “ <b>qualified rehabilitation expenditure</b> ” means any amount properly chargeable to capital account—  (i) for property for which depreciation is allowable under section 168 and which is— <ul style="list-style-type: none"><li>(I) nonresidential real property,</li><li>(II) residential rental property,</li><li>(III) real property which has a class life of more than 12.5 years, or</li><li>(IV) an addition or improvement to property described in subclause (I), (II), or (III), and</li></ul> (ii) in connection with the rehabilitation of a qualified rehabilitated building.
Certain expenditures not included	(B) The term “ <b>qualified rehabilitation expenditure</b> ” does not include—
Straight-line depreciation	(i) Any expenditure with respect to which the taxpayer does not use the straight line method over a recovery period determined under subsection (c) or (g) of section 168. The preceding sentence shall not apply to any expenditure to the extent the alternative depreciation system of section 168(g) applies to such expenditure by reason of subparagraph (B) or (C) of section 168(g)(1).
Cost of acquisition, enlargements	(ii) The cost of acquiring any building or interest therein.  (iii) Any expenditure attributable to the enlargement of an existing building.
Certified historic structure eligible only for historic tax credit	(iv) Any expenditure attributable to the rehabilitation of a certified historic structure or a building in a registered historic district, unless the rehabilitation is a certified rehabilitation (within the meaning of subparagraph (C)). The preceding sentence shall not apply to a building in a registered historic district if—  (I) such building was not a certified historic structure,

## Internal Revenue Code, Section 47

	(II) the Secretary of the Interior certified to the Secretary that such building is not of historic significance to the district, and
	(III) if the certification referred to in subclause (II) occurs after the beginning of the rehabilitation of such building, the taxpayer certifies to the Secretary that, at the beginning of such rehabilitation, he in good faith was not aware of the requirements of subclause (II).
Tax-exempt use property, in general	(v)(I) Any expenditure in connection with the rehabilitation of a building which is allocable to the portion of such property which is (or may reasonably be expected to be) tax-exempt use property (within the meaning of section 168(h)).
Clause not to apply for purposes of paragraph (1)(C)	(II) This clause shall not apply for purposes of determining under paragraph (1)(C) whether a building has been substantially rehabilitated.
Lessee provisions	(vi) Any expenditure of a lessee of a building if, on the date the rehabilitation is completed, the remaining term of the lease (determined without regard to any renewal periods) is less than the recovery period determined under section 168(c).
Certified rehabilitation	(C) For purposes of subparagraph (B), the term “ <b>certified rehabilitation</b> ” means any rehabilitation of a certified historic structure which the Secretary of the Interior has certified to the Secretary as being consistent with the historic character of such property or the district in which such property is located.
Non-residential real property, residential rental property, and class life	(D) For purposes of subparagraph (A), the terms “ <b>nonresidential real property</b> ,” “ <b>residential rental property</b> ,” and “ <b>class life</b> ” have the respective meanings given such terms by section 168.
Certified historic structure defined, in general	(3)(A) The term “ <b>certified historic structure</b> ” means any building (and its structural components) which— (i) is listed in the National Register, or (ii) is located in a registered historic district and is certified by the Secretary of the Interior to the Secretary as being of historic significance to the district.
Registered historic district	(B) The term “ <b>registered historic district</b> ” means—

## Internal Revenue Code, Section 47

(i) any district listed in the National Register, and

(ii) any district—

(I) which is designated under a statute of the appropriate State or local government, if such statute is certified by the Secretary of the Interior to the Secretary as containing criteria which will substantially achieve the purpose of preserving and rehabilitating buildings of historic significance to the district, and

(II) which is certified by the Secretary of the Interior to the Secretary as meeting substantially all of the requirements for the listing of districts in the National Register.

26 U.S.C. 47(d),  
Progress expenditures,  
in general

(d)(1) In the case of any building to which this subsection applies, except as provided in paragraph (3)—

(A) if such building is self-rehabilitated property, any qualified rehabilitation expenditure with respect to such building shall be taken into account for the taxable year for which such expenditure is properly chargeable to capital account with respect to such building, and

(B) if such building is not self-rehabilitated property, any qualified rehabilitation expenditure with respect to such building shall be taken into account for the taxable year in which paid.

Property to which  
subsection applies,  
in general

(2)(A) This subsection shall apply to any building which is being rehabilitated by or for the taxpayer if—

(i) the normal rehabilitation period for such building is 2 years or more, and

(ii) it is reasonable to expect that such building will be a qualified rehabilitated building in the hands of the taxpayer when it is placed in service.

Clauses (i) and (ii) shall be applied on the basis of facts known as of the close of the taxable year of the taxpayer in which the rehabilitation begins (or, if later, at the close of the first taxable year to which an election under this subsection applies).

## Internal Revenue Code, Section 47

Normal rehabilitation period

(B) For purposes of subparagraph (A), the term “**normal rehabilitation period**” means the period reasonably expected to be required for the rehabilitation of the building—

(i) beginning with the date on which physical work on the rehabilitation begins (or, if later, the first day of the first taxable year to which an election under this subsection applies), and

(ii) ending on the date on which it is expected that the property will be available for placing in service.

Special rules for applying paragraph (1)

(3) For purposes of paragraph (1)—

Component parts, etc.

(A) Property which is to be a component part of, or is otherwise to be included in, any building to which this subsection applies shall be taken into account.—

(i) at a time not earlier than the time at which it becomes irrevocably devoted to use in the building, and

(ii) as if (at the time referred to in clause (i)) the taxpayer had expended an amount equal to that portion of the cost to the taxpayer of such component or other property which, for purposes of this subpart, is properly chargeable (during such taxable year) to capital account with respect to such building.

Certain borrowing disregarded

(B) Any amount borrowed directly or indirectly by the taxpayer from the person rehabilitating the property for him shall not be treated as an amount expended for such rehabilitation.

Limitation for buildings which are not self-rehabilitated, in general

(C)(i) In the case of a building which is not self-rehabilitated, the amount taken into account under paragraph (1)(B) for any taxable year shall not exceed the amount which represents the portion of the overall cost to the taxpayer of the rehabilitation which is properly attributable to the portion of the rehabilitation which is completed during such taxable year.

Carryover of certain amounts

(ii) In the case of a building which is not a self-rehabilitated building, if for the taxable year—

## Internal Revenue Code, Section 47

(I) the amount which (but for clause (i)) would have been taken into account under paragraph (1)(B) exceeds the limitation of clause (i), then the amount of such excess shall be taken into account under paragraph (1)(B) for the succeeding taxable year, or

(II) the limitation of clause (i) exceeds the amount taken into account under paragraph (1)(B), then the amount of such excess shall increase the limitation of clause (i) for the succeeding taxable year.

Determination of percentage of completion

(D) The determination under subparagraph (C)(i) of the portion of the overall cost to the taxpayer of the rehabilitation which is properly attributable to rehabilitation completed during any taxable year shall be made, under regulations prescribed by the Secretary, on the basis of engineering or architectural estimates or on the basis of cost accounting records. Unless the taxpayer establishes otherwise by clear and convincing evidence, the rehabilitation shall be deemed to be completed not more rapidly than ratably over the normal rehabilitation period.

No progress expenditures for certain prior periods

(E) No qualified rehabilitation expenditures shall be taken into account under this subsection for any period before the first day of the first taxable year to which an election under this subsection applies.

No progress expenditures for property for year it is placed in service, etc.

(F) In the case of any building, no qualified rehabilitation expenditures shall be taken into account under this subsection for the earlier of—

(i) the taxable year in which the building is placed in service, or

(ii) the first taxable year for which recapture is required under section 50(a)(2) with respect to such property, or for any taxable year thereafter.

Self-rehabilitated building

(4) For purposes of this subsection, the term “**self-rehabilitated building**” means any building if it is reasonable to believe that more than half of the qualified rehabilitation expenditures for such building will be made directly by the taxpayer.

## Internal Revenue Code, Section 47

Election

(5) This subsection shall apply to any taxpayer only if such taxpayer has made an election under this paragraph. Such an election shall apply to the taxable year for which made and all subsequent taxable years. Such an election, once made, may be revoked only with the consent of the Secretary.

**Appendix C**  
**Historic Homeownership Assistance Act**

105TH CONGRESS  
1ST SESSION

# H. R. 1134

To amend the Internal Revenue Code of 1986 to provide a credit against income tax to individuals who rehabilitate historic homes or who are the first purchasers of rehabilitated historic homes for use as a principal residence.

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IN THE HOUSE OF REPRESENTATIVES

MARCH 19, 1997

Mr. SHAW (for himself, Mrs. KENNELLY of Connecticut, Mrs. JOHNSON of Connecticut, Mr. LEWIS of Georgia, Mr. ENGLISH of Pennsylvania, Mr. JEFFERSON, Mr. HOUGHTON, Mr. NEAL of Massachusetts, Mr. MCCRERY, Mr. COYNE, Mr. CARDIN, Mr. BAKER, Mr. BENTSEN, Ms. CHRISTIAN-GREEN, Mr. CLAY, Mr. CLYBURN, Mr. FOGLIETTA, Mr. FROST, Mr. GONZALEZ, Mr. MCCOLLUM, Mrs. MEEK of Florida, Mr. MICA, Mr. SNYDER, Mr. STARK, Mr. VENTO, Mr. WALSH, and WOLF) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to provide a credit against income tax to individuals who rehabilitate historic homes or who are the first purchasers of rehabilitated historic homes for use as a principal residence.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the “Historic Homeowner-  
3 ship Assistance Act”.

4 **SEC. 2. HISTORIC HOMEOWNERSHIP REHABILITATION**  
5 **CREDIT.**

6 (a) IN GENERAL.—Subpart A of part IV of sub-  
7 chapter A of chapter 1 of the Internal Revenue Code of  
8 1986 (relating to nonrefundable personal credits) is  
9 amended by inserting after section 23 the following new  
10 section:

11 **“SEC. 24. HISTORIC HOMEOWNERSHIP REHABILITATION**  
12 **CREDIT.**

13 “(a) GENERAL RULE.—In the case of an individual,  
14 there shall be allowed as a credit against the tax imposed  
15 by this chapter for the taxable year an amount equal to  
16 20 percent of the qualified rehabilitation expenditures  
17 made by the taxpayer with respect to a qualified historic  
18 home.

19 “(b) DOLLAR LIMITATION.—

20 “(1) IN GENERAL.—The credit allowed by sub-  
21 section (a) with respect to any residence of a tax-  
22 payer shall not exceed \$50,000 (\$25,000 in the case  
23 of a married individual filing a separate return).

24 “(2) CARRYFORWARD OF CREDIT UNUSED BY  
25 REASON OF LIMITATION BASED ON TAX LIABIL-  
26 ITY.—If the credit allowable under subsection (a) for



1 any taxable year exceeds the limitation imposed by  
2 section 26(a) for such taxable year reduced by the  
3 sum of the credits allowable under this subpart  
4 (other than this section), such excess shall be carried  
5 to the succeeding taxable year and added to the  
6 credit allowable under subsection (a) for such suc-  
7 ceeding taxable year.

8 “(c) QUALIFIED REHABILITATION EXPENDITURE.—  
9 For purposes of this section:

10 “(1) IN GENERAL.—The term ‘qualified reha-  
11 bilitation expenditure’ means any amount properly  
12 chargeable to capital account—

13 “(A) in connection with the certified reha-  
14 bilitation of a qualified historic home, and

15 “(B) for property for which depreciation  
16 would be allowable under section 168 if the  
17 qualified historic home were used in a trade or  
18 business.

19 “(2) CERTAIN EXPENDITURES NOT IN-  
20 CLUDED.—

21 “(A) EXTERIOR.—Such term shall not in-  
22 clude any expenditure in connection with the re-  
23 habilitation of a building unless at least 5 per-  
24 cent of the total expenditures made in the reha-

1           bilitation process are allocable to the rehabilita-  
2           tion of the exterior of such building.

3           “(B) OTHER RULES TO APPLY.—Rules  
4           similar to the rules of clauses (ii) and (iii) of  
5           section 47(e)(2)(B) shall apply.

6           “(3) MIXED USE OR MULTIFAMILY BUILDING.—  
7           If only a portion of a building is used as the prin-  
8           cipal residence of the taxpayer, only qualified reha-  
9           bilitation expenditures which are properly allocable  
10          to such portion shall be taken into account under  
11          this section.

12          “(d) CERTIFIED REHABILITATION.—For purposes of  
13          this section:

14               “(1) IN GENERAL.—Except as otherwise pro-  
15               vided in this subsection, the term ‘certified rehabili-  
16               tation’ has the meaning given such term by section  
17               47(e)(2)(C).

18               “(2) FACTORS TO BE CONSIDERED IN THE  
19               CASE OF TARGETED AREA RESIDENCES, ETC.—

20                       “(A) IN GENERAL.—For purposes of ap-  
21                       plying section 47(e)(2)(C) under this section  
22                       with respect to the rehabilitation of a building  
23                       to which this paragraph applies, consideration  
24                       shall be given to—

1                   “(i) the feasibility of preserving exist-  
2                   ing architectural and design elements of  
3                   the interior of such building,

4                   “(ii) the risk of further deterioration  
5                   or demolition of such building in the event  
6                   that certification is denied because of the  
7                   failure to preserve such interior elements,  
8                   and

9                   “(iii) the effects of such deterioration  
10                  or demolition on neighboring historic prop-  
11                  erties.

12                  “(B) BUILDINGS TO WHICH THIS PARA-  
13                  GRAPH APPLIES.—This paragraph shall apply  
14                  with respect to any building—

15                         “(i) any part of which is a targeted  
16                         area residence within the meaning of sec-  
17                         tion 143(j)(1), or

18                         “(ii) which is located within an enter-  
19                         prise or empowerment zone,

20                  but shall not apply with respect to any building  
21                  which is listed in the National Register.

22                  “(3) APPROVED STATE PROGRAM.—The term  
23                  ‘certified rehabilitation’ includes a certification made  
24                  by—

1           “(A) a State Historic Preservation Officer  
2           who administers a State Historic Preservation  
3           Program approved by the Secretary of the Inte-  
4           rior pursuant to section 101(b)(1) of the Na-  
5           tional Historic Preservation Act, or

6           “(B) a local government, certified pursuant  
7           to section 101(c)(1) of the National Historic  
8           Preservation Act and authorized by a State  
9           Historic Preservation Officer, or the Secretary  
10          of the Interior where there is no approved State  
11          program),

12          subject to such terms and conditions as may be  
13          specified by the Secretary of the Interior for the re-  
14          habilitation of buildings within the jurisdiction of  
15          such officer (or local government) for purposes of  
16          this section.

17          “(e) DEFINITIONS AND SPECIAL RULES.—For pur-  
18          poses of this section:

19                 “(1) QUALIFIED HISTORIC HOME.—The term  
20                 ‘qualified historic home’ means a certified historic  
21                 structure—

22                         “(A) which has been substantially rehabili-  
23                         tated, and

24                         “(B) which (or any portion of which)—

25                                 “(i) is owned by the taxpayer, and

1                   “(ii) is used (or will, within a reason-  
2                   able period, be used) by such taxpayer as  
3                   his principal residence.

4                   “(2) SUBSTANTIALLY REHABILITATED.—The  
5                   term ‘substantially rehabilitated’ has the meaning  
6                   given such term by section 47(c)(1)(C); except that,  
7                   in the case of any building described in subsection  
8                   (d)(2), clause (i)(I) thereof shall not apply.

9                   “(3) PRINCIPAL RESIDENCE.—The term ‘prin-  
10                  cipal residence’ has the same meaning as when used  
11                  in section 1034.

12                  “(4) CERTIFIED HISTORIC STRUCTURE.—

13                  “(A) IN GENERAL.—The term ‘certified  
14                  historic structure’ has the meaning given such  
15                  term by section 47(c)(3).

16                  “(B) CERTAIN STRUCTURES INCLUDED.—  
17                  Such term includes any building (and its struc-  
18                  tural components) which is designated as being  
19                  of historic significance under a statute of a  
20                  State or local government, if such statute is  
21                  certified by the Secretary of the Interior to the  
22                  Secretary as containing criteria which will sub-  
23                  stantially achieve the purpose of preserving and  
24                  rehabilitating buildings of historic significance.

1           “(5) ENTERPRISE OR EMPOWERMENT ZONE.—  
2           The term ‘enterprise or empowerment zone’ means  
3           any area designated under section 1391 as an enter-  
4           prise community or an empowerment zone.

5           “(6) REHABILITATION NOT COMPLETE BEFORE  
6           CERTIFICATION.—A rehabilitation shall not be treat-  
7           ed as complete before the date of the certification re-  
8           ferred to in subsection (d).

9           “(7) LESSEES.—A taxpayer who leases his  
10           principal residence shall, for purposes of this section,  
11           be treated as the owner thereof if the remaining  
12           term of the lease (as of the date determined under  
13           regulations prescribed by the Secretary) is not less  
14           than such minimum period as the regulations re-  
15           quire.

16           “(8) TENANT-STOCKHOLDER IN COOPERATIVE  
17           HOUSING CORPORATION.—If the taxpayer holds  
18           stock as a tenant-stockholder (as defined in section  
19           216) in a cooperative housing corporation (as de-  
20           fined in such section), such stockholder shall be  
21           treated as owning the house or apartment which the  
22           taxpayer is entitled to occupy as such stockholder.

23           “(f) WHEN EXPENDITURES TAKEN INTO AC-  
24           COUNT.—In the case of a building other than a building  
25           to which subsection (g) applies, qualified rehabilitation ex-

1 expenditures shall be treated for purposes of this section as  
2 made—

3           “(1) on the date the rehabilitation is completed,

4       or

5           “(2) to the extent provided by the Secretary by  
6       regulation, when such expenditures are properly  
7       chargeable to capital account.

8 Regulations under paragraph (2) shall include a rule simi-  
9 lar to the rule under section 50(a)(2) (relating to recap-  
10 ture if property ceases to qualify for progress expendi-  
11 tures).

12       “(g) ALLOWANCE OF CREDIT FOR PURCHASE OF RE-  
13 HABILITATED HISTORIC HOME.—

14           “(1) IN GENERAL.—In the case of a qualified  
15       purchased historic home, the taxpayer shall be treat-  
16       ed as having made (on the date of purchase) the  
17       qualified rehabilitation expenditures made by the  
18       seller of such home.

19           “(2) QUALIFIED PURCHASED HISTORIC  
20       HOME.—For purposes of this subsection, the term  
21       ‘qualified purchased historic home’ means any sub-  
22       stantially rehabilitated certified historic structure  
23       purchased by the taxpayer if—

24           “(A) the taxpayer is the first purchaser of  
25       such structure after the date rehabilitation is

1 completed, and the purchase occurs within 5  
2 years after such date,

3 “(B) the structure (or a portion thereof)  
4 will, within a reasonable period, be the principal  
5 residence of the taxpayer,

6 “(C) no credit was allowed to the seller  
7 under this section or section 47 with respect to  
8 such rehabilitation, and

9 “(D) the taxpayer is furnished with such  
10 information as the Secretary determines is nec-  
11 essary to determine the credit under this sub-  
12 section.

13 “(h) HISTORIC REHABILITATION MORTGAGE CREDIT  
14 CERTIFICATE.—

15 “(1) IN GENERAL.—The taxpayer may elect, in  
16 lieu of the credit otherwise allowable under this sec-  
17 tion, to receive a historic rehabilitation mortgage  
18 credit certificate. An election under this paragraph  
19 shall be made—

20 “(A) in the case of a building to which  
21 subsection (g) applies, at the time of purchase,  
22 or

23 “(B) in any other case, at the time reha-  
24 bilitation is completed.



1           “(2) HISTORIC REHABILITATION MORTGAGE  
2 CREDIT CERTIFICATE.—For purposes of this sub-  
3 section, the term ‘historic rehabilitation mortgage  
4 credit certificate’ means a certificate—

5           “(A) issued to the taxpayer, in accordance  
6 with procedures prescribed by the Secretary,  
7 with respect to a certified rehabilitation,

8           “(B) the face amount of which shall be  
9 equal to the credit which would (but for this  
10 subsection) be allowable under subsection (a) to  
11 the taxpayer with respect to such rehabilitation,

12           “(C) which may only be transferred by the  
13 taxpayer to a lending institution in connection  
14 with a loan—

15           “(i) that is secured by the building  
16 with respect to which the credit relates,  
17 and

18           “(ii) the proceeds of which may not be  
19 used for any purpose other than the acqui-  
20 sition or rehabilitation of such building,  
21 and

22           “(D) in exchange for which such lending  
23 institution provides to the taxpayer—

24           “(i) a reduction in the rate of interest  
25 on the loan which results in interest pay-

1           ment reductions which are substantially  
2           equivalent on a present value basis to the  
3           face amount of such certificate, or

4           “(ii) if the taxpayer so elects with re-  
5           spect to a specified amount of the face  
6           amount of such a certificate relating to a  
7           building—

8           “(I) which is a targeted area res-  
9           idence (within the meaning of section  
10           143(j)(1)), or

11           “(II) which is located in an en-  
12           terprise or empowerment zone,  
13           a payment which is substantially equivalent  
14           to such specified amount to be used to re-  
15           duce the taxpayer’s cost of purchasing the  
16           building (and only the remainder of such  
17           face amount shall be taken into account  
18           under clause (i)).

19           “(3) USE OF CERTIFICATE BY LENDER.—The  
20           amount of the credit specified in the certificate shall  
21           be allowed to the lender only to offset the regular  
22           tax (as defined in section 55(e)) of such lender. The  
23           lender may carry forward all unused amounts under  
24           this subsection until exhausted.

25           “(i) RECAPTURE.—

1           “(1) IN GENERAL.—If, before the end of the 5-  
2 year period beginning on the date on which the reha-  
3 bilitation of the building is completed (or, if sub-  
4 section (g) applies, the date of purchase of such  
5 building by the taxpayer)—

6           “(A) the taxpayer disposes of such tax-  
7 payer’s interest in such building, or

8           “(B) such building ceases to be used as the  
9 principal residence of the taxpayer,  
10 the taxpayer’s tax imposed by this chapter for the  
11 taxable year in which such disposition or cessation  
12 occurs shall be increased by the recapture percent-  
13 age of the credit allowed under this section for all  
14 prior taxable years with respect to such rehabilita-  
15 tion.

16           “(2) RECAPTURE PERCENTAGE.—For purposes  
17 of paragraph (1), the recapture percentage shall be  
18 determined in accordance with the table under  
19 section 50(a)(1)(B), deeming such table to be  
20 amended—

21           “(A) by striking ‘If the property ceases to  
22 be investment credit property within—’ and in-  
23 serting ‘If the disposition or cessation occurs  
24 within—’, and

1                   “(B) in clause (i) by striking ‘One full year  
2                   after placed in service’ and inserting ‘One full  
3                   year after the taxpayer becomes entitled to the  
4                   credit’.

5           “(j) BASIS ADJUSTMENTS.—For purposes of this  
6 subtitle, if a credit is allowed under this section for any  
7 expenditure with respect to any property (including any  
8 purchase under subsection (g) and any transfer under sub-  
9 section (h)), the increase in the basis of such property  
10 which would (but for this subsection) result from such ex-  
11 penditure shall be reduced by the amount of the credit  
12 so allowed.

13           “(k) PROCESSING FEES.—Any State may impose a  
14 fee for the processing of applications for the certification  
15 of any rehabilitation under this section provided that the  
16 amount of such fee is used only to defray expenses associ-  
17 ated with the processing of such applications.

18           “(l) DENIAL OF DOUBLE BENEFIT.—No credit shall  
19 be allowed under this section for any amount for which  
20 credit is allowed under section 47.

21           “(m) REGULATIONS.—The Secretary shall prescribe  
22 such regulations as may be appropriate to carry out the  
23 purposes of this section, including regulations where less  
24 than all of a building is used as a principal residence and

1 where more than 1 taxpayer use the same dwelling unit  
2 as their principal residence.”

3 (b) CONFORMING AMENDMENT.—Subsection (a) of  
4 section 1016 of such Code is amended by striking “and”  
5 at the end of paragraph (25), by striking the period at  
6 the end of paragraph (26) and inserting “, and”, and by  
7 adding at the end the following new item:

8 “(27) to the extent provided in section 24(j).”

9 (c) CLERICAL AMENDMENT.—The table of sections  
10 for subpart A of part IV of subchapter A of chapter 1  
11 of such Code is amended by inserting after the item relat-  
12 ing to section 23 the following new item:

“Sec. 24. Historic homeownership rehabilitation credit.”

13 (d) EFFECTIVE DATE.—The amendments made by  
14 this section shall apply with respect to rehabilitations the  
15 physical work on which begins after the date of enactment  
16 of this Act.

## **Appendix D**

### **The Political History of Bills Relating to the Historic Homeownership Rehabilitation Credit in Congresses 104 – 110**

These charts, created by the author, provide an overview of the people and organizations involved in with the Historic Homeownership Rehabilitation Credit at the Congressional level for each of the seven Congresses in which a bill relating to the FHRTC has been before Congress. The charts illustrate how there was a significant change in the politics of the bills over the past thirteen years. The charts focus on the number and political affiliations of cosponsors, the outside advocates who lobbied Congress, the primary focus of the argument, and other factors affecting the bills.

Congress	103 (1993 – 1994)	104 (1995 – 1996)
Name of Bill (s) Who Introduced	HR 5249 Historic Homeownership Assistance Act (HHAA) Rep. Michael Andrews (D-TX)	HR 1662 HHAA Rep. Clay Shaw (R-FL) S 1662 HHAA Sen. John Chafee (R-RI)
House # of REP. /# of DEM. Total # of Co-sponsors % of Ways and Means Senate # of REP./ # of DEM. Total # of Cosponsors. % of Finance Committee	1/2 3 8% (3 of 38)	33/43 76 38% (15 of 39)  2/7 9 26% (5 of 19)
Cosponsors on Ways and Means Committee  Cosponsors on Finance Committee	M. Andrews, B. Kenelly, C. Shaw	C. Shaw, J. Dunn, P. English, J. Hayes, A. Houghton, A. Jacobs, N. Johnson, B. Kennelly, G. Kleczka, J. Lewis, J. McCrery, R. Neal, J. Nussle, C. Rangel, D. Zimmer  J. Chafee, J. Breaux, A. D’Amato, B. Graham, David Pryor
Advocates Involved	National Trust for Historic Preservation *Throughout the entire period of advocacy for the HHAA some of the greatest support for the bill and most successful efforts to increase the number of cosponsors came from individual city and state preservation organizations	NCSHPO National Trust for Historic Preservation Preservation Action
Primary Focus of Arguments	<u>Advocates:</u> - No income cap, encourage moderate and upper income individuals to move back into decaying neighborhoods - Provide homeownership opportunities to middle and lower-income families (mortgage credit certificates) - “Pass-through feature” allows developers to rehabilitate whole blocks at a time <u>Opponents:</u> - Revenue Loss- 2 different studies carried out to determine the number of eligible properties and potential revenue loss	<u>Advocates:</u> - Requires homeowner to invest 100% of the adjusted basis of the house, so would only benefit houses in very bad condition that can be purchased for very little money - Targets middle income families, way to create mixed-income neighborhoods <u>Opponents:</u> - Joint Committee on Taxation scored bill at \$239 million over 5 years - Misunderstood as a giveaway to the rich
OTHER/ ADDITIONAL INFO	- \$50,000 limit to amount of credit - Introduced at the very end of the Congress	- “Co-op Clause” included in bill for the first time - Bill Archer, chairman of the Ways and Means Committee 104 <sup>th</sup> – 106 <sup>th</sup> Congresses repeatedly declares and seeks to ensure “no new tax credits” throughout his tenure as committee chairman

CONGRESS	105 (1997 – 1998)	106 (1999 – 2000)
Name of Bill(S) Who Introduced	HR 1134 HHAA Rep. Clay Shaw (R-FL) S 496 HHAA Sen. John Chafee (R-RI)	HR 1172 HHAA Rep. Clay Shaw (R-FL) S 664 HHAA Sen. John Chafee (R-RI)
<b>House</b> # of REP. /# of DEM. Total # of Co-sponsors % of Ways and Means	51/79/2-I 132 38% (15 of 39)	94/129/2- I 225 74% (29 of 39)
<b>Senate</b> # of REP./ # of DEM. Total # of Co-sponsors % of Finance Committee	10/16 26 65% (13 of 20)	13/26 39 55% (11 of 20)
Cosponsors on the Ways and Means Committee	C. Shaw, J. Bunning, D. Camp, B. Cardin, W. Coyne, P. English, A. Houghton, W. Jefferson, B. Kennelly, J. Lewis, R. Matsui, J. McCrery, J. McDermott, R. Neal, K. Thurman, J. Weller	C. Shaw, X. Bacerra, D. Camp, B. Cardin, M. Collins, W. Coyne, J. Dunn, P. English, M. Foley, A. Houghton, K. Hulshof, W. Jefferson, S. Levin, J. Lewis, R. Lewis, R. Matsui, J. McCrery, J. McDermott, M. McNulty, R. Neal, J. Nussle, R. Portman, J. Ramstad, C. Rangel, F. Stark , C. Grassley, K. Thurman, W. Watkins, J. Weller
Cosponsors on the Finance Committee	J. Chafee, M. Baucus, J. Breaux, R. Bryan, A. D’Amato, B. Graham, O. Hatch, J. Jeffords, R. Kerrey, T. Lott, C. Mosley-Braun, D. Moynihan, J. Rockefeller	J. Chafee, M. Baucus, J. Breaux, R. Bryan, B. Graham, C. Grassley, J. Jeffords, R. Kerrey, D. Moynihan, C. Robb, J. Rockefeller
Advocates Involved	NCSHPO National Trust Preservation Action	America’s Community Bankers Congressional Black Caucus NCSHPO National Trust Preservation Action
Primary Focus of Arguments	<u>Advocates:</u> - Want to ensure that credit does not just benefit the rich, make homeownership possible for moderate and low-income families (mortgage credit certificate) - Discussion of disallowing the use of the credit in hist. dist. with median income of 150% of statewide median income, but at this time limiting credit to certain districts not included in bill <u>Opponents:</u> - Desire to reduce revenue loss	<u>Advocates:</u> - Neighborhood revitalization - Homeownership in distressed communities <u>Opponents:</u> - Estimated \$1.2 billion in revenue loss over 10 yrs. - Developers concerned about recapture clause, especially potential for affecting the sale of condos - Rep. Charles Rangel (D-NY), a member of the Ways and Means Committee raises concern that credit will encourage gentrification
Additional Information	- JCT scores bill at \$2 billion, only later made known that was a 10 yr estimate - First time provision included to allow conversion of mortgage certificate to down payment in Enterprise/Empowerment Zones - “Home Again” video released	-Included as a tax deduction and not a credit in a separate tax bill, but bill vetoed by Pres. Clinton - Limit on amount of credit reduced from \$50,000 to \$40,000



Congress	107 (2001 – 2002)	108 (2003 – 2004)
Name of Bill (s) Who Introduced	HR 1172 HHAA Rep. Clay Shaw (R-FL) S 920 HHAA Sen. John Breaux (D-LA)	HR 5378 Community Restoration and Revitalization Act Reps. Robert Portman (R-OH) and William J. Jefferson (D-LA)
<b>House</b> # of REP. / # of DEM. Total # of Co-sponsors % of Ways and Means <b>Senate</b> # of REP. / # of DEM. TOTAL # of Co-sponsors. % of Finance Committee	66/87/1-I 154 61% (25 of 41) 2/9 11 20% (4 of 20)	5/4 9 15% (6 of 41)
Co-sponsors on Ways and Means Committee  Cosponsors on Finance Committee	C. Shaw, X. Becerra, D. Camp, B. Cardin, M. Collins, W. Coyne, P. English, M. Foley, A. Houghton, K. Hulshof, W. Jefferson, N. Johnson, S. Levin, J. Lewis, R. Lewis, R. Matsui, J. McCrery, J. McDermott, M. McNulty, R. Neal, R. Portman, J. Ramstad, F. Stark, K. Thurman, W. Watkins J. Breaux, B. Graham, J. Jeffords, R. Torricelli	R. Portman, P. English, A. Houghton, W. Jefferson, N. Johnson, J. McCrery, R. Neal
Advocates Involved	America’s Community Bankers Int. Downtown Assoc. Nat. Assoc. of Homebuilders NCSHPO National Trust Preservation Action U.S. Conference of Mayors Rep. Dick Gephardt hosts Cong. forum on the credit	NCSHPO National Trust Preservation Action
Primary Focus of Arguments	<u>Advocates:</u> - Credit would promote investing in historic vs. a non- historic neighborhoods <u>Opponents:</u> - Credit needs to be more targeted and should not circumvent NPS approval process (NPS) - Housing costs in historic neighborhoods too high for credit to help moderate income families	<u>Advocates:</u> - Bill will fix the “broken” parts of the FHRTC: combination with LIHTC, non-profit eligibility, 50 yr rule - Promote Main Street programs
Additional Information	- Attempt to include bill in 2001 economic stimulus package - Endorsed by: Fannie Mae, Nat. Assoc. of Housing and Redevelopment Officials, Nat. Community Reinvestment Coalition, Smart Growth America - “Gold Coast Amendment”- only Hist. Dists. in census tracts with median income less than twice the statewide median income qualify	

Congress	109 (2005 – 2006)	
Name of Bill (S) Who Introduced	2/8/2005- HR 659 CRRA Rep. Robert Portman (R-OH) 6/30/2005 - HR 3159 CRRA Rep. Phil English (R-PA)	HR 5420 Preserve Historic America Act of 2006 Rep. Russ Carnahan (D-MO)
HR 659 # of REP. /# of DEM. Total # of Cosponsors % of Ways and Means	HR 659 19/24 43 20% (8 of 41)	5/18 23 10% (4of 41)
HR 3159 # of REP./ # of DEM. Total # of Cosponsors % of Ways and Means	HR 3159 26/40 66 20% (8 of 41)	
Cosponsors on Ways and Means Committee	HR 659: R. Portman, B. Beurprez, P. English, N. Johnson, S. Jones, J. Lewis, J. McCrery, R. Neal  HR 3159: , B. Beurprez, P. English, M. Hart, N. Johnson, S. Jones, J. Lewis, J. McCrery, R. Neal	S. Jones, J. Lewis, R. Lewis, C. Rangel
Advocates Involved	American Institute of Architects Nat. Alliance of Preservation Commissions NCSHPO National Trust for Historic Preservation Preservation Action *Highlighted at lobby day March 1,2005	
Primary Focus of Arguments	Advocates: - Affordable Housing- need to make FHRTC work better with LIHTC - Need to create market-rate housing that stabilizes distressed neighborhoods - Community Revitalization - Better workability for small projects, target “Main Street” programs - More favorable tax-exempt rules - Does not include a Homeownership Credit	- Omnibus bill for rehabilitation tax credit, includes a Historic Homeownership Rehabilitation Credit, as well as increase in percentage of FHRTC - Partially based on Missouri Historic Homeowner Tax Credit
Additional Information	Bill reintroduced after Robert Portman left Congress	

Congress	110 (2007 – 2009)	
Name of Bill (s) Who Introduced	HR 610 Preserve Historic America Act of 2007 Rep. Russ Carnahan (D-MO)	HR 1043 Community Restoration and Revitalization Act Reps. Stephanie Tubbs Jones (D-OH) and Phil English (R-PA) S 584 Sens. Mary Landrieu (D-LA), Blanche Lincoln, and Gordon Smith (R-OR)
# of REP. /#of DEM. Total # of Cosponsors % of Ways and Means Committee	3/18 21 12%	32/12 44 24%
# of REP./ # of DEM. Total # of Cosponsors % of Finance Committee		3/3 6 10%
Cosponsors on Ways and Means	C. Rangel (Chairman), S. Tubbs, J. Lewis, R. Lewis, A. Schwartz	S. Tubbs, P. English, C. Rangel, S. Berkley, E. Blumenauer, A. Paris, E. Rahm, R. Neal, B. Pascrell, J. Ramstad
Advocates Involved	Preservation Action	National Trust for Historic Preservation Preservation Action NCSHPO AIA Affordable Housing Tax Credit Coalition
Primary Focus of Arguments	- Omnibus bill for rehabilitation tax credit, includes a Historic Homeownership Rehabilitation Credit, as well as increase in percentage of FHRTC - Partially based on Missouri Historic Homeowner Tax Credit	- Moderate and targeted improvements to the FHRTC
Additional Information	The National Trust does not endorse or publicize the bill, choosing instead to focus on the Community Restoration and Revitalization Act	The National Trust expects the bill will pass both houses during this Congress

## Appendix E

### Chart Comparing Current Law to Past and Current Legislation Proposed to Alter the Federal Historic Rehabilitation Tax Credit

#### FHRTC

- Current Law (Section 47 of the IRC) effective since November 5, 1990, but a FHRTC has been in effect since 1978
- Income tax credit for 20% of the amount of qualified rehabilitation expenditures of a certified historic structure, regardless of where building is located
- Only applicable to income producing structures
- 10% credit for non-historic, nonresidential buildings built before 1936
- 5 year credit recapture period
- The full amount of the credit is claimed in year in which the building is placed in service, carry forward 20 yrs, carry back 1 yr
- Minimum Investment of \$5,000 or the adjusted basis of the building, whichever is greater, over a 24-month period
- Credit subject to passive loss rules
- Basis reduction decreases the amount of available credit for projects claiming both the LIHTC and FHRTC

#### HHAA

- First introduced Oct. 1994
- Owner occupied dwelling eligible for 20% rehab credit, up to \$40,000, credit not applicable in high-income historic districts
- Minimum investment of \$5,000 or the adjusted basis of the building, whichever is greater, over a 24-month period, unless located in a distressed neighborhood in which case minimum investment is \$5,000
- “Pass through” feature, developer may transfer credit to homeowner
- Residence subject to recapture for a period of five years in which owner must continue to occupy the residence
- Mortgage credit certificate/mortgage certificate conversion- mortgage credit equal in value to the tax credit can be transferred to a lending institution for a reduction in interest rate or down payment on home mortgage
- Condos and co-ops eligible
- Certification process would take into consideration location in a “targeted area”, Enterprise Zone, or Empowerment Zone

#### Community Restoration and Revitalization Act

- First Introduced Nov. 2004
- Increase in the rehabilitation credit for certain smaller projects (40% credit on the first \$1 million in projects less than \$2 million, target “Main Street” developments)
- Increase in rehab credit (130%) for buildings in high cost/distressed areas
- Property not subject to recapture if converted to a condo development or sold
- 10% credit for non-historic buildings older than 50 years available for rental housing
- More favorable rules for use of credit by tax exempt organizations
- Condominium developments eligible for FHRTC
- Reduces the basis adjustment for projects utilizing both the LIHTC and the FHRTC creating more available credit for paired projects

#### Preserve Historic America Act

- First introduced May 2006
- Increase certified historic rehabilitation tax credit for income producing properties from 20% to 25%
- Increase in credit (130%) for building in high cost/distressed areas
- Increase in Rehab credit (35%) and lower minimum investment (\$3,000 or 50% of adjusted basis) for certain smaller projects (less than \$2 million)
- Owner occupied dwellings eligible for 20% credit, up to \$40,000, credit carries forward, 5 year recapture period in which credit user must remain in residence, minimum investment of \$5,000 or the adjusted basis of the building, whichever is greater, over a 24-month period, unless located in a distressed neighborhood in which case minimum investment is \$5,000
- “Pass through” feature - developer may transfer or assign credit to homeowner
- Mortgage credit certificate/mortgage certificate conversion- mortgage credit equal in value to the tax credit can be transferred to a lending institution for a reduction in interest rate or down payment on home mortgage
- Exempts FHRTC for Certified Historic Structures from passive loss rules
- Reduces the basis adjustment for projects utilizing both the LIHTC and the FHRTC creating more available credit for paired projects

## Appendix F

### U.S. Congressional Bills Relating to the Historic Homeownership Rehabilitation Credit

American Community Renewal Act of 1996, H.R. 3467 (1996, 104<sup>th</sup> Congress)

American Community Renewal Act of 1997, S. 432 (1997, 105<sup>th</sup> Congress); H.R. 1031 (1997, 105<sup>th</sup> Congress)

American Community Renewal Act of 1998, H.R. 386 (1998, 105<sup>th</sup> Congress)

Commercial Revitalization Tax Act, H.R. 2138 (1995); H.R. 465 (1997, 105<sup>th</sup> Congress); H.R. 889 (1999, 106<sup>th</sup> Congress)

Community Development Homeownership Tax Credit Act, S. 3126 (2002, 107<sup>th</sup> Congress); S. 875 (2003, 108<sup>th</sup> Congress)

Community Renewal Tax Relief Act of 2000, H.R. 5662 (2000, 106<sup>th</sup> Congress)

Community Restoration and Revitalization Act of 2004, H.R. 5378 (2004, 108<sup>th</sup> Congress)

Community Restoration and Revitalization Act of 2005, H.R. 659 (February 2005, 109<sup>th</sup> Congress); H.R. 3159 (June 2005, 109<sup>th</sup> Congress)

Community Restoration and Revitalization Act of 2007, H.R. 1043 (110<sup>th</sup> Congress, 2007); S. 584

Historic Homeownership Assistance Act, H.R. 5249 (1994, 103<sup>rd</sup> Congress); H.R. 1662 (1995, 105<sup>th</sup> Congress); S. 1002 (1995, 105<sup>th</sup> Congress); H.R. 1134 (1997, 105<sup>th</sup> Congress); S. 496 (1997, 105<sup>th</sup> Congress); H.R. 1172 (1999, 2001, 108<sup>th</sup> Congress); S. 664 (1999, 108<sup>th</sup> Congress); S. 920 (2001, 107<sup>th</sup> Congress)

Historic Rehabilitation Credit Expansion Act of 1993, H.R. 1566; S. 895 (1993, 103<sup>rd</sup> Congress)

Historic Rehabilitation Enhancement Act of 2005, H.R. 2488 (2005, 109<sup>th</sup> Congress)

Home at Last Tax Credit of 2002, H.R. 3774 (2002, 107<sup>th</sup> Congress)

New Markets Tax Credit H.R. 2713 (1999); H.R. 4923 (2000, 106<sup>th</sup> Congress); S. 3153 (2000, 106<sup>th</sup> Congress)

Preserve Historic America Act of 2006, H.R. 5420 (2006, 109<sup>th</sup> Congress)

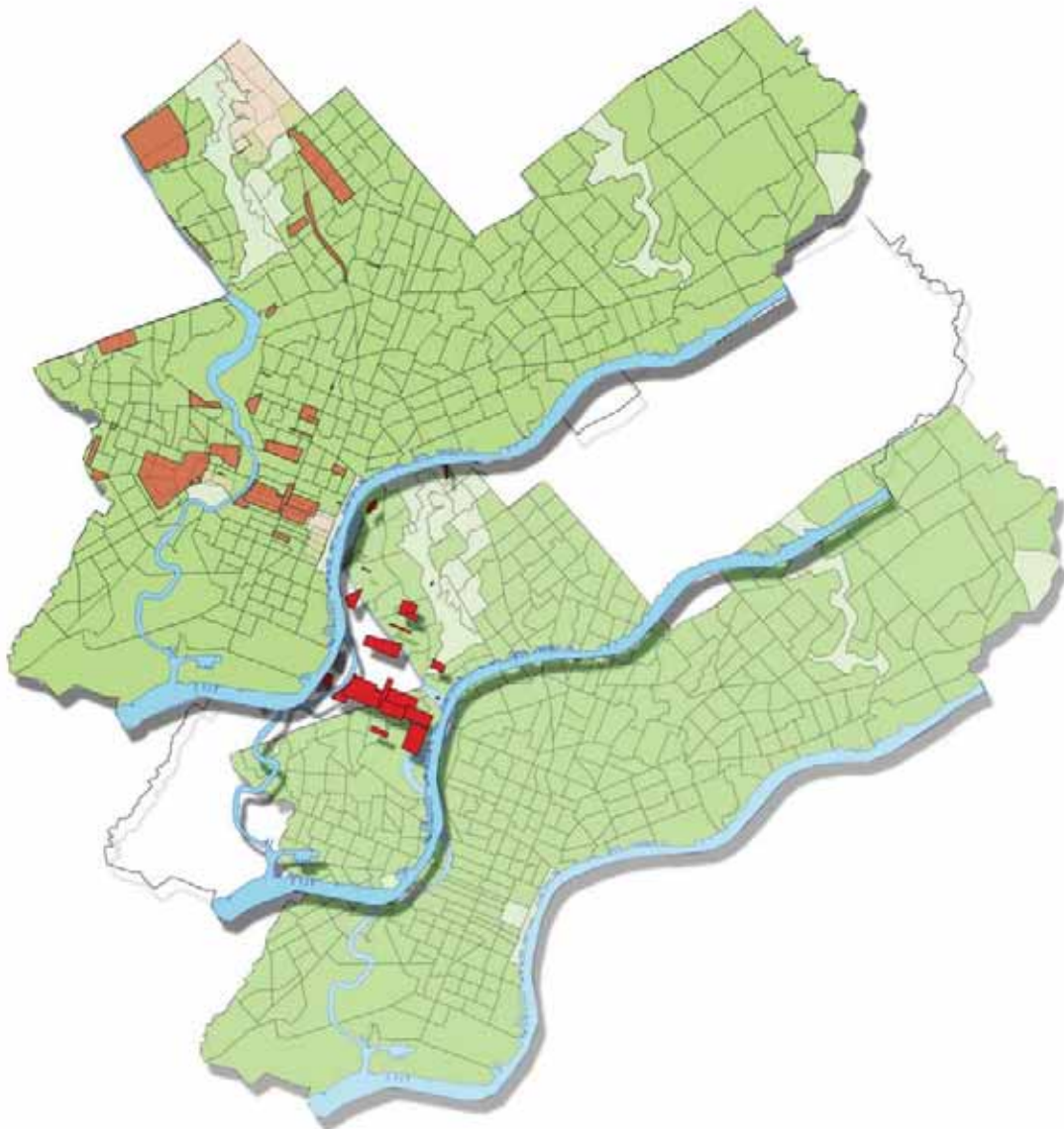
Preserve Historic America Act of 2007, H.R. 610 (2007, 110<sup>th</sup> Congress)

Renewing the Dream Tax Credit Act, H.R. 1549 (2005, 109<sup>th</sup> Congress)

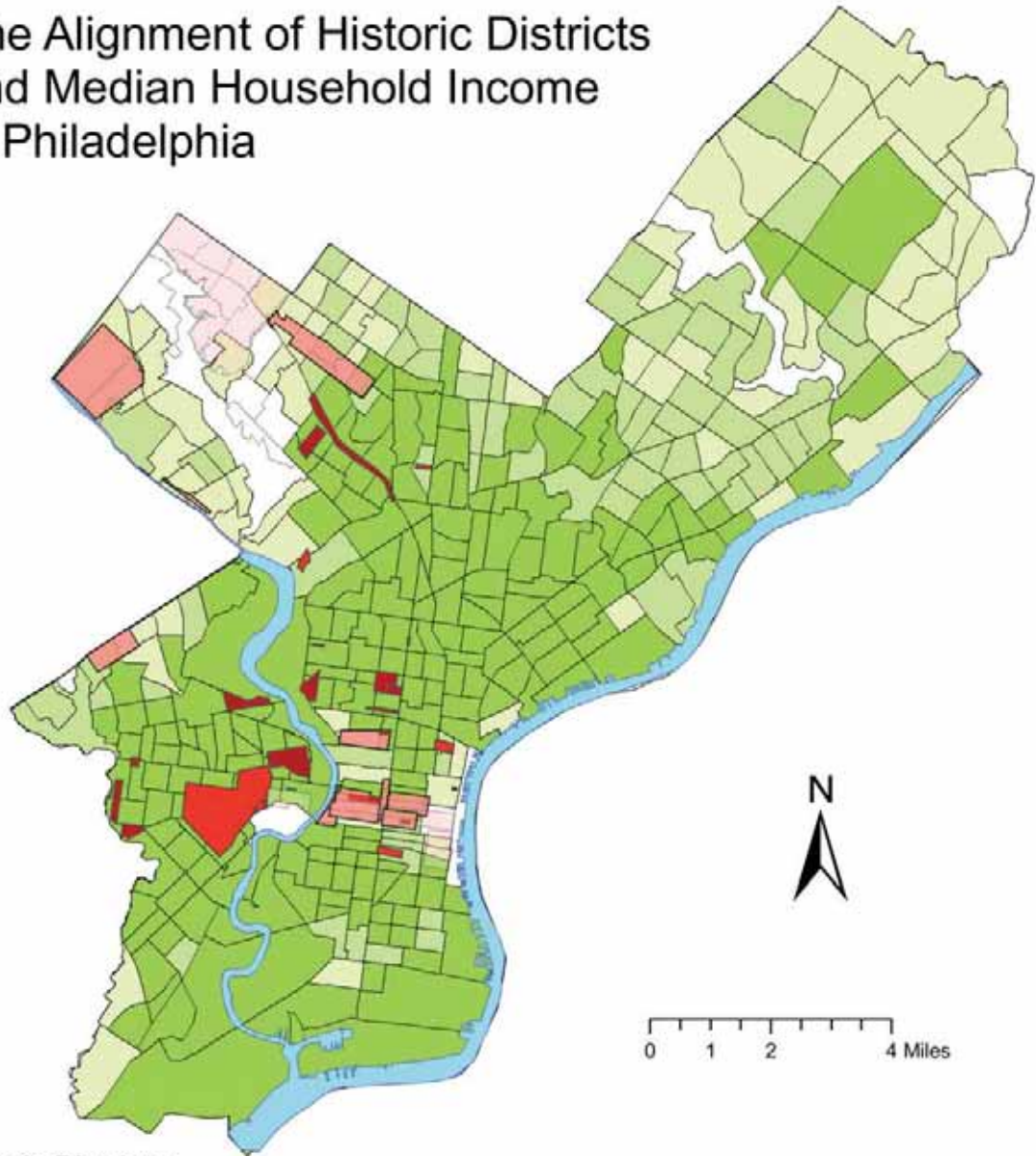
## Appendix G

### What Type of Neighborhoods Would Qualify for the Credit?

Excerpts from a GIS Analysis of the Median Household Incomes and Home Values of the Historic Districts of Philadelphia and Savannah



# The Alignment of Historic Districts and Median Household Income in Philadelphia



## Historic Districts

- Qualify for credit at 80%
- Qualify for credit at 100%
- Qualify for Credit at 150%
- Do not qualify for credit

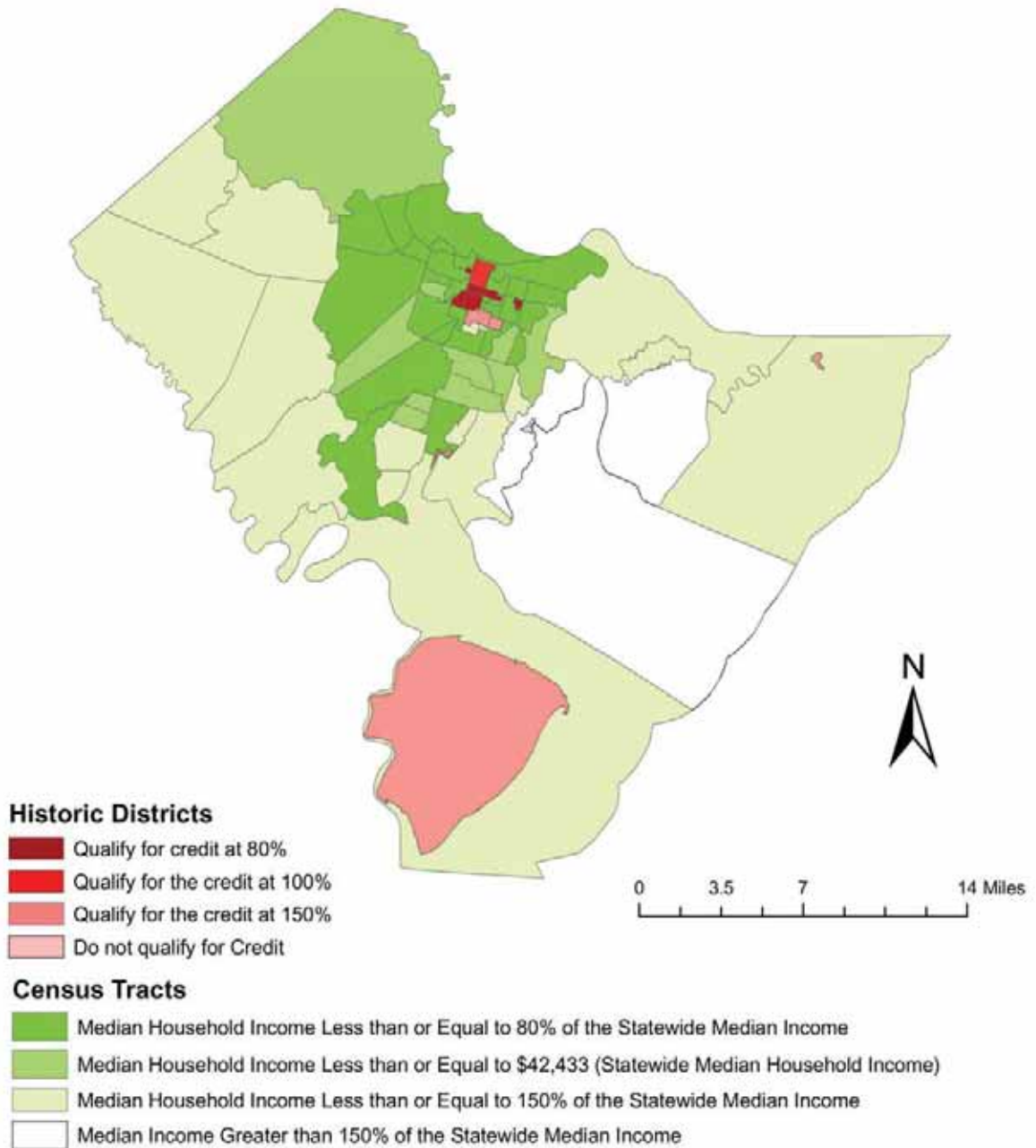
## Census Tracts

- Median Household Income Less than or Equal to 80% of Statewide Median Income
- Median Household Income Less than or Equal to \$40,106 (Statewide Median)
- Median Household Income Less than or Equal to 150% of Statewide Median Income
- Median Household Income Greater than 150% of the Statewide Median Household Income

Data from the 2000 US Census and the Preservation Alliance for Greater Philadelphia

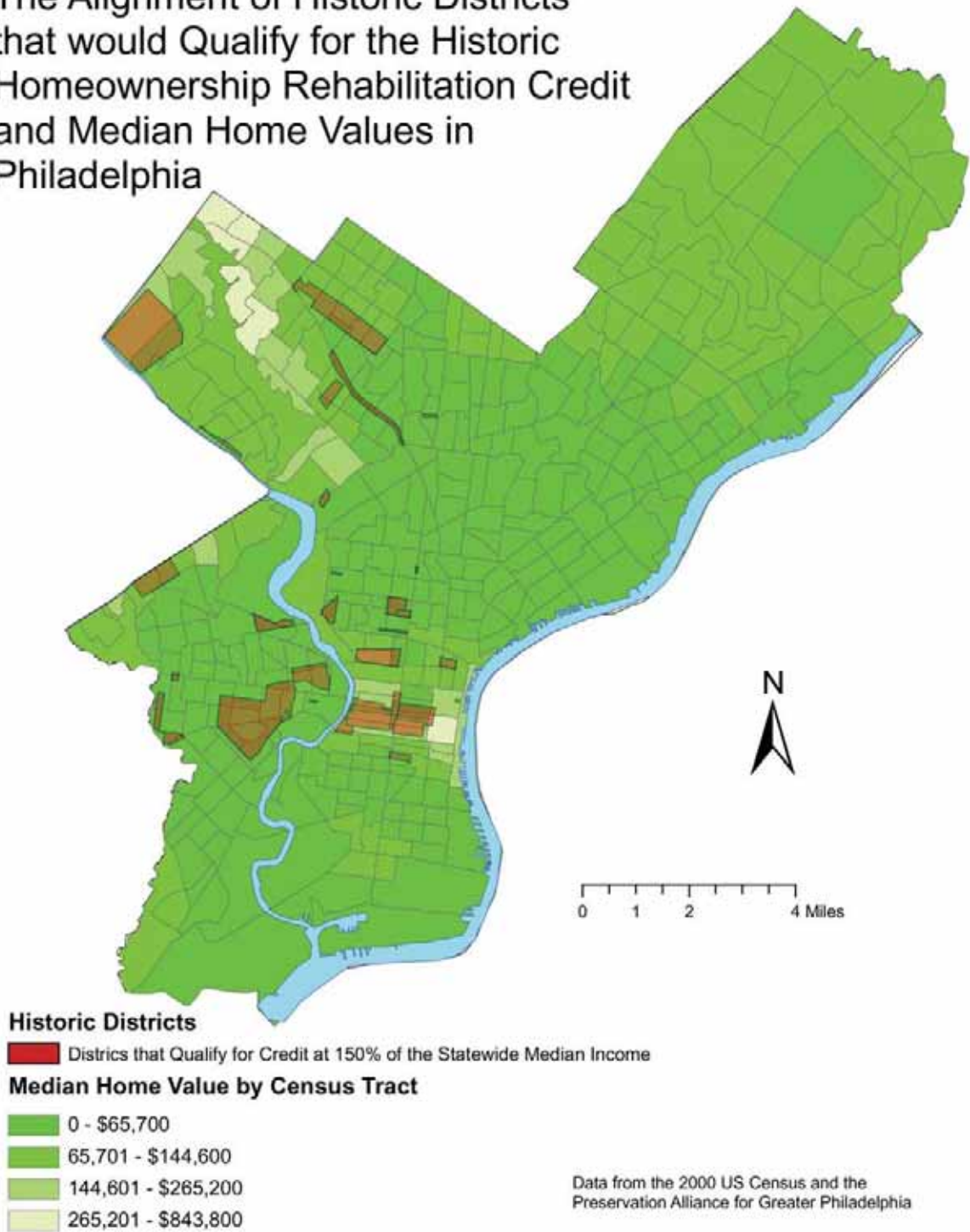


# The Alignment of Historic Districts and Median Household Income in Savannah

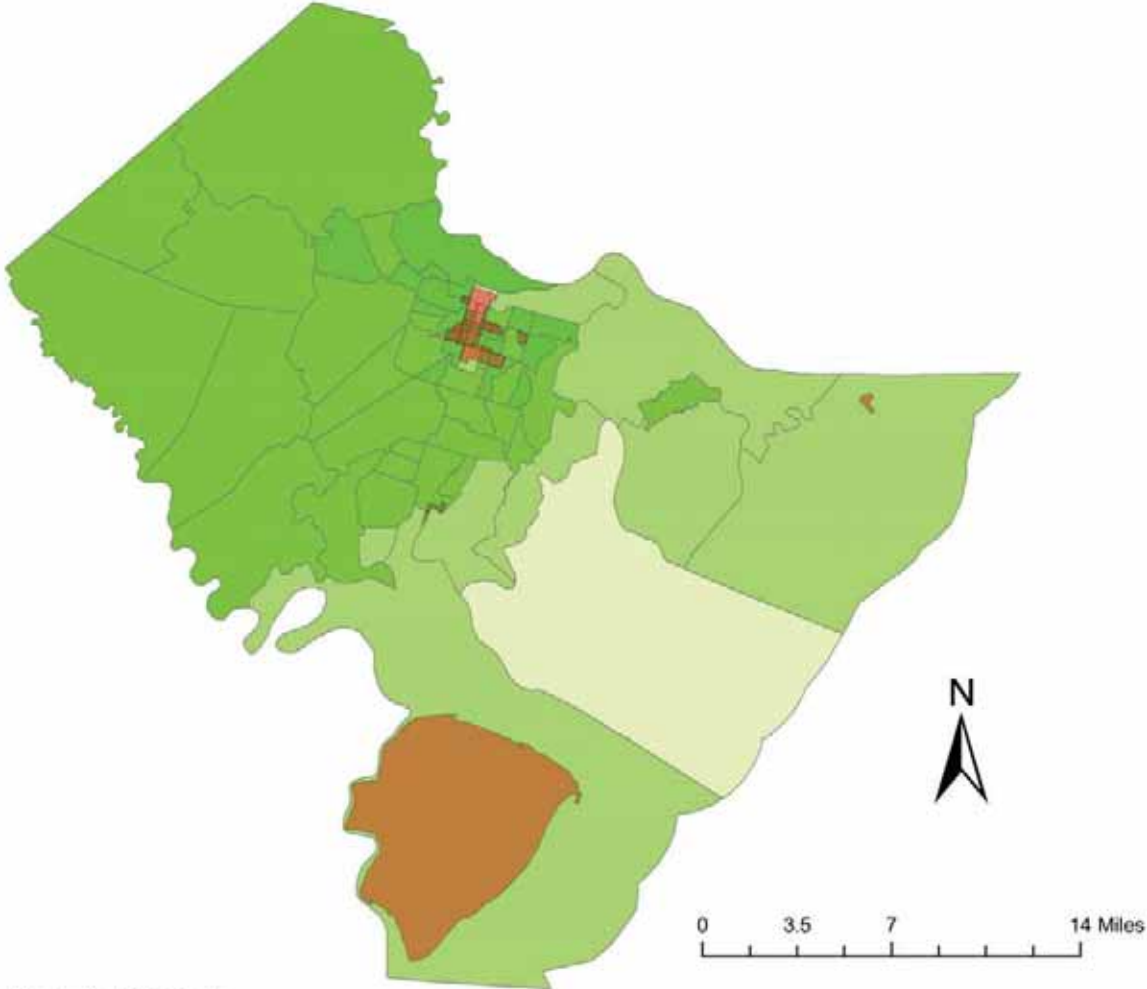


Data from the 2000 US Census and the Chatham County-Savannah Metropolitan Planning Commission

# The Alignment of Historic Districts that would Qualify for the Historic Homeownership Rehabilitation Credit and Median Home Values in Philadelphia



# The Alignment of Historic Districts that would Qualify for the Historic Homeownership Rehabilitation Credit and Median Home Values in Savannah



### Historic Districts

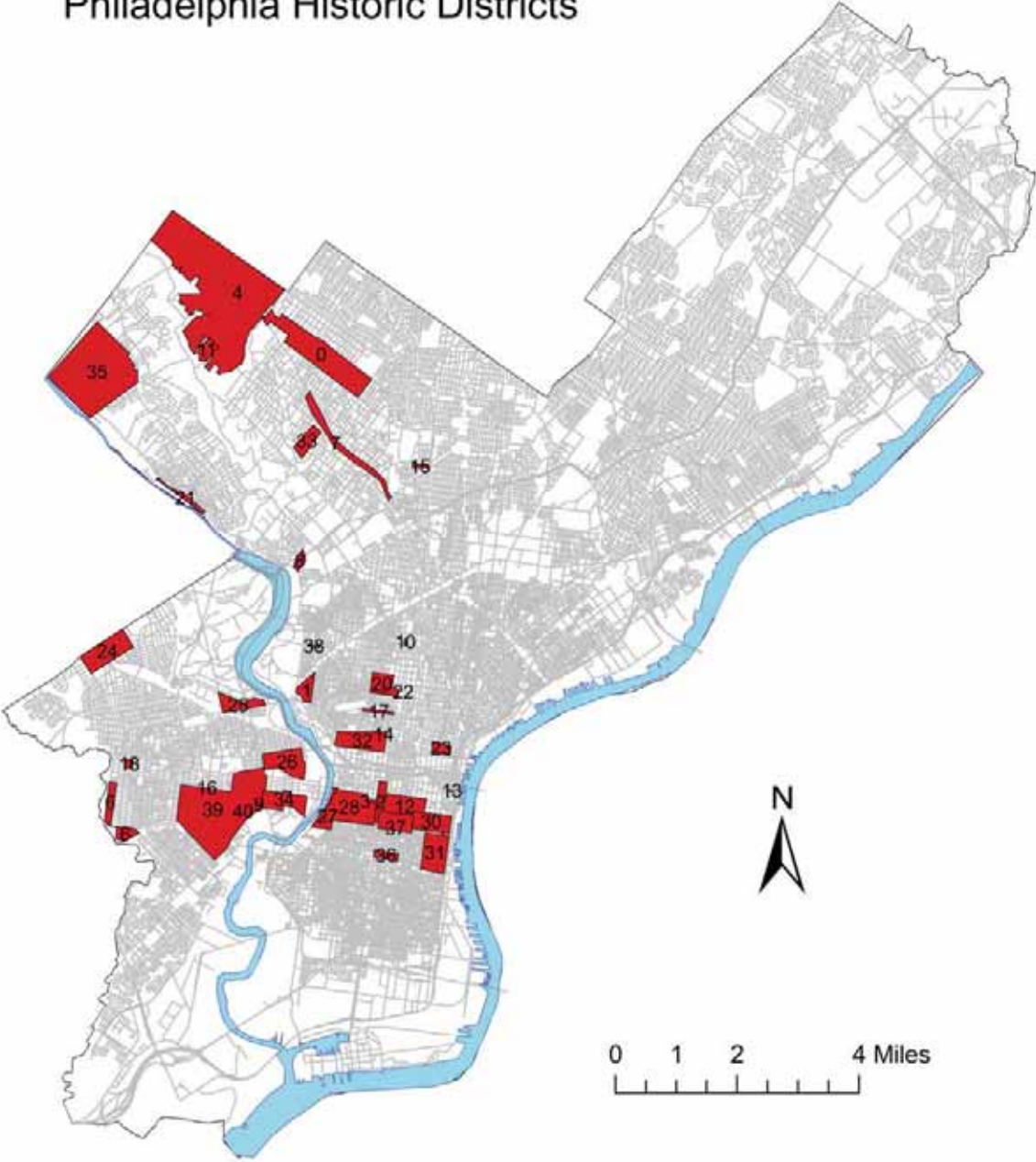
**Red** Districts that Qualify for Credit at 150% of the Statewide Median Income

### Median Home Value by Census Tract

- Dark Green** 0 - \$66,500
- Medium Green** 66,501 - \$116,900
- Light Green** 116,901 - \$238,800
- Yellow-Green** 238,801 - \$478,600

Data from the 2000 US Census and the Chatham County-Savannah Metropolitan Planning Commission

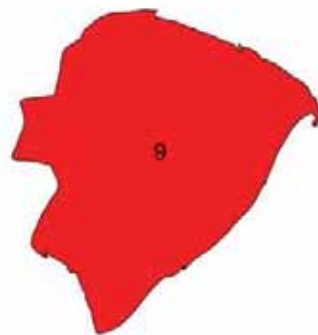
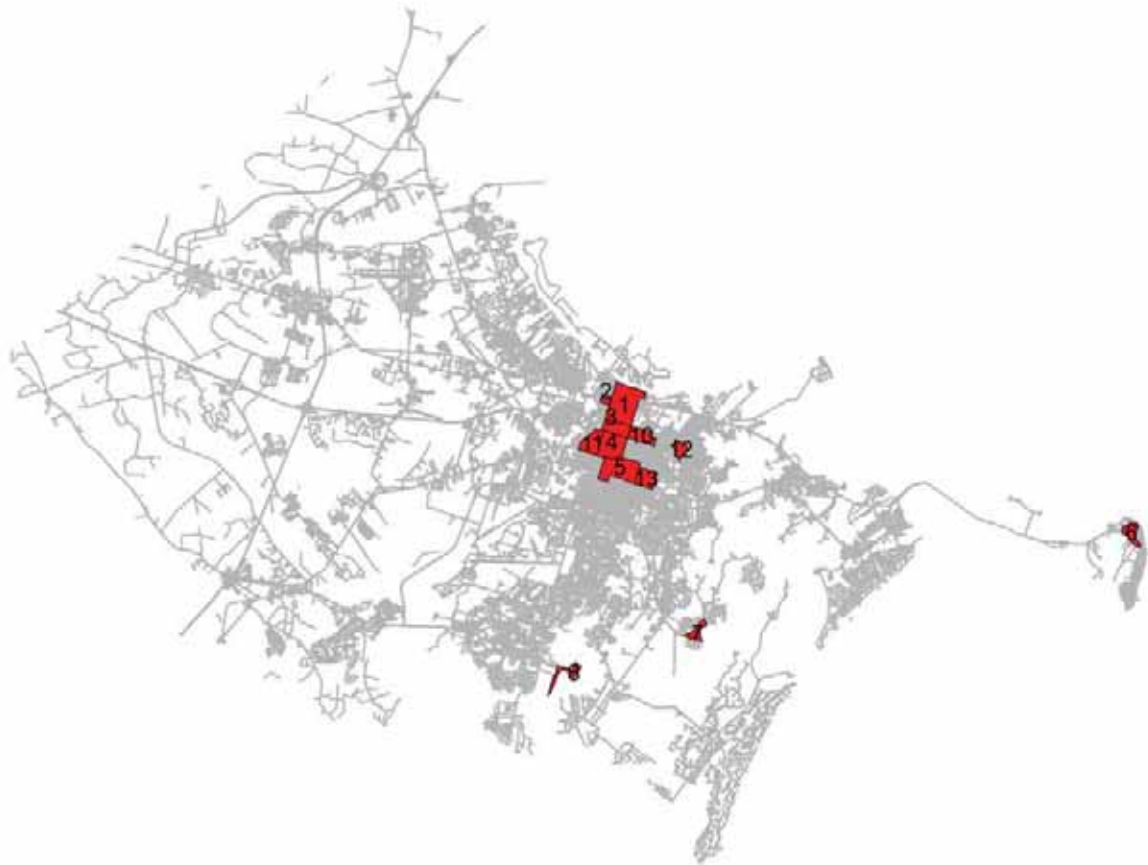
# Philadelphia Historic Districts



Philadelphia Historic Districts

Map Location	District Name	Year Designated	At what percentage of the Statewide Median Income the District Qualifies for the credit			Median Home Value of the Census Tract that comprises the largest share of the District
			80%	100%	150%	
1	Awbury	2001			X	\$107,700
2	Brewerytown	1991	X	X	X	\$27,000
3	Broad Street	1984			X	\$265,200
4	Center City West Commercial	1988		X	X	\$144,600
5	Chestnut Hill	1985				\$246,200
6	Clinton Street	1972		X	X	\$195,400
7	Cobbs Creek Automobile Suburb	1988	X	X	X	\$47,700
8	Colonial Germantown	1966	X	X	X	\$53,800
9	Dobson Mills	1988		X	X	\$34,200
10	Drexel Development	1982	X	X	X	\$95,000
11	Dropsie University Complex	1975	X	X	X	\$27,000
12	Druim Moir	1979				\$843,800
13	East Center City Commercial	1984			X	null
14	Elfreth's Alley	1966			X	\$189,700
15	Fairmount Avenue	2002	X	X	X	\$38,300
16	Fisher's Lane	1980		X	X	\$49,000
17	Garden Court	1984		X	X	\$95,800
18	Girard Avenue	1985	X	X	X	\$33,000
19	Haddington	1988	X	X	X	\$41,700
20	Head House Square	1972				\$407,000
21	Lower North Philadelphia Speculative Housing	1999	X	X	X	\$38,500
22	Manayunk Main Street	1983			X	\$78,100
23	North Broad Street Mansion	1985	X	X	X	\$38,500
24	Northern Liberties Historic	1985		X	X	\$77,400
25	Overbrook Farms	1985			X	\$102,600
26	Parkside	1983	X	X	X	\$22,000
27	Powelton	1985	X	X	X	\$91,500
28	Schuykill	1986			X	\$252,000
29	Rittenhouse	1983			X	\$256,200
30	Sansom Row	1977	X	X	X	null
31	Society Hill	1971				\$407,000
32	Southwark	1972				\$164,700
33	Spring Garden	1978			X	\$82,000
34	Tulpehocken Station	1985	X	X	X	\$72,700
35	University of Pennsylvania Campus	1978				null
36	Upper Roxborough	2001			X	\$151,500
37	Washington Avenue	1984		X	X	\$68,800
38	Washington Square West	1984			X	\$195,400
39	West Diamond Street Townhouse	1991	X	X	X	\$20,200
40	West Philadelphia Streetcar Suburb	1998		X	X	\$105,600
41	Woodland Terrace	1972	X	X	X	\$95,000
	Total Number of Districts that Qualify		16	24	35	

# Savannah Historic Districts



Savannah Historic Districts

Map Location	District Name	Year Designated	At what percentage of the Statewide Median Income the District Qualifies for the credit			Median Home Value of the Census Tract that comprises the largest share of the District
			80%	100%	150%	
1	Savannah National Historic Landmark	1966		X	X	\$321,400
2	Savannah Shops and Terminal facilities Landmark	1978	X	X	X	null
3	Savannah Victorian	1974	X	X	X	\$95,000
10	Eastside/Meadows/Collinsville	Pending	X	X	X	\$57,900
11	Curler-Brownsville	1997	X	X	X	\$52,600
4	Thomas Square-Trolley	1997	X	X	X	\$39,600
12	Gordon ton	2001	X	X	X	\$68,600
5	Ardley Park-Chatham Crescent	1985			X	\$154,700
13	Park side	1999			X	\$66,500
6	Fort Screven	1982			X	\$180,000
7	Isle of Hope	1984				\$178,500
8	Vernon burg	1996			X	\$79,700
9	Osaka Island	1997			X	\$131,500
Total Number of Districts that Qualify			6	7	12	

## **Appendix H**

### **Excerpts from the “Home Again” Studies conducted in Philadelphia and Savannah**

These Studies were conducted by Preservation Action, Preservation Heritage Group, the Preservation Alliance of Greater Philadelphia, and the City of Savannah and first published in 1998 and 1999.



## 2208 Brandywine Street

**Attracting and retaining middle-income families is essential to urban revitalization. HHAA makes it possible for a middle-income family to choose a historic home in the city.**

**A**n architect and an artist decided to move their young family to a house in the city. They searched Philadelphia's neighborhoods for the house they wanted at a price they could afford. They looked at a few suitable houses that were out of their price range, and many inexpensive houses in need of cost-prohibitive rehabilitation.

They found 2208 Brandywine Street, a three-story rowhouse located within the Spring Garden National Register Historic District. The more-than-100-year-old house offered sufficient space and a great location in a dynamic urban neighborhood near Philadelphia's business and museum districts. But it needed substantial rehabilitation.

Using the Historic Homeownership Tax Credit, 2208 Brandywine Street becomes a house that this young family could afford. The family will take advantage of Option 1 or Option 2. Either way, the tax incentive makes it possible for them to rehabilitate a historic property in the city at a price that is competitive with moving to the suburbs.



### 2208 Brandywine Tax Credit Options

#### Option One (homeowner uses tax credit)

Homeowner receives a tax credit	\$19,695
Homeowner invests cash equity	\$37,009
Monthly house payment including reserves	\$1,439.98
Affordability: min. household income at 28% debt ratio	\$61,713

#### Option Two (interest rate buydown)

Homeowner invests cash equity	\$37,009
Monthly house payment including reserves	\$1,285.03
Effective interest rate	7.29%
Monthly savings over option one	\$154.94
Interest savings over 30-year loan	\$55,780
Affordability: min. household income at 28% debt ratio	\$55,073

## 2208 Brandywine Street

### Property valuation

Purchase price/current market value	\$76,000
Sale price/"as rehabilitated" market value	\$190,000

### Project costs

Purchase price/current market value	\$76,000
Rehabilitation cost	94,589
Construction financing	4,847
Holding costs	1,465
Fees and commissions	-
Permanent financing including escrows and reserves	12,108
<b>Total project costs</b>	<b>\$189,009</b>

### Sources of funds

Buyer's cash equity	\$37,009
Mortgage loan	152,000
<b>Total sources</b>	<b>\$189,009</b>

### Home purchase by homeowner

Loan amount	\$152,000
Interest rate	8.750%
Amortization in years	30
Loan discount (points)	1.000%

### Calculation of federal income tax credit

Total qualifying expenditures	\$98,477
20% tax credit	20%
<b>Amount of tax credit</b>	<b>\$19,695</b>

## 1112 Locust Street

**HHAA is a tool for facilitating private redevelopment of historic residential buildings. A private developer can rehabilitate a historic urban home and sell it for profit.**

**R**eal estate developers commonly invest in good properties at desirable locations with an eye to making a profit. Though many historic houses fit this description, the high cost of rehabilitation nevertheless threatens the viability of many projects. Currently, only a fraction of Philadelphia's historic housing stock is rehabilitated and marketed to prospective homebuyers.

1112 Locust Street is a three-and-a-half story rowhouse located in the Washington Square West National Register Historic District. The house is currently vacant and in need of substantial interior and exterior renovation. A private developer is attracted to the property because it is located near fashionable Center City restaurants and shopping. And it retains its historic charm — ingredients for a viable project. The developer sees the potential appeal of this property to a single professional for whom downtown living is a draw. And HHAA's provisions allowing the developer to pass the benefits of the tax credit to the new homeowner make the property more affordable.

A homebuyer can use Option 1, Option 2 or, because this property is located within a distressed census tract, Option 3 of the HHAA tax incentive. Options 2 and 3 make 1112 Locust an affordable option for the developer to resell to a middle-income buyer.



### 1112 Locust Tax Credit Options

<b>Option One</b> (homeowner uses tax credit)	
Homeowner receives a tax credit	\$24,986
Homeowner invests cash equity	\$36,286
Monthly house payment including reserves	\$894.31
Affordability: min. household income at 28% debt ratio	\$38,327

<b>Option Two</b> (interest rate buydown)	
Homeowner invests cash equity	\$36,286
Monthly house payment including reserves	\$715.30
Effective interest rate	5.41%
Monthly savings over option one	\$179.00
Interest savings over 30-year loan	\$64,441
Affordability: min. household income at 28% debt ratio	\$30,656

<b>Option Three</b> (downpayment assistance)	
Mortgage certificate applied to downpayment	\$24,986
Owner cash equity	\$11,300
Balance of certificate pays down loan	—
New monthly house payment including reserves	\$894.31
Monthly savings over option one	—
Equity, interest and PMI savings over 30-year loan	\$24,986
Affordability: min. household income at 28% debt ratio	\$38,327

## 1112 Locust Street

### Property valuation

Purchase price	\$10,000
Sale price	\$145,000

### Project costs

Purchase price	\$10,000
Rehabilitation cost	98,799
Construction financing	3,640
Holding costs	1,105
Fees and commissions	31,900
<b>Total project costs</b>	<b>\$145,444</b>

### Sources of funds

Construction loan	100,000
Developer's equity	694
Net sales proceeds	44,750
<b>Total sources</b>	<b>\$145,444</b>

### Home purchase by homeowner

Purchase price	\$145,000
Loan to value	80%
Loan amount	\$116,000
Interest rate	7.750%
Amortization in years	30
Loan discount (points)	1.000%

### Cash required to close

Purchase price	\$145,000
Closing costs	6,400
Escrow prepaids and reserves	886
<b>Total cash required to close</b>	<b>\$152,286</b>

### Sources of funds

Buyer's cash equity	\$36,286
Bank financing	116,000
<b>Total sources</b>	<b>\$152,286</b>

### Calculation of federal income tax credit

Total qualifying expenditures	\$124,930
20 percent tax credit	20%
<b>Amount of tax credit</b>	<b>\$24,986</b>

## 4220 Pine Street

### An institution combines HHAA and other incentives to revitalize its neighborhood.

**W**hen urban neighborhoods are threatened by loss of population, economic decline, and disinvestment, these neighborhoods need the assistance and partnership of their local institutions. Universities, hospitals, churches and temples, and other major employers are all stakeholders directly vested in the health and stability of their neighborhoods.

The University of Pennsylvania launched a comprehensive program in March 1998 aimed at encouraging homeownership by University employees as a way to revitalize the struggling neighborhoods of West Philadelphia that surround the campus. Through its Office of Community Housing, the University now offers mortgage incentives and home improvement loans for exterior rehabilitation. And the University is acquiring distressed single-family properties for rehabilitation and resale. Response to the University's housing incentives has been overwhelmingly positive.

4220 Pine Street is one of 16 properties acquired so far by the University for rehabilitation and resale. The large, four-story rowhouse, located in the West Philadelphia Streetcar Suburb National Register Historic District, had stood vacant for many years because it was simply too expensive to renovate. The University purchased and underwrote a substantial amount of the renovation to make it affordable as a single-family home for an eligible middle-income owner-occupant. The generous subsidy puts a property in a distressed census tract back on the tax rolls, benefiting neighborhood, University, and City together.

The Historic Homeownership Tax Credit can be combined with innovative strategies like this to strengthen the impact and reach of neighborhood revitalization efforts. The tax credit further becomes a catalyst for institutions to preserve historic homes while creating opportunities for affordable homeownership.

The family that purchases 4220 Pine Street could use Option 1 or Option 2 of the Historic Homeownership Tax Credit. In addition, Option 3 is available because this property is located within a distressed census tract.



#### 4220 Pine

##### Tax Credit Options

###### Option One (homeowner uses tax credit)

Homeowner receives a tax credit	\$40,000
Homeowner invests cash equity	\$52,864
Monthly house payment including reserves	\$1,809.68
Affordability: min. household income at 28% debt ratio	\$77,558

###### Option Two (interest rate buydown)

Homeowner invests cash equity	\$52,864
Monthly house payment including reserves	\$1,523.12
Effective interest rate	5.46%
Monthly savings over option one	\$286.56
Interest savings over 30-year loan	\$103,163
Affordability: min. household income at 28% debt ratio	\$65,277

###### Option Three (downpayment assistance)

Mortgage certificate applied to downpayment	\$40,000
Owner cash equity	\$12,864
Balance of certificate pays down loan	-
New monthly house payment including reserves	\$1,686.18
Monthly savings over option one	\$123.50
Equity, interest and PMI savings over 30-year loan	\$84,460
Affordability: min. household income at 28% debt ratio	\$72,265

## 4220 Pine Street

### Property valuation

Purchase price/current market value	\$115,000
Sale price/"as rehabilitated" market value	\$240,000

### Project costs

Purchase price/current market value	\$115,000
Rehabilitation cost	196,673
Construction financing	4,460
Holding costs	4,992
Fees and commissions	33,000
<b>Total project costs</b>	<b>\$354,125</b>

### Sources of funds

University of Penn. subsidy	\$114,375
Net sales proceeds	239,750
<b>Total sources</b>	<b>\$354,125</b>

### Home purchase by homeowner

Purchase price	\$240,000
Loan to value	79%
Loan amount	\$190,000
Interest rate	7.750%
Amortization in years	30
Loan discount (points)	1.000%

### Cash required to close

Purchase price	\$240,000
Closing costs	11,585
Escrow prepaids and reserves	6,279
<b>Total cash required to close</b>	<b>\$257,864</b>

### Sources of funds

Buyer's cash equity	\$52,864
University of Penn. grant	15,000
Bank financing	190,000
<b>Total sources</b>	<b>\$257,864</b>

### Calculation of federal income tax credit

Total qualifying expenditures	\$236,660
20 percent tax credit	20%
<b>Amount of tax credit (limited to \$40,000)</b>	<b>\$40,000</b>

## 226 West Queen Lane

**Community development corporations can use HHAA to preserve historic fabric while they rebuild communities.**

In cities across the country, community development corporations (CDCs) are leading efforts to rebuild marginalized urban neighborhoods. CDCs combine traditional subsidies with innovative strategies to create homeownership and other investment opportunities within their areas of influence.

Many of Philadelphia's CDCs work in neighborhoods where valuable historic fabric is crumbling. The Greater Germantown Housing Development Corporation (GGHDC) faces this problem within its diverse, struggling historic neighborhood. GGHDC is committed to preserving historic buildings as part of its revitalization strategy, but rehabilitation projects bring additional challenges because they require specialized treatments and investment.

226 West Queen Lane is a three-story rowhouse located within the proposed Penn-Knox/Wister Local Historic District. GGHDC is rehabilitating the house to sell to a first-time homebuyer within the neighborhood. GGHDC will combine existing subsidies to make the house affordable, and will provide technical support to the new owner.

The Historic Homeownership Tax Credit can be an important tool for community development corporations. CDCs can use the tax credit, along with existing homeownership incentives, to create affordable housing for low-income households. The Historic Homeownership Tax Credit gives CDCs an additional tool to redevelop historic homes while increasing neighborhood homeownership.

A first-time homebuyer at 226 West Queen Lane could take advantage of Options 1 and 2. And, if the home were located within a distressed census tract (as are other properties within the community), the CDC could offer homebuyers Option 3, the most attractive incentive to low-income buyers.



### 226 W. Queen Lane Tax Credit Options

<b>Option One</b> (homeowner uses tax credit)	
Homeowner receives a tax credit	\$12,655
Homeowner invests cash equity	\$4,861
Monthly house payment including reserves	\$562.40
Affordability: min. household income at 28% debt ratio	\$24,103
<b>Option Two</b> (interest rate buydown)	
Homeowner invests cash equity	\$4,861
Monthly house payment including reserves	\$471.74
Effective interest rate	5.33%
Monthly savings over option one	\$90.67
Interest savings over 30-year loan	\$32,640
Affordability: min. household income at 28% debt ratio	\$20,217
<b>Option Three</b> (downpayment assistance)	
Mortgage certificate applied to downpayment	\$4,861
Owner cash equity	-
Balance of certificate pays down loan	\$7,794
New monthly house payment including reserves	\$469.52
Monthly savings over option one	\$92.89
Equity, interest and PMI savings over 30-year loan	\$38,301
Affordability: min. household income at 28% debt ratio	\$20,122

## 226 W. Queen Lane

### Property valuation

Purchase price/current market value	\$20,670
Sale price/"as rehabilitated" market value	\$60,000

### Project costs

Purchase price/current market value	\$20,670
Rehabilitation cost	63,365
Construction financing	5,215
Holding costs	2,304
Fees and commissions	9,000
Costs of sale	2,350
<b>Total project costs</b>	<b>\$102,904</b>

### Sources of funds

Sales proceeds	\$60,000
CDBG subsidy	25,000
Developers fee	8,000
Counseling fee	1,000
Gap to be filled with Historic Tax Credit	8,904
<b>Total sources</b>	<b>\$102,904</b>

### Home purchase by homeowner

Purchase price	\$60,000
Loan to value	95%
Loan amount	57,000
Interest rate	7.750%
Amortization in years	30
Loan discount (points)	1.000%

### Cash required to close

Purchase price	\$60,000
Closing costs	2,949
Escrow prepaids and reserves	1,712
<b>Total cash required to close</b>	<b>\$64,661</b>

### Sources of funds

Buyer's cash equity	\$4,861
Philadelphia 500 Grant	1,000
Seller's contribution	1,800
Bank financing	57,000
<b>Total sources</b>	<b>\$64,661</b>

### Calculation of federal income tax credit

Lesser of qualified rehabilitation expenditures or developer's basis	\$63,277
20 percent tax credit	20%
<b>Amount of tax credit</b>	<b>\$12,655</b>



**Model Pro Forma**

To Measure the Impact of a Federal Tax Credit on Home Rehabilitation in Your Historic District

Line	Estimated Cost	Add Lines
<b>Property acquisition</b>		
1		
Improvements (adjusted basis) Rehab costs must exceed adjusted basis except in distressed area		
2	_____	
Land		
3	_____	1+2
Total purchase price		
<b>Total qualifying rehabilitation costs</b>		
4		
Estimated qualified rehabilitation costs including construction costs, architectural fees, building permits, construction period taxes and interest, developer's fees, etc.		
	_____	
<b>Total financing fees and costs</b>		
5		
Mortgage loan fees, appraisal, house inspection, credit report, attorney's or escrow agent fees, title insurance, recording fees, state and local transfer taxes, SHPO fee, etc.		
	_____	
6	_____	3+4+5
<b>Total cash and loans required to close</b>		
<b>Sources of funds</b>		
7	_____	
Owner equity		
8	_____	
Bank financing		
9	_____	
Local or state secondary financing		
10	_____	
Local or state grants		
11	_____	7+8+9+10
<b>Total sources of funds (total must equal Line 6)</b>		
<b>Calculating the Rehabilitation Tax Credit</b>		
12	_____	Line 4
Total qualifying expenditures		
13	_____ x 20%	
Rehabilitation tax credit rate		
14	_____	
Historic homeowner's rehabilitation tax credit		
<b>Option One: Homeowner Uses Credit on Individual Income Tax Return</b>		
15	_____	Line 14
Tax credit can be carried back 1 year and forward 20		
16	_____	Line 8
Mortgage loan (line 8)		
	_____ x 0.7164%	
Mortgage constant for 30-year fixed rate 7.75% loan		
17	_____	
Monthly loan payment of principal and interest		
<b>Option Two: Homeowner Uses Mortgage Certificate to Reduce Interest Rate</b>		
18	_____	Line 8
Mortgage loan (line 8)		
19	(_____)	- Line 14
Subtract tax credit		
20	_____	18-19
Mortgage loan reduced by tax credit		
	_____ x 0.7164%	
Mortgage constant for 30-year fixed rate 7.75% loan		
21	_____	
Monthly loan payment of principal and interest		
<b>Option Three: Homeowner Uses Mortgage Certificate as Downpayment</b> (Available only in a distressed Census Tract)		
22	_____	Line 7
Owner equity requirement		
23	(_____)	- Line 14
Subtract tax credit		
24	_____	22-23
Owner's equity after tax credit		
25	_____	Line 8
Mortgage loan (line 8)		
26	_____	24 if < 0
If line 24 is < 0, use to reduce mortgage loan		
27	_____	25+26
Reduced mortgage loan needed		
	_____ x 0.7164%	
Mortgage constant for 30-year fixed rate 7.75% loan		
28	_____	
Monthly loan payment of principal and interest		



Kathy Ledvina

## 603 West 38th

Cuyler-Brownsville Historic District

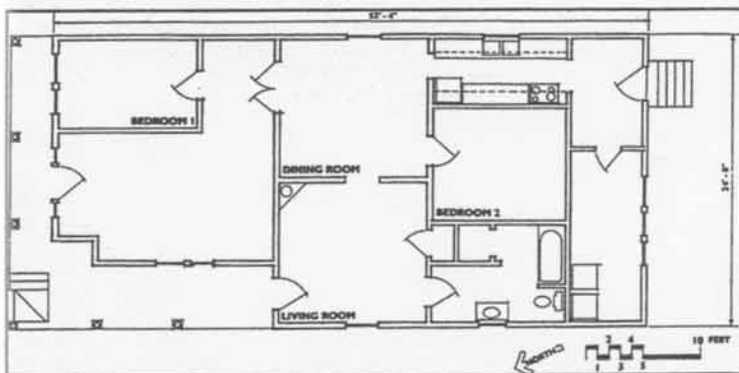
Census Tract: 2300

Median Income: \$11,799

Total Units: 1283 Vacant Units: 287 or 22%

Mortgages: \$22,000 - \$354,450

(18 between 7/97 and 6/98)



J. Brendan Meyer



J. Brendan Meyer

# 603 West 38th

## Tax Credit Used for Downpayment Assistance

Cuyler-Brownsville Historic District  
1,431 s.f. raised bungalow style on 2,970 s.f. lot  
Homeowner uses the \$11,277 tax credit to make the down payment and a \$23,085 lead paint abatement grant from the City of Savannah. Property must be located in a distressed census tract for homeowner to be eligible to use this method.

### Appraisal Information

Current fair market value	\$ 32,500
"As rehabilitated" fair market value	\$ 85,000
Current annual property taxes	\$ 167.17

### Project Costs

Property purchase price	\$ 32,500
Qualifying rehabilitation costs	56,384
Non-qualifying rehabilitation costs	23,710
Loan fees and costs	2,394
Reserves for taxes and insurance	<u>572</u>
Total cash, loan and grants required to close	\$ 115,560

### Sources of funds

Owner's equity	\$ -
Mortgage tax credit certificate	11,277
Mortgage loan	81,199
Lead paint abatement grant	<u>23,085</u>
Total sources of funds	\$ 115,560

### Calculation of federal income tax credit

Total qualifying expenditures	\$ 56,384
20% tax credit	<u>20%</u>
Amount of tax credit	\$ 11,277

### Mortgage loan (30-year fixed rate)

Amount of loan	\$ 81,199
Loan to value	96%
Interest rate	7.00%

### Monthly house payment

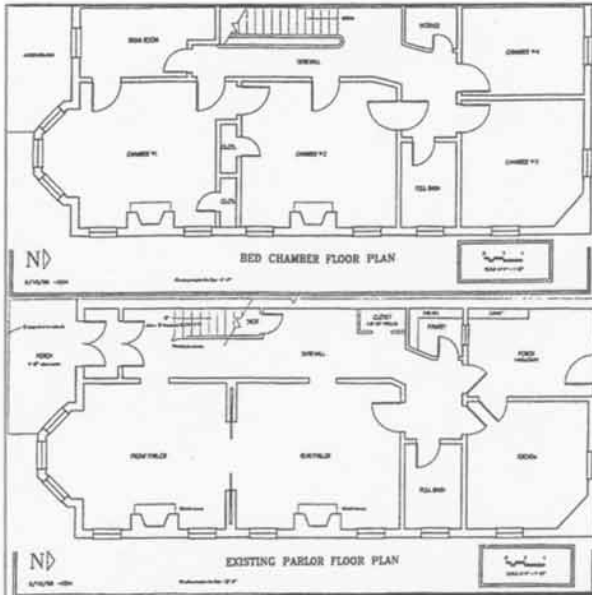
Principal and interest	\$ 540.22
Private Mortgage Insurance (96% LTV)	49.53
Property Taxes	13.93
Property Insurance	<u>35.86</u>
Monthly mortgage payment	\$ 639.54



Nellie L. Longworth

## 218 East Bolton

Victorian Historic District  
 Census Tract: 1500  
 Median Income: \$11,090  
 Total Units: 791 Vacant Units: 149 or 18%  
 Mortgages: \$45,600 - \$430,000  
 (23 between 7/97 and 6/98)



Dirk Hardison, Historic Savannah Foundation



J. Brendan Meyer

# 218 East Bolton

## Tax Credit Used to Reduce Mortgage Interest

Victorian Historic District  
2,548 s.f. duplex on 2,970 s.f. lot  
Built in 1897

Homeowner uses tax credit to "buy down" mortgage interest rate to 5.28% on a 30-year fixed rate mortgage. Interest savings of \$79,988 over the 30-year life of the mortgage.

### Appraisal Information

Current fair market value	\$ 40,000
"As rehabilitated" fair market value	\$ 210,000
Current annual property taxes	\$ 606.50

### Project Costs

Property purchase price	\$ 40,000
Qualifying rehabilitation costs	166,983
Non-qualifying rehabilitation costs	629
Loan fees and costs	4,135
Reserves for taxes and insurance	1,177
Total cash, loan and grants required to close	\$ 212,924

### Sources of funds

Owner's equity	\$ 12,924
Mortgage loan	200,000
Lead paint abatement grant	-
Total sources of funds	\$ 212,924

### Calculation of federal income tax credit

Total qualifying expenditures	\$ 166,983
20% tax credit	20%
Amount of tax credit	\$ 33,397

### Mortgage loan (30-year fixed rate)

Amount of loan	\$ 200,000
Loan to value	95%
Interest rate	5.28%
Interest savings over 30 years	\$ 79,988

### Monthly house payment

Principal and interest	\$ 1,108.42
Private Mortgage Insurance (95% LTV)	101.63
Property Taxes	50.54
Property Insurance	66.04
Monthly mortgage payment	\$ 1,326.62



Nellie L. Longworth

## 501 East Huntingdon

Savannah Landmark National Historic District

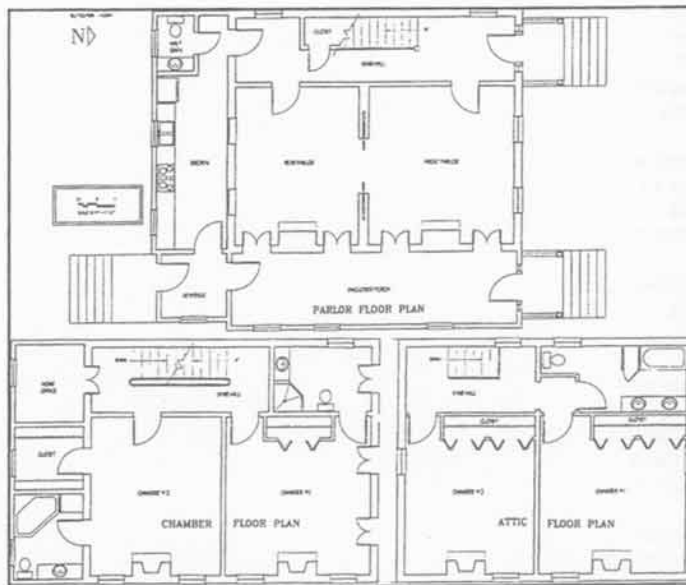
Census Tract: 1000

Median Income: \$9,067

Total Units: 770 Vacant Units: 207 or 27%

Mortgages: \$10,700 - \$315,000

(22 between 7/97 and 6/98)



Dirk Hardison, Historic Savannah Foundation



J. Brendan Meyer

# 501 East Huntingdon

## Credit Used to Reduce Federal Tax Liability

Landmark Historic District  
2,929 s.f. Second Empire style on 3,400 s.f. lot  
Built in 1900  
Use of a \$39,000 historic homeowner's tax credit bridges the "appraisal gap" between the \$261,000 project cost and the projected \$230,000 fair market value of the rehabilitated house.

### Appraisal Information

Current fair market value	\$ 60,000
"As rehabilitated" fair market value	\$ 230,000
Current annual property taxes	\$ 892.03

### Project Costs

Property purchase price	\$ 60,000
Qualifying rehabilitation costs	194,514
Non-qualifying rehabilitation costs	440
Loan fees and costs	4,510
Reserves for taxes and insurance	1,482
Total cash, loan and grants required to close	\$ 260,946

### Sources of funds

Owner's equity	\$ 41,946
Mortgage loan	219,000
Lead paint abatement grant	-
Total sources of funds	\$ 260,946

### Calculation of federal income tax credit

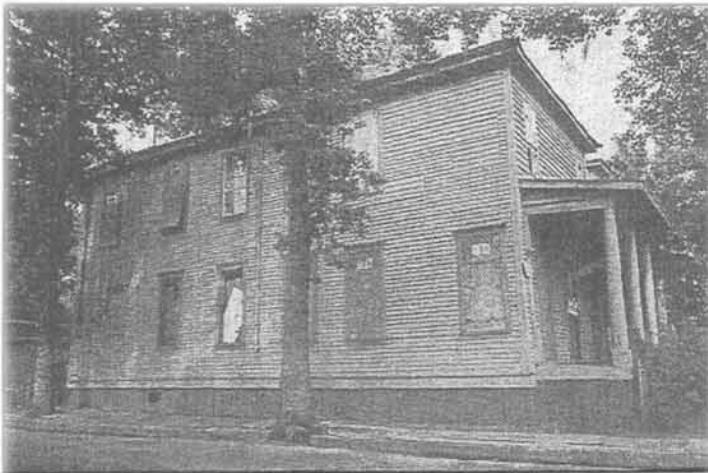
Total qualifying expenditures	\$ 194,514
20% tax credit	20%
Amount of tax credit	\$ 38,903

### Mortgage loan (30-year fixed rate)

Amount of loan	\$ 219,000
Loan to value	95%
Interest rate	7.00%

### Monthly house payment

Principal and interest	\$ 1,457.01
Private Mortgage Insurance (95% LTV)	133.59
Property Taxes	74.34
Property Insurance	79.32
Monthly mortgage payment	\$ 1,744.26



Bob Naito

## 220 West 35th

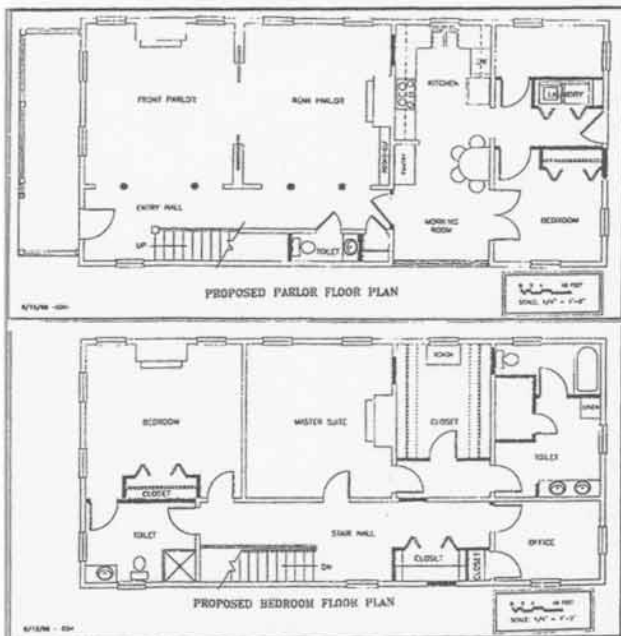
Thomas Square -Trolley Historic District  
Census Tract: 2400

Median Income: \$12,234

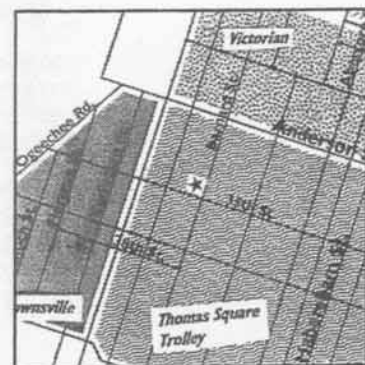
Total Units: 728 Vacant Units: 157 or 21%

Mortgages: \$34,00 - \$103,000

(8 between 7/97 and 6/98)



Dirk Hardison, Historic Savannah Foundation



J. Brendan Meyer



# 220 West 35th

## Comparison of Three Credit Use Options

2573 s.f. single family residence on 2,625 s.f. lot, ca. 1910

Estimated "as completed" value of \$95,000 limits conventional bank financing to 81% of project costs. Tax credit would meet the next 14% of project costs leaving an equity requirement of 5%. Homeowner can apply credit against personal income tax liability; use the tax credit for a down payment; or reduce the interest rate on the mortgage to 5.19%.

### Appraisal Information

Current fair market value	\$ 30,000
"As rehabilitated" fair market value	\$ 95,000
Current annual property taxes	\$ 220.69

### Project Costs

Property purchase price	\$ 30,000
Qualifying rehabilitation costs	80,865
Non-qualifying rehabilitation costs	193
Loan fees and costs	2,524
Reserves for taxes and insurance	596
Total cash, loan and grants required to close	<u>\$ 114,178</u>

### Sources of funds

Owner's equity	\$ 22,028
Mortgage loan	92,150
Lead paint abatement grant	-
Total sources of funds	<u>\$ 114,178</u>

### Calculation of federal income tax credit

Total qualifying expenditures	\$ 80,865
20% tax credit	20%
Amount of tax credit	<u>\$ 16,173</u>

### Mortgage loan (30-year fixed rate)

Amount of loan	\$ 92,150
Loan to value	97%
Interest rate	7.00%

### Option 1: Use tax credit on personal return

Receive tax credit against federal income tax	\$ 16,173
Cash equity required to close	\$ 22,028
Monthly house payment	\$ 723.70

### Option 2: Use tax credit to reduce down payment

Cash equity required to close	\$ 5,855
Monthly house payment	\$ 723.70

### Option 3: Use tax credit to "buy down" interest rate

Cash equity required to close	\$ 22,028
Monthly house payment	\$ 606.23
Mortgage loan interest rate	5.19%
Interest savings over 30 years	\$ 42,287

## Appendix I

### List of States with a State Income Tax Credit for Historic Rehabilitation

Colorado  
Connecticut  
Delaware  
Georgia  
Indiana  
Iowa  
Kansas  
Kentucky  
Louisiana  
Maine\*  
Maryland  
Massachusetts\*  
Michigan  
Mississippi  
Missouri  
Montana\*  
New Mexico  
New York  
North Carolina  
North Dakota  
Oklahoma  
Rhode Island  
South Carolina  
Utah  
Vermont\*  
Virginia  
West Virginia  
Wisconsin

Total: 28 States

\* Denotes states that do not offer a tax credit for owner-occupied residences  
List Created April 2007

## Appendix J

### The Historic Homeownership Rehabilitation Credit and other National Community Revitalization Programs

#### Community Development Corporations (CDCs)

- Targets low income communities
- Very broad term, involved in wide range of projects from job creation to commercial and residential development
- Projects involve commercial and residential property
- Rely on federal funding and other investment partners
- Often receive funding from CDBGs
- Non-profit organizations
- Neighborhood based, rely on a group of existing local stakeholders

#### Community Development Block Grants (CDBG)

- Targets low income families
- Objective is to eliminate slums and blight through economic development projects
- Commercial and residential projects, many projects strictly commercial with no residential aspect
- Federally funded grants awarded to local entities that must match funds
- Requires grant proposal to receive funds
- Can be combined with federal grant-in-aid programs that require a non-federal share
- Easily used with government owned properties like public housing

#### Community Land Trusts

- Targets low and moderate income families
- Goal is to reduce absentee homeownership and promote local land control
- Primarily involved in residential properties, with some projects involving public parks and open space
- Requires significant outside funding
- Relies on a motivated group of stakeholders
- Private non-profit corporation
- Try to make homes affordable for the next homeowner

#### Historic Homeownership Rehabilitation Credit

- Targets moderate income families, but it is possible for low income families to utilize credit
- Goal is to encourage homeownership in disinvested older urban areas to save historic fabric and create mixed income neighborhoods
- Only applicable to historic residential properties
- Does not rely on any outside support from nonprofits or corporate donors, generated entirely by private investment
- Credit instead of grant, less government oversight and no direct disbursement of government funds
- Does not rely on action by existing neighborhood residents, but they would benefit from investment in the neighborhood