

MAKING HISTORIC TAX CREDITS WORK FOR KENTUCKY

As Kentucky's business environment continues to evolve, the importance of historic buildings as economic generators continues to increase. Tourists, young professionals, technology startups, and established companies alike continue to value the unique spaces and locations that many of the Commonwealth's historic structures offer. Kentucky may have the proudest history of any state in the union, and with 3,200 districts, sites and structures encompassing more than 42,000 historic properties, it is important that Kentuckians capitalize on these invaluable assets.

Currently, the Commonwealth allocates \$5,000,000 of tax credits per year to its Historic Tax Credit Program and each project is eligible to receive 20% of its Qualified Rehabilitation Expenditures in credits (there is a \$400,000 per-project cap). **Unfortunately, the project and program caps render the KY Historic Tax Credit functionally obsolete, driving investors to leave Kentucky for neighboring states with more development friendly tax credit programs.** Evidence can be found in the results of the 2014 tax credit awards – eligible projects received prorated awards totaling approximately 8% of the quarterly rehab expenditures rather than the 20% for which they are eligible. This led developers to significantly delay or abandon projects that were no longer feasible due to the low credit award amounts.

The purpose of the Historic Tax Credit is to bring dilapidated buildings back to active occupancy, drive economic development, and create jobs. Historic Preservation Tax Credits incentivize the investment of outside private capital in Kentucky and with eligible buildings in all 120 counties, this economic development and job creation tool must be returned to a functional program. **Nearly every bordering state has a more robust Historic Tax Credit Program than Kentucky, so the time is now for the Commonwealth to implement the reforms necessary for it to compete.**

The Historic Tax Credit Program in Kentucky today:

- Projects are eligible to receive tax credits in an amount up to 20% of their Qualified Rehab Expenditures if they are a certified historic structure.
- The credits help fill a critical financing gap between what can be borrowed and costly rehabilitation expenses.
- Annual program capped at only \$5 million in credits.
- A \$400,000 per-project tax credit.
- Projects may only be submitted once per year due to an annual deadline, creating timing issues for the private sector.

Why the current Historic Tax Credit Program does not work for Kentucky:

- Eligible projects typically receive tax credits amounting to only 7-9% of their Qualified Rehab Expenditures due to demand far exceeding program capacity.
 - The award amount is unpredictable due to awards being prorated, creating difficulties in the financing of projects.
- Project awards are often so small that developers abandon or substantially delay projects while seeking additional financing to cover the shortfall.
- Large transformative projects are not being incentivized due to pro-rated awards and the per-project cap.
- Bordering states such as Ohio, Missouri, Virginia, and West Virginia have much more effective programs - Ohio has a \$60 million program with a per project cap of \$5 million; Virginia and West Virginia have totally uncapped programs.