



Status of Bill: On House Floor, Passed Ways and Means 24-1  
Committee: Economic Growth, Passed 21-0  
Floor Manager: Representative Steckman  
Research Analyst: David Epley 515-281-6970  
david.epley@legis.state.ia.us

## **BILL SUMMARY**

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# **Historic Preservation Tax Credits SF 481 and HF 819**

April 13, 2009

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### **Background**

Administered by the Department of Cultural Affairs, the State Historic Preservation and Cultural and Entertainment District Tax Credit Program provides a state income tax credit for the sensitive rehabilitation of historic buildings. It ensures character-defining features and spaces of buildings are retained. It also helps revitalize surrounding neighborhoods. Many communities in Iowa have used this program to revitalize their downtowns. It also creates good paying construction jobs. Developers are lured to the program through the tax credits.

The program provides an income tax credit of 25% of qualified rehabilitation costs. Another 20% is available if the property qualifies for the Federal Rehabilitation Investment Tax Credit. Several types of properties are eligible for the state tax credit:

- Properties listed on the National Register of Historic Places, or determined by the staff of the State Historic Preservation Office to be eligible for listing.
- Properties contributing to the significance of a historic district that is listed, or eligible to be listed, on the National Register.
- Properties designated as local landmarks via local government action.
- Barns constructed prior to 1937.

For commercial properties, including multi-family housing projects, the work must be at least 50% of the fair market value, excluding the land. The rehabilitation costs of residential property or barns must equal \$25,000 or 25 percent of the fair market value of the structure, whichever is less. The rehabilitation work must meet the federal Secretary of the Interior's Standards for Rehabilitation and Guidelines for Rehabilitating Historic Buildings. The building plans are reviewed and approved by a qualified architect to make sure the projects comply with these strict standards.

Per the 2007 legislation, the State Historic Preservation and Cultural and Entertainment District Tax Credit Program currently includes three separate accounts:

- For historic properties statewide, there is a \$10 million cap for FY 10.
- For projects within a Cultural and Entertainment District (CED) and Great Places, the cap is \$8 million for FY 10.
- For historic properties with qualified rehabilitation costs under \$500,000, the cap is \$2 million for FY 10.

The 2007 legislation also mandated that tax credits for the program cannot be reserved for more than three years into the future. Credits are reserved on a first-come first-served basis. Credits issued under this program in excess of the tax liability are refunded. In lieu of claiming a refund, a taxpayer may elect to have the overpayment credited to the tax liability for the following year. Developers tend to sell the tax credits, which are transferable, to receive cash now for their projects. Projects that applied first would be given first priority. The order of how the projects are selected is done through sequencing.

### **Projects Funded in the Last Round of Tax Credits**

CC Taft Company, Polk County  
Blackhawk Hotel, Scott County  
John Forrest Block Building, Scott County  
Linograph Company Building, Partially funded, Scott County

For the round of funding in July, 2008, that utilized FY 10 tax credits, total costs of the construction projects was over \$228 million, and utilized \$20 million in tax credits. The remaining projects that were unable to reserve the tax credits would have utilized \$44 million in tax credits.

## **Summary of SF 481 and HF 819**

### **Section 1: Assessed Value of Residential Property Instead of the Fair Market Value**

The bill changes the current provisions related to residential property so rehabilitation costs must equal \$25,000 or 25% of the assessed value. Current law requires the fair market value.

### **Section 2: Approval Process Changes**

Currently the application would have to be completed within 90 days before sending it to DCA. The bill changes this to 90 days upon receipt of the department. After the 90 days, the rehabilitation project is deemed to be approved by the department unless they have denied the application and contacted the applicant. The bill adds an exception to this 90 day rule, which would allow them to contact the applicant for further information regarding the application.

Under SF 481 and HF 819, an approved project is required to begin rehabilitation before the end of the fiscal year in which the project is approved. The project must be completed and placed in service within 36 months of that approval date unless the department grants additional time as provided by rule. The bill requires reserved tax credits to be used by June 30, 2011. There are four projects that have been approved for tax credits as far back as 2001, which hurts projects waiting to use the tax credits. It allows DCA some clawback ability in recapturing credits, so projects will need to be shovel ready.

### **Section 3: DCA Consultation with other Departments, and Changing the Tax Credit Allocations**

Current law requires DCA to consult with the department of economic development (DED) regarding certain aspects of the program. The bill eliminates this requirement, but the department of revenue would still issue the tax certificate and require information for the purposes of issuing the tax certificate. SF 481 and HF 819 increase the tax credits per fiscal year from \$20 million to \$50 million. The new allocation would be as follows:

- 10% or \$5 million would be allocated for projects less than \$500,000.
- 30% or \$15 million would be allocated for projects within a CED's and Great Places.
- 20% or \$10 million would be allocated for disaster recovery.
- 20% or \$10 million would be allocated for projects that would create 500 jobs or more.
- 20% or \$10 million would be statewide.

However, the bill places restrictions on the amount that can be reserved in tax credits, and the amount that can be redeemed as follows:

- Starting July 1, 2009 \$20 million in tax credits could be reserved and \$30 million could be redeemed starting January 1, 2010.
- Starting July 1, 2010 \$20 million in tax credits could be reserved and \$30 million could be redeemed starting January 1, 2011.
- Starting July 1, 2011 \$20 million in tax credits could be reserved and \$30 million could be redeemed starting January 1, 2012.

These constraints were made in the bill in order to address the fiscal impact of the bill, and prevent any fiscal impact in FY 10. With these changes the Fiscal Impact estimate is as follows:

- FY 10 \$0
- FY 11 \$24 million
- FY 12 \$36 million
- FY 13 \$60 million
- FY 14 \$30 million

The disaster recovery section would be for projects located in an area declared by the governor or federal official as a disaster and physically damaged by a natural disaster. If either the amount for the Jobs portion or the CED's and Great Places portion, has unclaimed tax credits, the available tax credits would be moved the disaster recovery. If the disaster recovery portion has unclaimed tax credits, the available tax credits would flow into credits available statewide. The small projects tax credits (those under \$500,000) are available year round. For the small projects the bill adds the requirement that the tax credit will be based on their final qualified rehabilitation costs. This is put in due to some projects coming in much higher than \$500,000 when they were initially approved.

Projects receiving tax credits under the 500 jobs creation portion are required to provide information of the creation of jobs to the DED, who will verify if the jobs have been created. DED is more accustomed to verifying requirements on job creation. The tax credits provided for the 500 jobs creation projects will be subject to recapture if the jobs are not created in two years. By rule, local governments would also be provided a form to use to track the number of construction jobs any project has created. This will help determine the positive economic impact the program will have on the community.

Within 90 days of the transferred tax credit, the person making the transfer must submit the transferred certificate to DOR. The tax credit certificates less than the amount specified by rule, will not be transferred.

#### **Section 4: Economic Impact Recommendations**

The Department of Revenue would be responsible for keeping the Legislature informed about the overall economic impact, instead of the Department of Economic Development. The report would include data on the number and potential value of rehabilitation projects begun during the last 12-month period, the total number of tax credits granted during that period, the potential reduction to state revenue from all tax credits still unused, and the potential increase in property tax revenue of a renovated project.

DCA is required to provide recommendations on whether a limit on tax credits should be established, and the need for a broader or more restrictive definition of eligible property, and other adjust-

ments that may be needed. The bill keeps in current law the cap on the reservation of tax credits not going beyond three years, and the tax credits may be transferred to any person or entity. Many developers pay for their projects by selling them to another person. That way they can get the cash they need now for their project.