Historic Tax Credits Webinar

Welcome!

VIRGINIA MAIN Street

VIRGINIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Credits Where Credits are Due:
Bringing Historic Tax Credits to Main Street

with Kathy Frazier, Frazier Associates

February 19, 12 – 1 PM

1. **Be aware, phones are muted.**
2. **Use the chat feature to ask questions**. The questions will be compiled after the webinar, answered, then distributed by email to participants, along with a copy of the presentation.
3. **Please complete the Survey Monkey evaluation** that will be emailed after the webinar.
4. **Save the dates** >> Regional RevUps: Historic Tax Credit on Main Street
   April 6 – Hopewell; April 13 – Marion; and April 20 - Harrisonburg

Learning Objectives

- Explore how the credits can be used to attract and incentivize downtown investment
- Discuss in detail how to navigate both the state and federal historic tax credit process
- Breakdown the design guidelines of the *Secretary of the interior's Standard for Rehabilitation*
- Highlight successful, downtown tax credit projects from Virginia's Main Streets

Thanks to VDHR for supplying information for this presentation.

Our Historic Downtowns and the Tax Credits

Federal and State Programs

Federal Program

(National Park Service)

- Established 1977
- Over 38,700 projects certified nationally since 1977; 744 certified FY ‘12
- More than $106 billion invested; $291 million in FY ‘12

Virginia Program

(Virginia Department of Historic Resources)

- Established in 1997
- Modeled on Federal Program
- $3.97 billion invested since 1997
- Over 2,375 state projects certified

What are Historic Tax Credits?

- Dollar-for-dollar reduction in income tax liability;
- Available for rehab of *certified historic structures;*
- Based on percentage of *qualified rehabilitation expenditures;*
- May be "syndicated," i.e. transferred to taxpayer in exchange for money;
- Provides financial leverage for projects.

Qualified Expenditures

Included:

- Bricks and Mortar
- Structural
- Systems: mechanical, electrical, plumbing, etc.
- Most work within existing, historic buildings
- Certain “soft costs”
  - Engineering and architectural fees
  - Consulting
  - Construction and mortgage interest during rehab

Not included:

- Acquisition costs
- Costs associated with enlargement of building
- Appliances and furniture

Comparison of Credits – Federal Program

- Income-producing buildings only
- 100% of *adjusted basis**
- 20% of eligible expenditures
- 5-year holding period
- 20-year carry forward, 1-year carryback

**Adjusted basis= Value of depreciation taken on federal return. Depreciate commercial real estate over 39 years; leasehold improvements over 15. Land is not depreciated.*

Comparison of Credits – Virginia Program

- Income-producing AND owner-occupied buildings
- Spending threshold: 50% *local building assessment* for income-producing property; 25% for residential
- 25% of eligible expenditures
- No holding period
- 10-year carry forward, no carryback

Combined Benefit

- Can be up to 45% of the cost of the rehabilitation depending on how the owner can use the credits!

What does that mean?

- Typical downtown building: 25'wide x 100' deep x 2 stories = 5000 square feet
- Typically starting with a shell with service to the building (meaning electric, gas, etc)
- Minimum $100/square foot rehab costs
- $500,000 rehabilitation costs
  - 20% Federal = $100,000 credit
  - 25% State = $125,000 credit
- $225,000 combined credit reduces rehabilitation costs to $275,000
- There are many ways to structure projects to use the credits.

How to Qualify

- Must be certified historic structure
  - *Individually* listed on the National and Virginia Landmarks Registers
  - Certified as *contributing* in a listed historic district
- Follow *The Secretary of the Interiors Standards for Rehabilitation*
- Meet required spending thresholds
- Includes the *entire* project, even parts that are not eligible for the credits.

Standards for Rehabilitation - Philosophy

- Stress adaptive re-use of buildings – not "restoration"
- 10 common sense principles, used nationwide
  - Retain character-defining features and historic fabric
  - Flexibility in secondary spaces
  - Repair, rather than replace
  - Additions should be compatible and subordinate

www.nps.gov/tps/standards/rehabilitation

www.nps.gov/tps/how-to-preserve

The Secretary of the Interiors Standards

1. New uses to require minimal change to floor plan
2. Historic character is maintained
3. False historicism, adding conjectural features will be avoided
4. Changes over time that have become historic in their own right will be preserved
5. Materials and craft will be preserved
6. Repair rather than replace
7. Gentlest means possible will be used when cleaning
8. Archeological resources will be protected
9. New additions or related new construction will be differentiated and compatible
10. Related new construction will not impair historic property if removed in the future

Caution: Tripping Hazards

- Window replacement
  - Existing historic wood and metal windows
  - Replacement windows
- Interior original wall finish removal
  - Plaster
  - Wood trim, wainscoting
- Original flooring replacement
- Adding interior atriums
- Adding period elements that are not associated with the building

…just to name a few

How to Apply

- Three part application
- Part 1 is for buildings in a historic district
  - Certifies that the building is a contributing structure
  - VDHR website has all National Register nominations www.dhr.virginia.gov
- Part 2 describes the work to be done
- Part 3 describes the competed work
- Two-year period to meet spending threshold (unless a phased project, which is five years, is declared at the beginning)

Part 1: Evaluation of Significance

COMMONWEALTH OF VIRGINIA
DEPARTMENT OF HISTORIC RESOURCES

STATE HISTORIC REHABILITATION TAX CREDIT PROGRAM
HISTORIC PRESERVATION CERTIFICATION APPLICATION
PART 1 - EVALUATION OF SIGNIFICANCE

Project No: _____

structions: Read the instructions carefully before completing application. No certification will be made unless a completed application rm has been received. Type or print clearly in black ink. If additional space is needed, use continuation sheets or attach blank sheets. *lease note that for properties listed individually in the Virginia Landmarks Register, Evaluation of Significance is not required; owever, for all properties the first page of this form is to be used to request state credits, for projects for which application is made for oth state and federal credits.*

Name of property: Broke Cottage

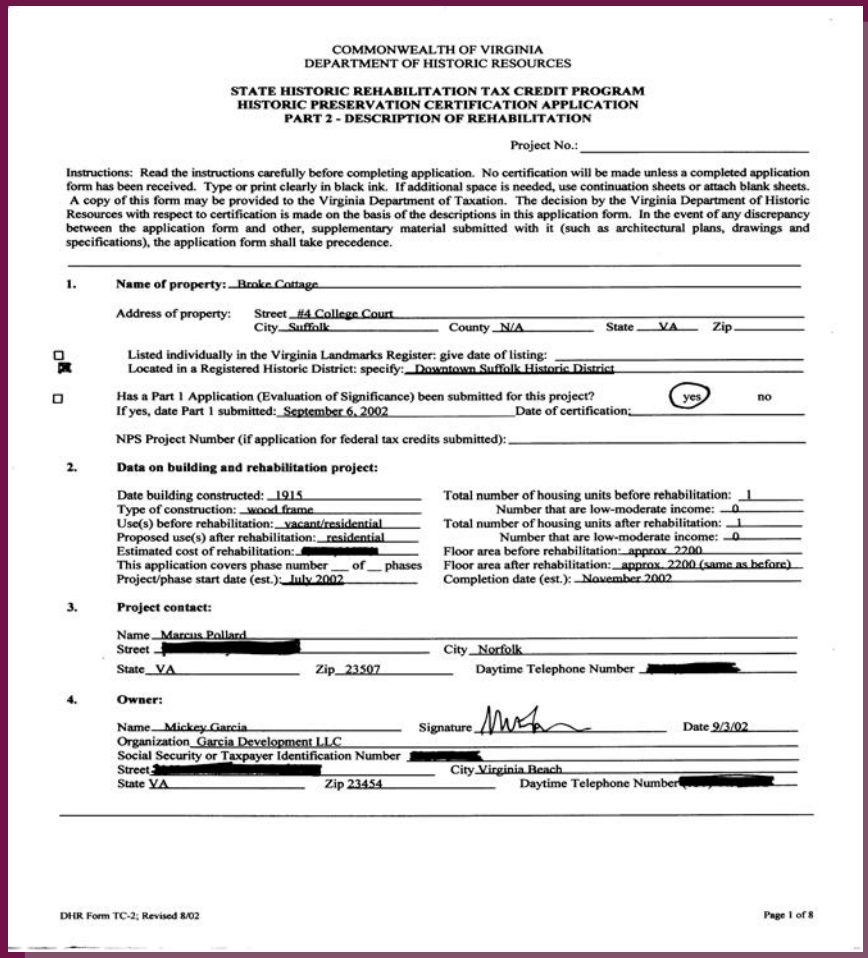
Address of property: Street: 4 College Court

City: Suffolk County: State: VA Zip: 23434

Name of historic district: Downtown Suffolk Historic District

- Establishes that property in historic district
- Basic Property Information
- Photographs* (Ensure property is photographed inside and out)
- Existing Conditions Plans

Part 2: Description of Rehabilitation



COMMONWEALTH OF VIRGINIA
DEPARTMENT OF HISTORIC RESOURCES

STATE HISTORIC REHABILITATION TAX CREDIT PROGRAM
HISTORIC PRESERVATION CERTIFICATION APPLICATION
PART 2 - DESCRIPTION OF REHABILITATION

Project No.: _____

Instructions: Read the instructions carefully before completing application. No certification will be made unless a completed application form has been received. Type or print clearly in black ink. If additional space is needed, use continuation sheets or attach blank sheets. A copy of this form may be provided to the Virginia Department of Taxation. The decision by the Virginia Department of Historic Resources with respect to certification is made on the basis of the descriptions in this application form. In the event of any discrepancy between the application form and other, supplementary material submitted with it (such as architectural plans, drawings and specifications), the application form shall take precedence.

1. **Name of property:** Broke Cottage

Address of property: Street #4 College Court
City Suffolk County N/A State VA Zip _____

☐ Listed individually in the Virginia Landmarks Register: give date of listing: _____
☒ Located in a Registered Historic District: specify: Downtown Suffolk Historic District

☐ Has a Part 1 Application (Evaluation of Significance) been submitted for this project? (yes) no
If yes, date Part 1 submitted: September 6, 2002 Date of certification: _____

NPS Project Number (if application for federal tax credits submitted): _____

2. **Data on building and rehabilitation project:**

Date building constructed: 1915
Type of construction: wood frame
Use(s) before rehabilitation: vacant/residential
Proposed use(s) after rehabilitation: residential
Estimated cost of rehabilitation: [redacted]
This application covers phase number ___ of ___ phases
Project/phase start date (est.): July 2002

Total number of housing units before rehabilitation: 1
Number that are low-moderate income: 0
Total number of housing units after rehabilitation: 1
Number that are low-moderate income: 0
Floor area before rehabilitation: approx. 2200
Floor area after rehabilitation: approx. 2200 (same as before)
Completion date (est.): November 2002

3. **Project contact:**

Name Marcus Pollard
Street [redacted] City Norfolk
State VA Zip 23507 Daytime Telephone Number [redacted]

4. **Owner:**

Name Mickey Garcia Signature [signature] Date 9/3/02
Organization Garcia Development LLC
Social Security or Taxpayer Identification Number [redacted]
Street [redacted] City Virginia Beach
State VA Zip 23454 Daytime Telephone Number [redacted]

DHR Form TC-2; Revised 8/02 Page 1 of 8

- Basic property information
- Project contact and ownership
- Data on rehabilitation
  - Square footage before/ after project
  - Proposed uses
  - Project start date
  - Phases

Part 2

HISTORIC PRESERVATION
CERTIFICATION APPLICATION
PART 2

Property Name Broke Cottage

Project Number: _____

Property Address #4 College Court, Suffolk, VA

5. DETAILED DESCRIPTION OF REHABILITATION/PRESERVATION WORK - Includes site work, new construction, alterations, etc. Complete below

Number 1. Architectural feature Roof Approximate date of feature 1915 Describe existing feature and its condition: Roof is collapsed in several locations; original roofing material replaced with asphalt shingles several times. Sheathing covered in 4 layers of asphalt. Photo no. 1, 2, 3 Drawing no. _____	Describe work and impact on existing feature: Rafters replaced as necessary; existing layers of asphalt shingles removed. Sheathing replaced, as necessary. 35 year Timberline architectural grade shingles installed. Impact will be securing the roof of the building, and ensuring adequate protection from the elements.
Number 2. Architectural feature Gutters & Downspouts Approximate date of feature unknown Describe existing feature and its condition: Evidence of gutter ties and downspout attachments remain; actual materials no longer on building. Photo no. N/A Drawing no. _____	Describe work and impact on existing feature: Will install gutters and downspouts with ½ clips and rounded gutter in whi… placed to mi… protection of… alteration to…
Number 3. Architectural feature Front Porch Approximate date of feature 1915 Describe existing feature and its condition: One story shed roofed porch in fair condition; battered supports with craftsman detailing. Original balustrade in fair condition; porch floor deteriorated with rotten wood; screen torn. Photo no. 1, 2 Drawing no. _____	Describe wor… Existing porc… salvageable … All wooden … be rebuilt. S… original porc… elements, str…
Number 4. Architectural feature Windows Approximate date of feature 1915 Describe existing feature and its condition: 4/1 and 1/1 wood sash windows on first floor; 6/6 wood sash windows in basement; transom windows over doors in hall. In fair condition with broken glass, some missing window weights and broken sash cords. Peeling paint, sound wood. No storm windows exist. Photo no. ALL Drawing no. _____	Describe wo… No new wind… restored and … sunporch to … broken glass… scraped, sand… will be resto… locations.

DHR Form TC-2; Revised 8/02

Page 2 of 8

- Description of existing conditions
- Include comprehensive set of photos, esp. deteriorated elements

Part 2

HISTORIC PRESERVATION CERTIFICATION APPLICATION PART 2

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Project Number: _____

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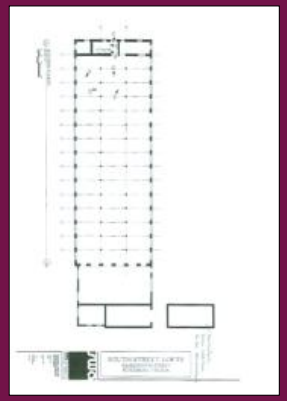
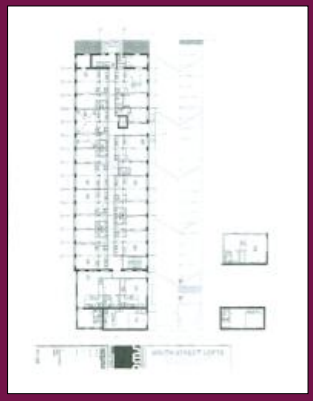
Number 2. Architectural feature Gutters & Downspouts Approximate date of feature unknown Describe existing feature and its condition: Evidence of gutter ties and downspout attachments remain; actual materials no longer on building. Photo no. N/A Drawing no. _____	Describe work and impact on existing feature: Will install gutters and downspouts with ½ clips and rounded gutter in white to match trim. All gutters and downspouts will be placed to minimize appearance on the building. Impact will be protection of the building from water damage with minimal alteration to the building.
Number 3. Architectural feature Front Porch Approximate date of feature 1915 Describe existing feature and its condition: One story shed roofed porch in fair condition; battered supports with craftsman detailing. Original balustrade in fair condition; porch floor deteriorated with rotten wood; screen torn. Photo no. 1, 2 Drawing no. _____	Describe work and impact on existing feature: Existing porch to be restored to original condition, using all salvageable materials, and replacing those that are not reusable. All wooden elements to be scraped and painted; porch stairs to be rebuilt. Screen to be removed. Impact will be restoration of original porch configuration, preservation of remaining wooden elements, strengthening deteriorated structural elements.
Number 4. Architectural feature Windows Approximate date of feature 1915 Describe existing feature and its condition: 4/1 and 1/1 wood sash windows on first floor; 6/6 wood sash windows in basement; transom windows over doors in hall. In fair condition with broken glass, some missing window weights and broken sash cords. Peeling paint, sound wood. No storm windows exist. Photo no. ALL Drawing no. _____	Describe work and impact on existing feature: No new windows to be created. All existing windows to be restored and reused in existing configuration; windows on rear of sunporch to be replaced with originals found in basement. All broken glass, weights, and sash cords to be fixed. Wood will be scraped, sanded, reglazed (as necessary), and repainted. Impact will be restoration of original windows and reuse in existing locations.

DHR Form TC-2; Revised 8/02 Page 2 of 8

- Description of proposed work
  - Detail all changes
  - Include drawings of existing and proposed floor plans
  - Product specifications



Existing



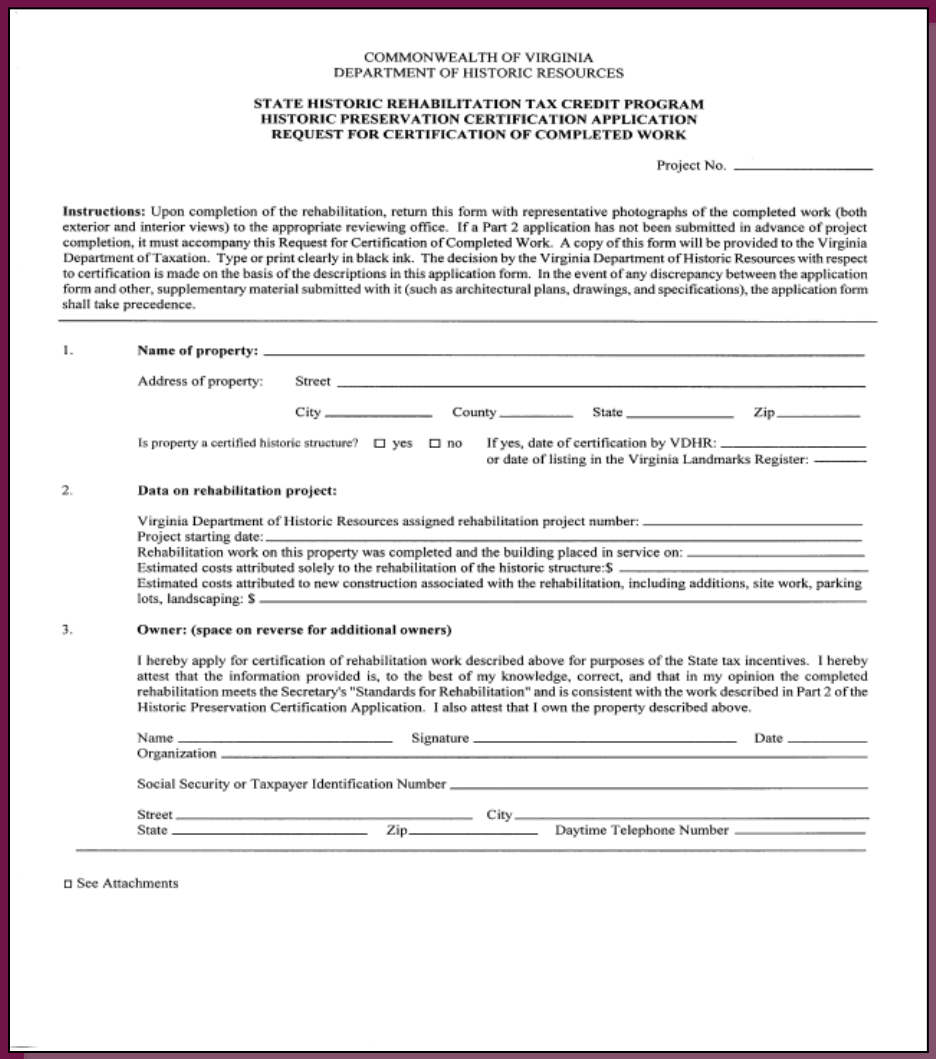
Proposed

Things to remember:

- Submit Part 2 prior to beginning work
- Phased project must be proposed up front
- All work must be consistent with the *Standards for Rehabilitation*
  - Consult NPS guidance documents: www.nps.gov/tps/how-to-preserve
- All work on property must be reviewed and approved. *There is no partial credit*.
- Review takes 30 days minimum at the State and National level.

Part 3: Request for Certification of Completed Work

- Property information
- Project start date
- Rehabilitation completion date
- Estimated rehabilitation expenditure
- Costs associated with new construction, site work ** Note there are new financial reporting requirements*



COMMONWEALTH OF VIRGINIA
DEPARTMENT OF HISTORIC RESOURCES

STATE HISTORIC REHABILITATION TAX CREDIT PROGRAM
HISTORIC PRESERVATION CERTIFICATION APPLICATION
REQUEST FOR CERTIFICATION OF COMPLETED WORK

Project No. _____

Instructions: Upon completion of the rehabilitation, return this form with representative photographs of the completed work (both exterior and interior views) to the appropriate reviewing office. If a Part 2 application has not been submitted in advance of project completion, it must accompany this Request for Certification of Completed Work. A copy of this form will be provided to the Virginia Department of Taxation. Type or print clearly in black ink. The decision by the Virginia Department of Historic Resources with respect to certification is made on the basis of the descriptions in this application form. In the event of any discrepancy between the application form and other, supplementary material submitted with it (such as architectural plans, drawings, and specifications), the application form shall take precedence.

1. **Name of property:** _____

Address of property: Street _____

City _____ County _____ State _____ Zip _____

Is property a certified historic structure? ☐ yes ☐ no If yes, date of certification by VDHR: _____
or date of listing in the Virginia Landmarks Register: _____

2. **Data on rehabilitation project:**

Virginia Department of Historic Resources assigned rehabilitation project number: _____
Project starting date: _____
Rehabilitation work on this property was completed and the building placed in service on: _____
Estimated costs attributed solely to the rehabilitation of the historic structure:$ _____
Estimated costs attributed to new construction associated with the rehabilitation, including additions, site work, parking lots, landscaping: $ _____

3. **Owner: (space on reverse for additional owners)**

I hereby apply for certification of rehabilitation work described above for purposes of the State tax incentives. I hereby attest that the information provided is, to the best of my knowledge, correct, and that in my opinion the completed rehabilitation meets the Secretary's "Standards for Rehabilitation" and is consistent with the work described in Part 2 of the Historic Preservation Certification Application. I also attest that I own the property described above.

Name _____ Signature _____ Date _____
Organization _____

Social Security or Taxpayer Identification Number _____

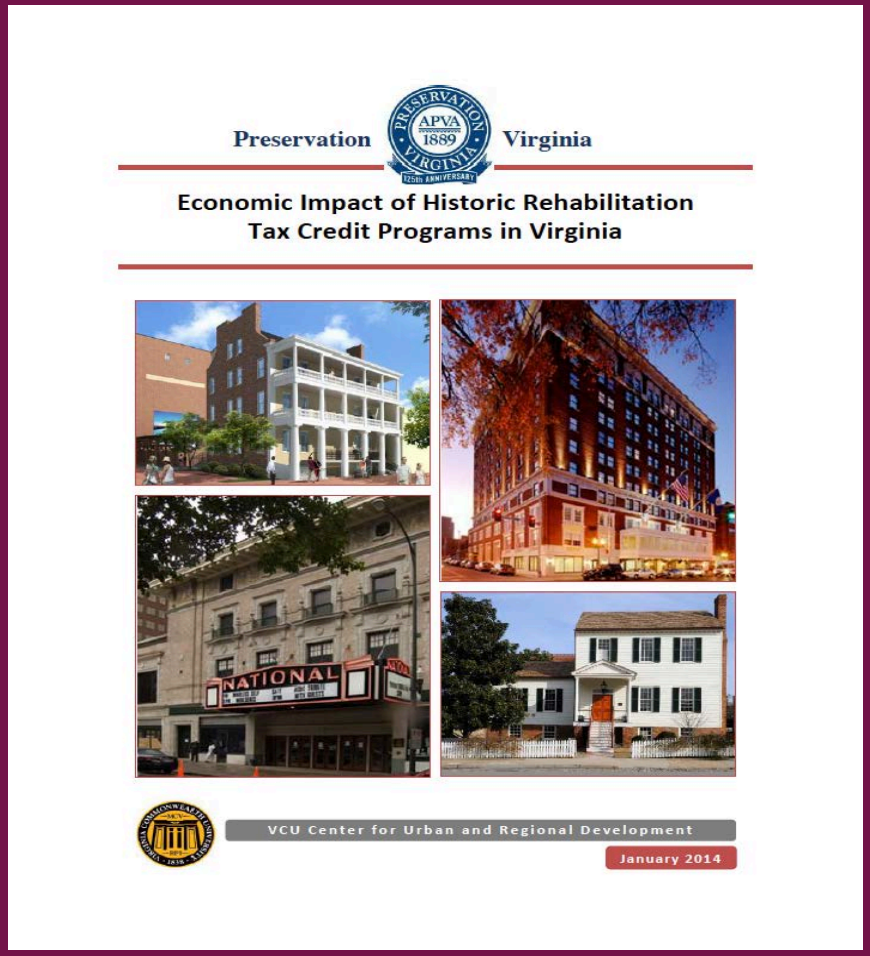
Street _____ City _____
State _____ Zip _____ Daytime Telephone Number _____

☐ See Attachments

Tips for a Successful Project

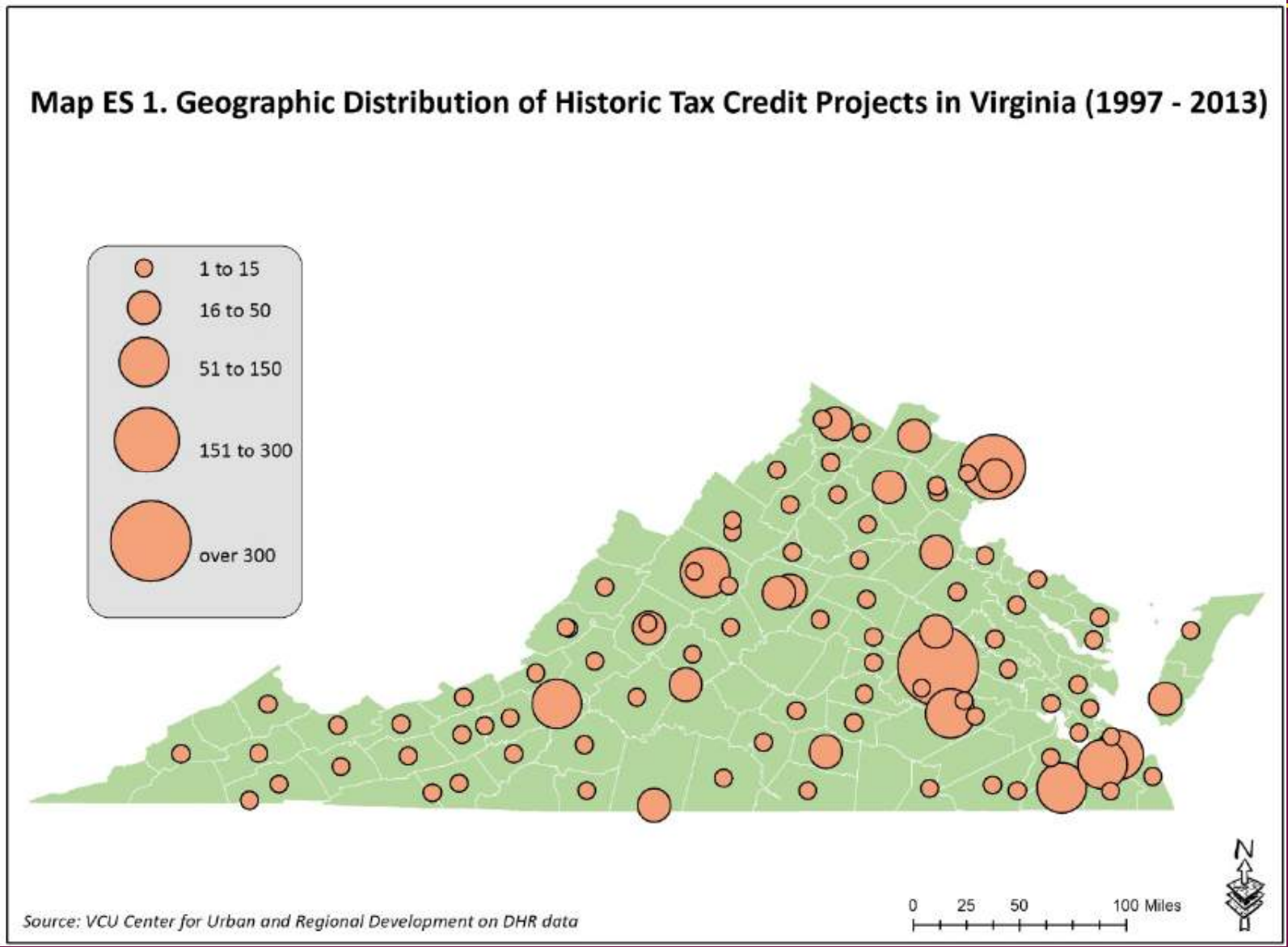
1. Using the credits is like having a partner in the project. Any partner is going to have requirements.
2. The process takes time. Build in review time.
3. Build a professional team familiar with tax credit projects: accountant, lawyer, architect, contractor
4. Become familiar with *Standards for Rehabilitation* and ensure the project respects the historic character
5. Consult VDHR early – First Friday
6. Follow construction progress carefully – make sure things going as proposed

Benefits of Using the Credits



- Quality
- More Complete
- Financial Partner
- Positive impact for the Whole Community

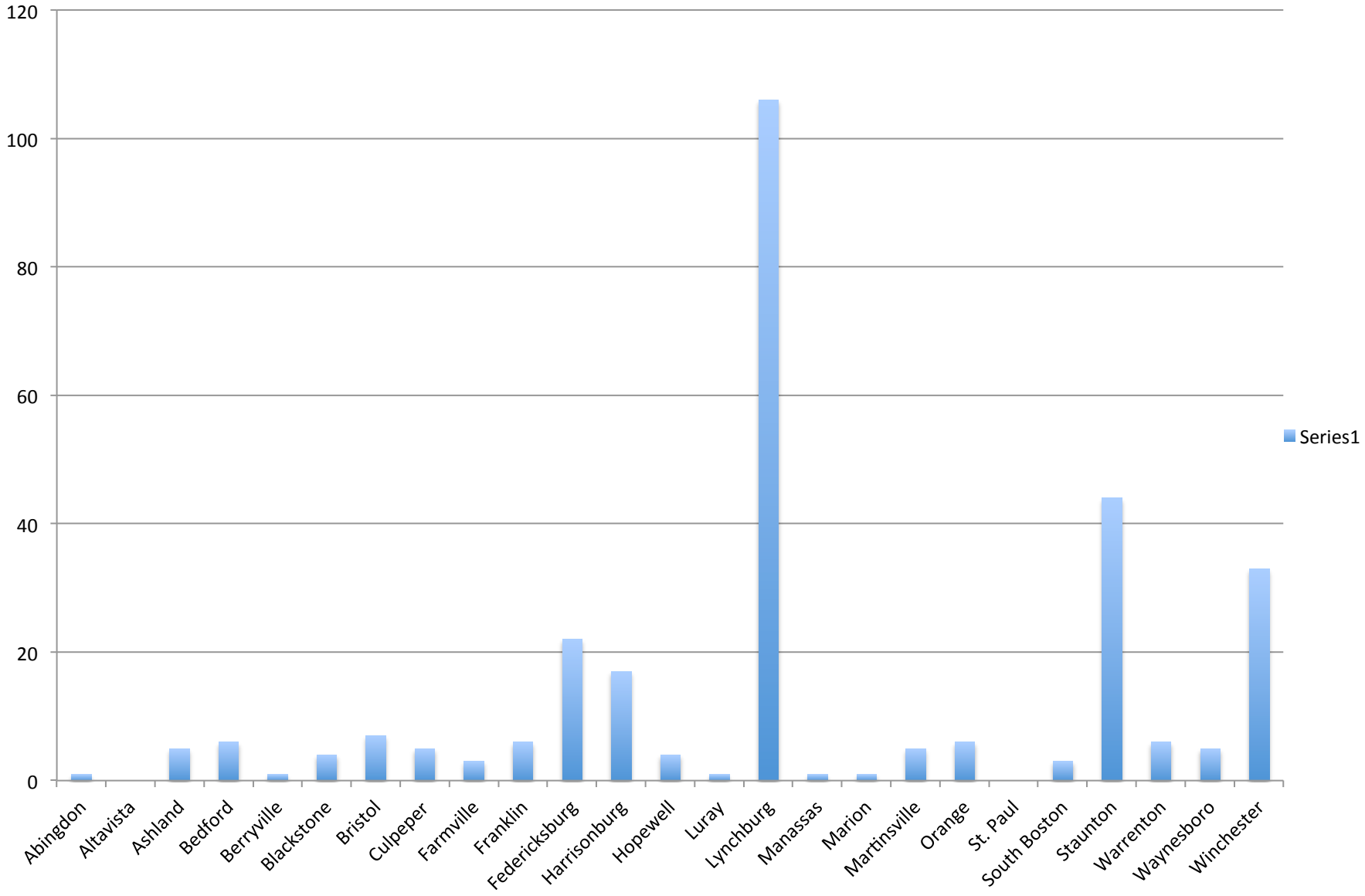
Where the Credits are Being Used



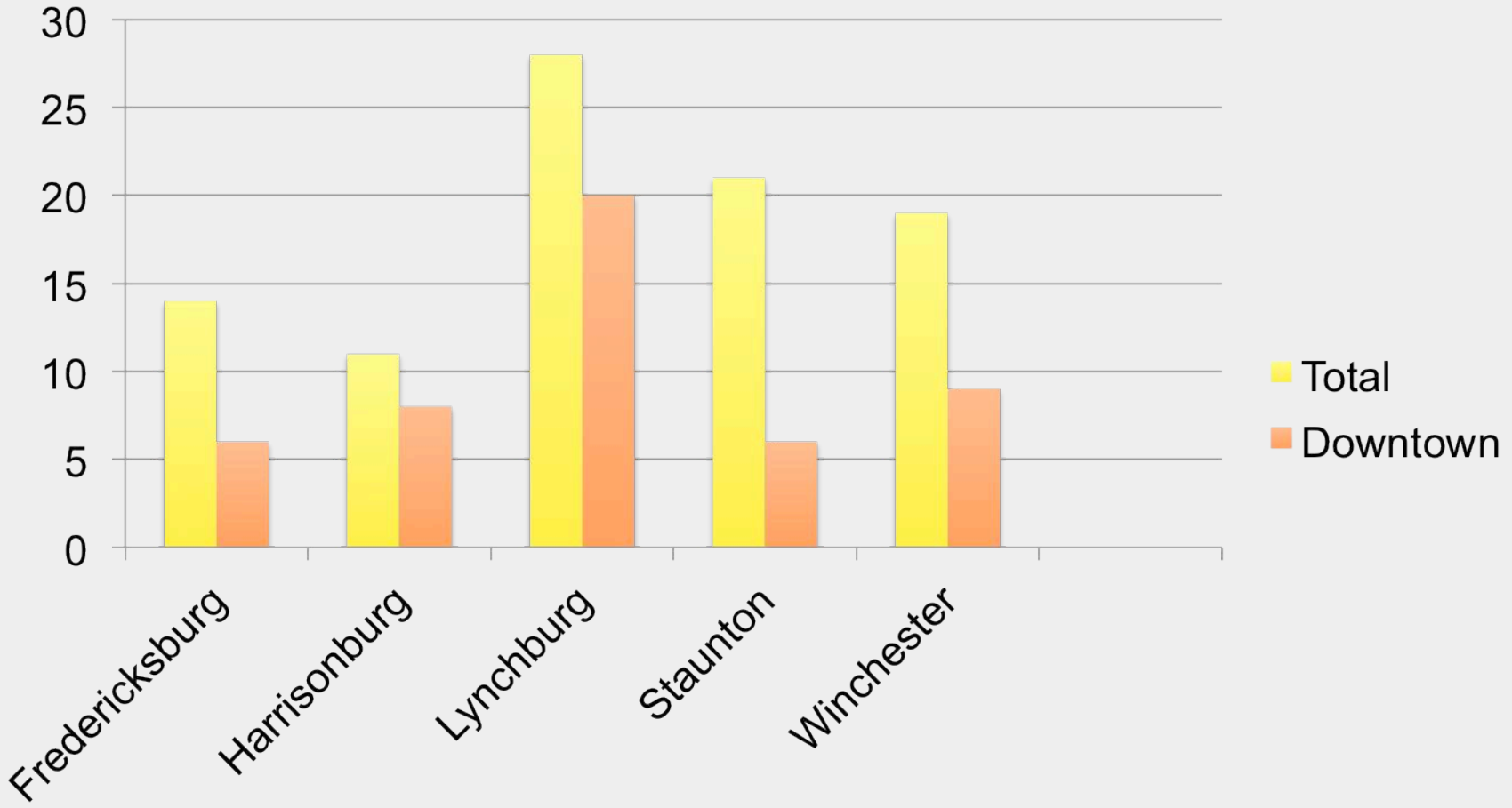
Are VMS Communities Using the Credits?

- 42% of the 26 active communities have had no tax credit projects in last 7 years
- 50% of the projects in all the communities are downtown

Historic Tax Credits Projects in VMS Communities Since 2000



Top VMS Communities Using Historic Tax Credits



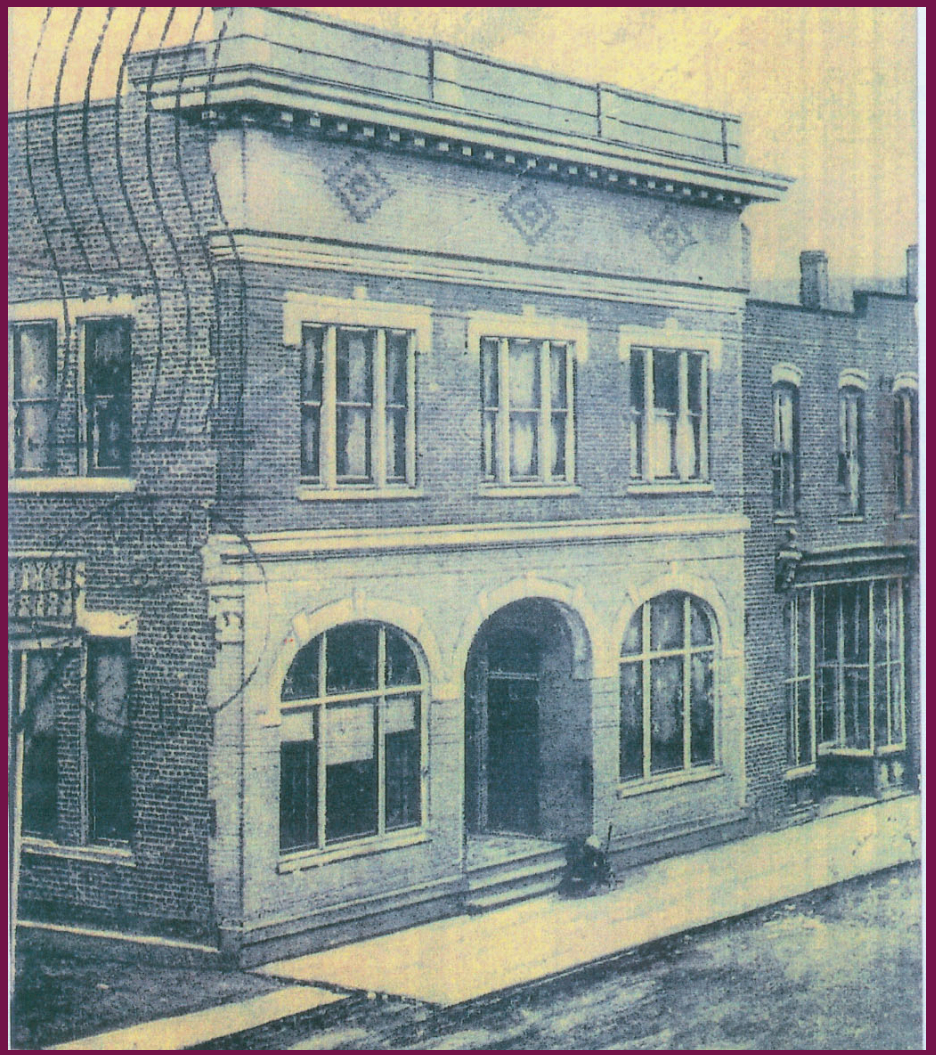
Typical Downtown Buildings

Large Mixed Use

Large Mixed Use

Large Mixed Use

Recapturing Historic Building Character



Recapturing Historic Building Character

Repurposing Factory Buildings

Repurposing Factory Buildings

Beyond Design – Other Things to Know

- Any project needs an accountant familiar with the credits
- Ensure all legal entities are in place for the project; get legal advice for syndicating the credits up front.
- New requirements for financial reports at the end of the project
- Non-profits and even churches have been able to set up entities to use the credits, bringing the tax credit proceeds into the project.

Resources

- Virginia Department of Historic Resources
  - http://www.dhr.virginia.gov/tax_credits/tax_credit.htm
  - Consultants list
  - Chris Novelli
- National Park Service
  - http://www.nps.gov/tps/tax-incentives.htm
  - Technical resources: Preservation Briefs, Preservation Tech Notes

It takes time, but the credits can be a catalyst for revitalization efforts in our historic downtowns.