April 3, 2019

Senator Mike McGuire, Chair
Senate Governance and Finance Committee
State Capitol, Room 408
Sacramento, CA 95814

Dear Senator McGuire and Committee Members:

RE: in support SB 451, a bill to create a historic tax credit

On behalf of the California members of the National Trust for Historic Preservation, thank you for the opportunity to submit testimony about the many benefits state historic tax credits offer. The preservation and reuse of our nation’s historic buildings enriches our communities and promotes a shared connection to the past. No policy better supports adaptive reuse of historic buildings than state and federal historic tax credits.

The National Trust recently surveyed all 35 states that offer historic tax credits, including the seven states that enacted a new credit program within the past five years. A summary of our findings can be found in our report, “State Historic Tax Credits: Maximizing Preservation, Community Revitalization, and Economic Impact”. We found these incentives successfully attract private investment to older downtowns and neighborhoods because they fill a critical financing need in the redevelopment process. According to the Ohio Development Services Agency, for example, more than 80 percent of historic buildings were fully vacant prior to the rehabilitations enabled by the state’s historic tax credit. We also found that state legislatures ensure efficient use of state funds by requiring all private investment occur prior to the approval of any tax credits.

States also successfully use rehabilitation tax incentives to address specific policy priorities. Maine, Connecticut and Delaware, for example, use their historic tax credits to target housing creation, while North Carolina and South Carolina’s credits promote the reuse of former textile mills. In terms of designing a credit that works for California, if enacted, SB 451 would create the first state historic tax credit in the nation to promote the reuse of federal surplus property and transit-oriented redevelopment.

Historic tax credits create jobs because rehabilitation is labor intensive. Rehabilitation project costs are on average 60 percent labor and 40 percent materials compared to new construction, which is about 40 percent labor and 60 percent materials. Moreover, labor is usually hired locally and often includes higher-paid craftsmen skilled at repairing historic windows, plaster, masonry, and flooring.

1 The Economics of Historic Preservation: A Community Leader’s Guide by Donovan D. Rypkema, University of Virginia Press, 2015
Other studies have found that approximately one-third of the state's investment is paid back during the construction phase—before any tax credit is approved. For example, the Maryland Governor's Task Force found that for every $1 paid by the state, $0.34 was returned during the construction phase of the rehabilitation project.² Studying Ohio's historic tax credit, Cleveland State University found that Ohio received $0.33 for every dollar invested because of state taxes on construction labor and materials.³ A study of 25 rehabilitation projects that used Wisconsin historic tax credits in 2014, estimated the state would receive $0.40 for every dollar invested during the construction phase and estimated the state's investment would be completely paid back in seven years⁴.

Our research consistently shows that historic tax credits successfully attract private investment, in a fiscally responsible way, to abandoned or under-utilized historic buildings and return them to economically productive use. For these reasons, the National Trust urges your support of SB 451.

Sincerely,

Shaw Sprague, Senior Director of Government Relations
National Trust for Historic Preservation
2600 Virginia Avenue, NW, Washington, DC

Enclosures:

cc: Cindy Heitzman, Executive Director, California Preservation
    Barbara Phal, Senior Vice President, National Trust for Historic Preservation

---

² Final Report of the Governor's Taskforce on Maryland's Heritage Structures Rehabilitation Tax Credit, 2004
³ Economic Impacts of Ohio's Historic Tax Credit, Ohio Development Services Agency, 2013
⁴ Wisconsin Historic Tax Credit Impact Analysis, Baker Tilly, May 2015