

**Economic Impact of A Proposed
State of Tennessee
Historic Tax Credit**

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Tennessee Certified Economic Developer Capstone Project

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Overview of Historic Tax Credit in the State of Tennessee

MAIN STREET HISTORIC TOURISM AND REVITALIZATION ACT

A grassroots statewide coalition is anticipating the approval of the proposed 2019 Main Street Historic Tourism Revitalization Act by the General Assembly for House Bill #1063 and Senate Bill #1053. The legislative proposal of Historic Tax credits will encourage the rehabilitation of smaller buildings in rural areas as well as those in larger towns.

This initiative has a proven track record in 35 states nationwide which includes all eight states that border Tennessee. The economic impact of this proposed legislation would offer historic tax credits to help revitalize Main Street communities, Tennessee Downtown Districts, create jobs, and put vacant historic buildings back on the tax rolls as income-producing vibrant businesses.

(The listing of Tennessee Main Street communities are on page 6-7 of this document)

The federal preservation tax incentives are fairly well known throughout the state, but with banks reluctant to lend and no cash or non-federal tax incentives available, properties are often sold for the value of the land on which the building is sited. In rural areas, demolition as the result of neglect is a major problem. Properties such as rural stores and gas stations that were once staples of communities are no longer viable for their original use. Even when the Tennessee Historical Commission promotes their reuse, there is currently no financial incentive besides the Federal Preservation Tax credit.

Current legislation in 2019 for the proposed 2019 Main Street Historic Tourism Revitalization Act has gained the support of local municipality mayors as well as a broad coalition of architects,

preservationists, property owners, and Main Streets. These groups and organizations are recommending the adoption of a state historic tax credit that could be easily used by commercial property owners across the State of Tennessee. “The proposed 2019 legislation is the fifth time in 5 years legislators have attempted to obtain approval of a state historic tax credit. “The historic tax credit is a great resource to protect and preserve our buildings for future generations” stated Patrick McIntyre, Executive Director of the Tennessee Historical Commission and State Historic Preservation officer.

The efforts of this legislation supports the vision statement of the Tennessee Historical Commission Preservation plan for 2013-18. The vision statement of said plan is listed on the Tennessee Historical Commission website and states “ In Tennessee historic buildings, sites, landscapes, and neighborhoods are valued assets which contribute to the spiritual, intellectual, aesthetic, and **economic** well-being of the community; the social and political environment allows government, institutions, organizations and individuals to act on this ethic by working effectively to preserve, protect and integrate historic properties into community fabric and life.”

ELIGIBLE TENNESSEE DOWNTOWN DISTRICTS AND BUILDINGS

These tax incentives would be used to rehabilitate only certified historic buildings and are only able to participate when the State Historic Preservation Office (SHPO) has certified that the project work has met the Secretary of the Interior standards of Rehabilitation. These standards address items such as:

- the historic character of a property shall be retained and preserved
- changes that create a false sense of history are avoided

- deteriorated historic features shall be repaired rather than replaced where possible
- In order to qualify, historic buildings must be income producing and substantially rehabilitated (Attachment-Historic District spreadsheet)

FRAMEWORK TO ADMINISTER THE TENNESSEE HISTORIC TAX CREDIT

Historic rehabilitation incentives are approved by the Tennessee Historical Commission using the existing process for evaluation of federal historic tax credits. The agency certifies the significance of the older buildings and the rehabilitation project work, and records impact such as the number of jobs created both during and after the renovation process.

Applications are to be reviewed are on a first-come, first serve basis. The incentive allows businesses, non-profits, and long-term leases to renovate certified historic buildings according to the Secretary of the Interior Standards for Rehabilitation. Work must start within 18 months of the approval by the Tennessee Historical Commission.

TIERED ECONOMIC INCENTIVES

As of the writing of this document, the proposed tiered economic incentives are listed in the current proposed legislation before the General Assembly.

- 10% State Historic Tax incentives for Williamson and Davidson Counties
- 20% State Historic Tax incentives for Hamilton, Knox and Shelby Counties
- 30% State Historic Tax incentives for other Tennessee counties/communities
- 5% A “bump-up” would be given as an additional incentive credit for rehabilitation projects located in certified Tennessee Main Street communities, Tennessee Downtown communities and smaller CLG communities. (Listing of communities below must have a

building project on the National Register or the downtown area listed as a whole on the National Register)

The proposal has a capped program with a per-project cap to encourage and ensure many rehabilitation projects are sparked across the state.

Tennessee Main Streets-current listing of 35 certified Tennessee Main Street programs

Athens	Gallatin	Murfreesboro
Bolivar	Greeneville	Paris
Bristol	Jackson	Pulaski
Brownsville	Johnson City	Ripley
Cleveland	Jonesborough	Rogersville
Collierville	Kingsport	Savannah
Columbia	Lawrenceburg	Sevierville
Cookeville	Lebanon	Sweetwater
Dayton	Maryville	Tiptonville
Dyersburg	McKenzie	Union City
Fayetteville	McMinnville	Winchester
Franklin	Morristown	

As of 2019, there are 56 downtown communities that have participated in the Tennessee Downtown Program. There could be eligible projects in Tennessee Downtown designated areas

if the area is listed on the National Register or is a proposed building project on the National Register.

The nationwide movement of Main Street America is a great program that continues to forge the future by protecting the past through the heart and soul of downtown districts. The movement gives one a sense of place through the connectivity of character of these buildings. With the assistance of incentives such as a historic tax credits, Tennessee's downtowns will continue to be the **economic** driver of a vibrant and sustainable community.

The Main Street program has a proven methodology known as the Main Street Four-Point approach used to revitalize traditional commercial districts. Historic Preservation Tax incentives are valuable tools to encourage appropriate design for historic commercial buildings, create an economic development motivation for restoring the structures, utilize the public-private organization in place for administering the tax credits, and promote the value of the historic district. This program developed by the National Main Street Center is based on a comprehensive strategy of work, tailored to meet local needs and opportunities through implementation of a local program of work in four key areas:

Design: Enhancing the district's physical appearance through building rehabilitation, public improvements and design management systems.

Economic Vitality: Strengthening the district's **economic** base and creating new opportunities through careful analysis and appropriate mixed-use development.

Promotion: Marketing the commercial district through events and advertising to attract customers, potential investors, new businesses, residents and visitors.

Organization: Building consensus and cooperation among public and private groups and individuals and identifying sources of funding for revitalization activities.

All four areas would incorporate and utilize the historic tax credit within their strategy of continued revitalization of a commercial downtown district.

Case Studies of Proposed Tax Credit

BENEFITS OF SPECIFIC PROJECTS IN TENNESSEE

Project case studies listed below were provided by the National Trust for Preservation and the American Institute of Architects/TN Society (AIA/TN). These case studies were used in 2018 as an educational tool for AIA members, legislators and public information for the community of Bristol and Lynnville. Also, included is an example provided through an interview with Memphis Heritage Director, June West, for the largest project in the state of Tennessee. Three examples from West to Middle to East are included in this document.

- ***Bristol, Tennessee (Located in East Tennessee) during the timeframe of 2002-2017: On the Virginia side there were 7 rehab buildings with 29 million in expenditures compared to the Tennessee side that had 2 rehab buildings with 2 million expenditures.***
- ***Lynnville, Tennessee (Located in Middle Tennessee) Col. Littleton, local manufacturer of high quality leather goods, operates two stores in historic buildings in downtown Lynnville, Giles County-population 327. The stores attract buyers and tourist from far and wide and help support several other stores, including the Wildhorse Trading Company, The Lynnville Railroad Museum, Tenn South Distillery and the Soda Pop Junction..***

- *Memphis, Tennessee (Located in West Tennessee) Crosstown concourse project is the largest in the state. “Without the use of historic tax credits, the restoration and repurposing of the historic Sears tower and building would not have been possible. With \$36.5 million in Historic Tax Credit equity that was provided, the largest HTC project in the history of Tennessee, the vertical village will benefit the people of Memphis for decades to come” stated June West, Executive Director of Memphis Heritage.*

Projects have been identified across the state of Tennessee from East to Middle to West and include buildings such as community theaters, historic churches, boutique hotels, office buildings, and other significant architectural buildings that are part of the heritage and character of our communities. One of the benefits is to repurpose buildings that have been in a time warp and vacant. Adaptive reuse of vacant buildings lends to implementing productive uses of these historic structures. Per the National Trust for Historic Preservation, 60% of buildings rehabbed in 2014 using the Wisconsin State Historic Tax Credit had been vacant 10, 20, and up to 30 years. In the State of Ohio, 82% of the buildings rehabbed were vacant prior to being redeveloped with the use of the Ohio State Historic Tax Credit. Thus, there is truly an opportunity for **economic** development through Historic Preservation and tax credit incentives.

HOW WILL THE PROPOSED TAX CREDIT ASSIST IN REVITALIZATION EFFORTS IN TENNESSEE DOWNTOWNS? This type of incentive is vital for redevelopment of historic

structures that are often too costly to repurpose without financial assistance. The preservation of historic structures is the foundation of the character of a downtown district. There are many stakeholders identified that will benefit from this type of tax credit such as:

- architects,

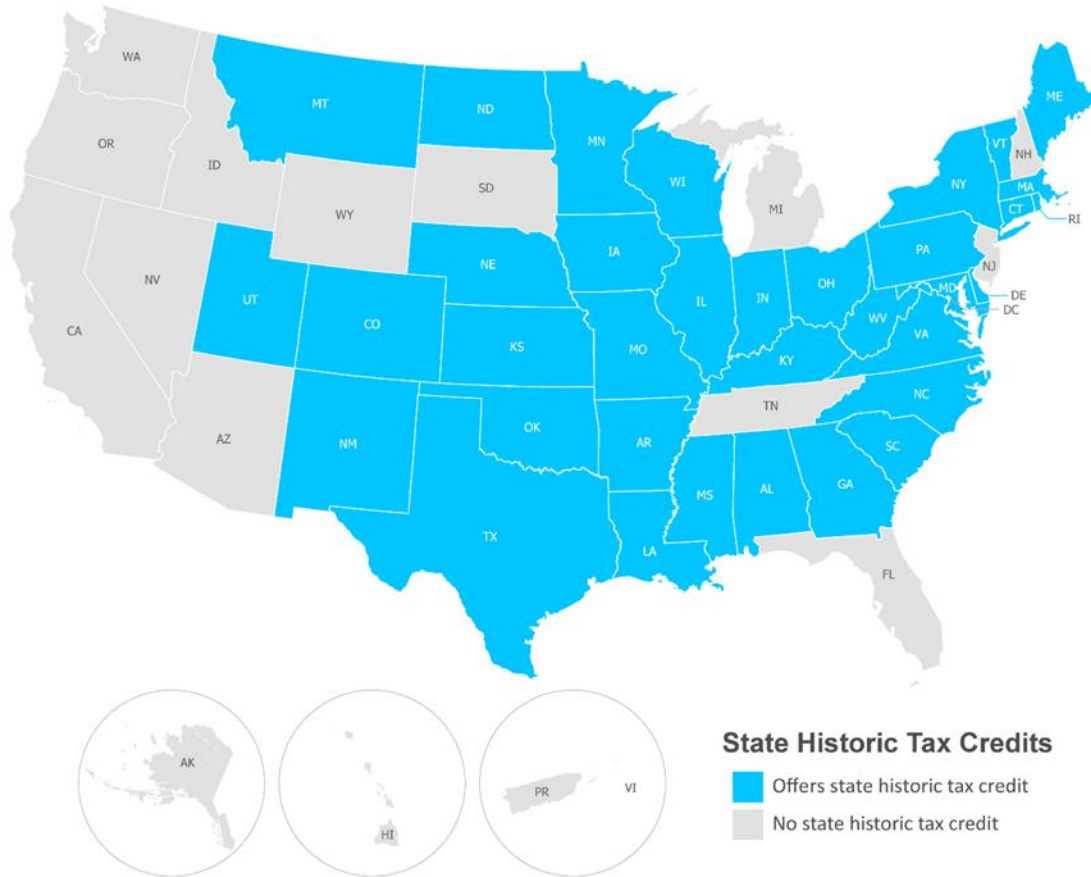
- financial institutions,
- contractors,
- developers,
- business owners/associations,
- realtors,
- preservation organizations,
- Main Street communities/development organizations,
- residential neighborhoods,
- chambers,
- tourism/convention visitors bureaus,
- cities/towns across the state, and
- rural Tennessee counties.

Documented in the letter of support from the Downtown Memphis Commission, President Jennifer Oswalt is quoted “Downtown Memphis developers show us repeatedly how much they value our historic buildings and we believe that renovation of these treasured assets is drawing people to live, work and visit Downtown Memphis. The Main Street Historic Tourism and Revitalization Act are extremely important to the redevelopment of the hearts of our communities and our downtowns.”

DID THE TAX INCENTIVE PROVIDE ECONOMIC ACTIVITY IN NEIGHBORING STATES TO TENNESSEE?

The eight bordering states of Alabama, Kentucky, Virginia, North Carolina, Georgia, Mississippi, Missouri and Mississippi have been able to capture the use of this **economic** tool

to revitalize and transform historic buildings by adopting a state historic tax credit that incentivizes the preservation of historic buildings.



In the past six years there have been seven states to adopt a new state tax credit- Texas (2013), Nebraska (2014), Colorado & North Carolina (2015), Mississippi (2016), Alabama (2017) and Illinois (2018). Neighbors in bordering state of Kentucky implemented a state historic tax credit in 2005. From 2005-2018, \$517 million of private funds invested in historic buildings, leveraged through \$39.7 million in credits which created 17,475 jobs. (source- Kentucky Heritage Council fb page and www.heritage.ky.gov)

CONCLUSION

WHY ENACT A TENNESSEE HISTORIC TAX INCENTIVE?

The **economic** impact of a proposed State of Tennessee Historic Tax Credit could drive private investment back into rural Tennessee Downtown Districts and certified Main Street communities. Enacting this tax incentive would create highly paid local jobs because labor is usually hired locally and often includes higher paid craftsmen skilled at repairing historic windows, plaster, masonry, and flooring. Rehabilitation projects are on average 60 % labor and 40% materials compared to new construction costs of about 40 % labor and 60% materials.

These tax incentives for qualified rehabilitation of Tennessee’s historic buildings could be the foundation of revitalization efforts across the state with specific focus on reinvestment in Main Street communities. Tennessee could join 35 other states across the Nation that have enacted this type of **economic** tool for business development, encouraging **economic** vitality of downtown districts and visitors to the “*soul*” of our Tennessee downtown communities.

Lack of a state historic tax credit has placed our state at a competitive disadvantage when recruiting certain businesses to located in our downtowns.

WILL THE HISTORIC TAX CREDIT HAVE A “ROI” AND ASSIST WITH REVITALIZATIONS EFFORTS?

A return on State investment is strong even after the completion of the project. Rehabilitated buildings will continue to generate new local and state tax revenues. The following table provides the **economic** impact of a total of 173 Federal Historic tax credit projects. These

projects received certification from the National Park Service between fiscal year 2002-2016, resulting in over \$600 million in total development (Data source- National Park Service, 2017)

State of Tennessee

Economic Impacts of Federal HTC Investment, FY 2002-2016

Total Number of Projects Rehabilitated:	173
Total Development Costs:	\$ 608,417,236
Total Qualified Rehabilitation Expenditures:	\$ 504,986,306
Federal HTC Amount:	\$ 100,997,261
Total Number of Jobs Created:	9,511
Construction	4,485
Permanent:	5,026
Total Income (Net of Taxes) Generated:	\$ 596,062,200
Household:	\$ 323,691,600
Business:	\$ 272,370,600
Total Taxes Generated:	\$ 115,826,600
Local:	\$ 12,110,000

State: \$ 9,384,500

Federal: \$ 94,332,100

The long-term return on investment would trickle down to the overall increase of local property values which increases city revenues to support municipal services.

WOULD THIS INCENTIVE BOOST TOURISM AND ECONOMIC VITALITY?

A recent survey showed that over 50% of respondents polled agreed that history and culture are strong influences on their choice of holiday destinations. With tourism being Tennessee's #2 industry, a historic tax incentive helps expand this economy by creating even more vibrant historic downtowns for visitors, locals, and relocating businesses alike. "Tourism in Tennessee would see a significant boost if Main Streets and downtowns had new tools to promote their heritage. Incentives that spur investment in the adaptive reuse of historic buildings is a proven way to attract new visitors" stated Renee Kuhlman, Director of Policy Outreach, Government Relations and Policy.

Heritage Tourism

Banking on Tennessee's History: The Economic Value of Historic Preservation to the People of Tennessee, a 2005 report by the Tennessee Preservation Trust, noted that as the state's second largest industry, tourism generated \$10.3 billion in revenues. Heritage tourism spurs growth in related industries such as food and lodging, resulting in an even higher economic benefit to the state and host communities. As it relates to heritage tourism, data in the 2005 TPT document

reported both Chattanooga and Memphis received the highest number of visitors interested in historic places. One of the primary reasons for developing heritage tourism has been the realization that heritage tourists spend almost twice as much than other travelers on vacation.

A tourism support letter (prepared by PLA Media) included information about heritage tourism: The Main Street Historic Tourism and Revitalization Act introduced by Senator Bo Watson (SB 1053) and Representative Kevin Vaughan (HB 1063), will help underperforming historic buildings into assets that bring more visitors and locals downtown. Studies at the local, state and national level over the past 20 years consistently show that cultural heritage tourists stay longer and spend more money at their destinations than do other tourists.

Many organizations and communities have joined to work toward the implementation of a state historic preservation tax credit for Tennessee to put the state on par with its eight neighboring states and to assist the many property owners who are trying to save their downtown commercial districts. Without this added incentive, investment in these downtown buildings can be expected to move to other states. Whether or not the 2019 effort is successful, the need to address the condition of historic buildings in commercial districts will continue.

Resource page

PUBLICATIONS

National Trust for Historic Preservation

<https://forum.savingplaces.org/viewdocument/report-onstate-historic-tax-credit>

Memphis Business Journal- Guest Column by TN Rep District 95 Kevin Vaughan 12.26.18

<https://www.bizjournals.com/memphis/news/2018/12/26/guest-column-every-state-bordering-tn-has.html?fbclid=IwAROkxflOPEWQpjU>

Tennessee Historic Commission Preservation Plan- website listed below

WEBSITES

<https://www.tn.gov/.../about-tdec/tennessee-historical-commission.html>

<https://www.tn.gov/tdot/environmental-home/transportation.html>

<https://www.tn.gov/ecd/rural-development/tennessee-main-street.html>

<https://www.legislature.state.tn.us>

<https://www.heritage.ky.gov>

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Renee Kuhlman- National Trust for Historic Preservation, Director of Policy Outreach

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