



ECONOMIC IMPACT
OF
HISTORIC PRESERVATION
INCOME TAX CREDITS
PROPOSED FOR THE
STATE OF OREGON

PREPARED FOR THE
OREGON STATE HISTORIC PRESERVATION OFFICE
OREGON PARKS & RECREATION DEPARTMENT

FEBRUARY 15, 2002

Washington D.C.
8630 Fenton Street, Suite 202
Silver Spring, MD 20910

301.589.6660
301.589.6661 fax
bayareaeconomics.com
bae1@bae1.com

TABLE OF CONTENTS

EXECUTIVE SUMMARY

I. INTRODUCTION

Report Organization..... 1

II. CASE STUDIES

Maryland 2
North Carolina 5
Utah..... 7

III. TAX EXPENDITURES

Special Assessment Program 9
Impact of Measure 50..... 9
Choice Between Special Assessments and Tax Credits 10
Future Use of Tax Credits 12
Total Tax Expenditures and Other Direct Costs..... 15

IV. REVENUE AND JOB IMPACTS

Construction Activity and Resulting Employment..... 20
Offsetting Tax Revenues..... 23
Administrative Fees..... 23
Net Tax Expenditures..... 25

V. OTHER ECONOMIC BENEFITS

Local Property Taxes 27
Tourism 27
Reinvestment in Existing Neighborhoods 27
Environmental Benefits 27

ECONOMIC IMPACT OF HISTORIC PRESERVATION INCOME TAX CREDITS PROPOSED FOR THE STATE OF OREGON

EXECUTIVE SUMMARY

In 1999, one group of historic preservation proponents introduced SB 497 with revisions to the Special Assessment of Historic Property program. Following the veto of that bill, Governor Kitzhaber asked that all the stakeholders come together to craft a consensus bill for the 2001 legislative session. The State Historic Preservation Office (SHPO) convened a working group that met for three months and recommended a draft bill. The provision of the bill that would create an income tax credit for rehabilitation of historic properties was removed pending a better understanding of the potential fiscal and economic impacts of the proposed program. Bay Area Economics (BAE) was asked to test the fiscal and economic impacts of the legislation as proposed and with modification to make the credits refundable.

As proposed, rehabilitation of historic properties locally-designated or listed on the National Register or contributing to a certified Historic District would qualify for an income tax credit equal to 20 percent of “qualified rehabilitation expenditures”. The program is designed to complement the Federal program of income tax credits for historic preservation by expanding the universe of eligible properties. It is particularly aimed at owner-occupied housing (which is not eligible for Federal tax credits) and smaller commercial properties. The credit requires a minimum investment of \$2,500 within 24 months for residential properties and \$5,000 for commercial properties. The threshold investment levels are significantly lower than those required by the Federal tax credit so that they can serve property owners in economically distressed communities.

The tax credit is taken against the individual’s State income taxes over a period of five years. If the claimant does not have sufficient tax liabilities, the credit can be carried forward 10 years or transferred to another tax-paying entity. An alternative approach adopted in Maryland entitles a taxpayer to an income tax refund of tax credits exceeding the individual’s tax liability. Tested as an alternative in this analysis, this approach has the distinct advantages of greater efficiency and effectiveness. It makes the credits available to lower-income households that do not have significant tax liabilities, and it eliminates broker fees incurred in the transfer. For small homeowner tax credits, those broker fees can reach 30 to 50 percent of the total credit. So a refundable credit gets more money into the hands of the taxpayer.

Historic Tax Credits in Other States

State income-tax credits are now available for historic preservation in 19 states. (Several other states offer property tax incentives rather than tax credits.) The incentive programs vary significantly based on the amount of the credit, eligible properties and the minimum investment required. Most target owner-occupied houses and small commercial projects that do not qualify for Federal historic tax credits.

Maryland’s program is most similar because it served as the model for the Oregon legislation. The Maryland tax credit program has changed significantly in recent years. It now provides a 25-percent credit for a minimum investment of \$5,000 within a 24-month period for owner-occupied residential properties and an investment at least equal to the greater of \$5,000 or the adjusted basis of the structure (the purchase price of the property minus the value of the land and the cumulative value of any depreciation claimed to date) for other properties. Maryland experimented with credits that could be transferred to mortgage lenders and other investors but ultimately decided to make the credits refundable in the first year. There were too few mortgage lenders with State income tax liabilities and the broker fees charged for the transfer of small credits took too large a share of the

incentive intended for homeowners. The program took four years to reach a stabilized level of activity. In 2001, 137 single-family properties applied for certification. Since 1997, the Maryland historic tax credits have generated \$368 million in rehabilitation of owner-occupied housing units and commercial buildings, primarily among major commercial developments. Given the slow economy and resulting budget shortfalls, the State Legislature now has targeted the rehabilitation tax credit for changes to reduce the potential revenue impact on the state budget. Proposed legislation calls for an annual program cap of \$25 million in tax credits for commercial projects with a maximum per project cap of \$1 million.

Eligible Properties

As of November 2001, Oregon had a total of 7,996 buildings on the National Register as individual structures or as buildings contributing to a certified historic district, excluding government-owned properties. Located in every county in the state, this historic inventory includes 4,575 residential buildings. Locally designated properties that SHPO concurs are historic would also be eligible, estimated conservatively at 15 percent of statewide inventory, or an additional 4,250 properties. Participation by those properties would likely be low, estimated at one-third the rate of participation by National Register properties. Eligibility for locally designated properties was included at the suggestion of the City of Portland and the League of Oregon Cities.

Tax Expenditures

The proposed legislation provides credits against Oregon State income taxes. In fiscal parlance, those foregone revenues are a “tax expenditure”. The amount of tax expenditure will depend on program usage, the average size of private investments and when credits can be taken. Because there are alternative approaches to the timing of credits and their transferability, this analysis considers two alternatives:

- as proposed with credits taken over five years; and
- having credits refundable in the first year.

Currently, Oregon’s primary incentive for historic preservation is the Special Assessment of Historic Property Program. Since 1975, historic properties that go through a certified rehabilitation are eligible to “freeze” their assessed valuation for a period of 15 years. That assessment freeze lets the owner of a newly rehabilitated property continue to pay property taxes based on the much lower assessed value the property held before rehabilitation. This incentive program has been very successful in encouraging maintenance and rehabilitation of the state’s historic assets, resulting in an estimated \$900 million in rehabilitation activity since its inception. However, the incentive value of participating in the program has declined in recent years with the adoption of Measures 5 and 50. These caps on the increase in property tax assessments and tax rates have lessened the burden that owners of historic properties experienced when major increases in property taxes followed their rehabilitation efforts.

The Special Assessment program is markedly less attractive now for owner-occupied housing and small commercial properties. Most of the new applications to the Special Assessment Program now come from large commercial projects. The tax credit proposal responds directly to the needs of small projects.

Property owners would be required to choose between tax credits and the Special Assessment program, so the value of a tax credit has to be weighed against the value of a 15-year freeze in property assessments. Comparing the value of the 15-year assessment freeze versus the historic tax credit paid out over five years, it is likely that 90 percent of homeowners will opt for the tax credit as well as most commercial buildings requiring less than \$50,000 of improvements. The economics shift somewhat when tax credits are made refundable with a higher number of both residential and

commercial properties responding to the higher economic value of the credits. If the credits were refundable, most historic rehabilitations would use credits rather than the Special Assessment program unless they included new additions or other major costs that would not qualify as rehabilitation expenditures.

Offsetting Revenues

The construction activity engendered by the historic tax credits would have economic and fiscal consequences. While some of this activity would have occurred with or without the incentive of tax credits, the state's rehabilitation industry would be more active than otherwise. Homeowners would be less likely to postpone major maintenance expenses, and commercial property owners would be more likely to reinvest. This analysis considers income taxes paid by construction and other workers whose jobs are supported by rehabilitation expenditures and corporation excise taxes paid by construction contractors. One-third of these revenues are attributed to the incentive value of the historic tax credits.

Net Cost to the State

The following table summarizes the potential cost to the State budget after consideration of offsetting income tax revenues.

Net State Tax Expenditures Generated by Historic Tax Credits			
Alternative/Tax Year	Tax Year Expenditures	Offsetting Revenues	Net State Cost
<u>Credits Taken Over Five Years</u>			
2004	\$ 145,800	\$ 36,500	\$ 109,300
2005	\$ 325,000	\$ 86,000	\$ 239,000
2006	\$ 626,200	\$ 146,300	\$ 479,900
2007	\$ 950,500	\$ 157,400	\$ 793,100
2008	\$ 1,301,800	\$ 169,200	\$ 1,132,600
2009	\$ 1,606,300	\$ 183,700	\$ 1,422,600
2010	\$ 1,835,800	\$ 196,800	\$ 1,639,000
2011	\$ 1,976,300	\$ 212,100	\$ 1,764,200
2012	\$ 2,129,000	\$ 229,200	\$ 1,899,800
2013	\$ 2,291,700	\$ 248,500	\$ 2,043,200
<u>Credits Refundable in First Year</u>			
2004	\$ 856,800	\$ 77,100	\$ 779,700
2005	\$ 1,813,000	\$ 169,500	\$ 1,643,500
2006	\$ 2,747,200	\$ 260,900	\$ 2,486,300
2007	\$ 2,946,500	\$ 279,700	\$ 2,666,800
2008	\$ 3,151,800	\$ 299,300	\$ 2,852,500
2009	\$ 3,382,300	\$ 322,300	\$ 3,060,000
2010	\$ 3,621,800	\$ 344,000	\$ 3,277,800
2011	\$ 3,887,300	\$ 369,100	\$ 3,518,200
2012	\$ 4,166,000	\$ 396,000	\$ 3,770,000
2013	\$ 4,470,700	\$ 426,300	\$ 4,044,400
Note: Data in current, inflated dollars.			

Historically, use of the Special Assessment program has been spread throughout the state, in all but five counties. A similar pattern is likely for the historic tax credits, particularly given the geographic distribution of eligible historic structures and the low threshold investment required.

Other Economic Benefits

- The construction activity generated by historic rehabilitations would create \$17.0 to \$30.5 million in annual income in the Oregon economy by 2006, depending on whether the tax credits were refundable.
- A total of 180 to 321 jobs would be supported annually by rehabilitation investments.
- Rehabilitation projects with more than \$25,000 in non-maintenance construction costs within five years would pay higher local property taxes following rehabilitation.

- Historic sites and districts attract fully one-third of the state's tourists. In cities such as Baker City and Albany, historic preservation has created significant new tourist activity with accompanying jobs and business income.
- Rehabilitation of historic structures that have fallen into disrepair can provide a major impetus toward neighborhood revitalization and a new cycle of neighborhood reinvestment. Recycling and revitalizing these existing neighborhoods reduces the demand for new development on the outer edges of the state's urbanized areas.
- Rehabilitation of existing housing and commercial buildings offers significant environmental benefits when compared with new construction, including reduced need for new construction materials and less demolition materials burdening solid waste disposal sites. The close-in location of many historic neighborhoods often allows residents to commute by transit, walking or bicycling.

I. INTRODUCTION

In 1999, one group of historic preservation proponents introduced SB 497 with revisions to the Special Assessment of Historic Property program. Following the veto of that bill, Governor Kitzhaber asked that all the stakeholders come together to craft a consensus bill for the 2001 legislative session. The State Historic Preservation Office (SHPO) convened a working group that met for three months and recommended a draft bill. The provision of the bill that would create an income tax credit for rehabilitation of historic properties was removed pending a better understanding of the potential fiscal and economic impact of the proposed program.

As proposed, rehabilitation of historic properties locally-designated or listed on the National Register or contributing to a certified Historic District would qualify for an income tax credit equal to 20 percent of “qualified rehabilitation expenditures”. The program is designed to complement the Federal program of income tax credits for historic preservation by expanding the universe of eligible properties. It is particularly aimed at owner-occupied housing (which is not eligible for Federal tax credits) and smaller commercial properties. The credit requires a minimum investment of \$2,500 within 24 months for residential properties and \$5,000 for commercial properties. The threshold investment levels are significantly lower than those required by the Federal tax credit so that they will attract property owners in economically distressed communities.

Qualified rehabilitation expenditures include construction supplies, labor and equipment but exclude filing fees, utility expenses and landscaping. The rehabilitation must be planned and an application for certification made to the State Historic Preservation Officer (SHPO). The SHPO reviews the proposed rehabilitation for consistency with the Secretary of the Interior’s Standards for Rehabilitation. Once the rehabilitation is completed, the SHPO certifies it and issues a certificate that the claimant then attaches to his or her income tax return. The proposed legislation calls for an application fee in an amount to be determined.

The tax credit is taken against the individual’s State income taxes over five years. If the claimant does not have sufficient tax liabilities, the credit can be carried forward 10 years or transferred to another tax-paying entity. An alternative, tested in this report, would be to refund tax credits in excess of the individual’s tax liability.

Bay Area Economics (BAE) was asked to test the fiscal and economic impacts of the legislation as proposed and with modification to make the credits refundable.

Report Organization

Oregon’s proposed legislation was based on Maryland’s program of historic preservation tax credits. As background to this analysis, BAE has prepared three case studies of the experience in other states. Their experience is then adapted to Oregon’s situation.

The report is organized in the following sections:

- II – Case studies from other states
- III – Projected tax expenditures
- IV – Fiscal benefits and the net State cost
- V – Other economic benefits

II. CASE STUDIES

State income-tax credits are now available for historic preservation in 19 states. (Several other states offer property tax incentives rather than tax credits.) Shown in Table 1 on the following page, the programs vary widely in terms of the amount of the credit, the minimum investment required to qualify for the credit and property eligibility requirements. For this analysis, BAE has profiled the programs in three states – Maryland, North Carolina and Utah – chosen because of their similarity to the proposed Oregon program. Each program has credits of 20 to 25 percent of qualified rehabilitation expenditures and a relatively low threshold investment of \$5,000 to \$25,000. Maryland’s program is most similar because it served as the model for the Oregon legislation.

Maryland

Amount of Tax Credit

The Maryland Historic Tax Credit was established with the Heritage Tourism Bill, HB1, in the 1996 General Assembly session. As the program received a credible response, the Maryland General Assembly raised the credit to 15 percent in 1997. Finally in 1999 the bill was amended to raise the tax credit to 25 percent of rehabilitation expenditures. In the 1999 amendment the tax credit program changed to make the tax credits available to 501(c)(3) non-profit corporations, developers and homeowners. The legislation mirrored the program in the State of Missouri and allowed the transfer or sale of tax credits. In 2000, the Legislature added a recapture clause for the five years following the credit to ensure that each property owner keeps the property’s historical character.

Eligible Properties

The Maryland Tax Credit program allows commercial and owner-occupied properties to qualify for credits. The property owners need not be residents of the State of Maryland. If the government owns the property but another entity owns the building, the building is eligible for a tax credit.

Threshold Investment

The State of Maryland requires a minimum investment of \$5,000 within a 24-month period for owner-occupied residential properties. For all other properties Maryland requires an investment at least equal to the greater of \$5,000 or the adjusted basis (the purchase price of the property minus the value of the land and the cumulative value of any depreciation claimed to date) of the structure. However, the State does not require a minimum expenditure for exterior work on historic properties. At this time, the Maryland Tax Credit program does not place a cap on household claims for tax credits. However, given the slow economy and resulting budget shortfalls, the State Legislature now has targeted the rehabilitation tax credit for changes to reduce the potential revenue impact on the state budget. Proposed legislation calls for an annual program cap of \$25 million in tax credits for commercial projects with a maximum per project cap of \$1 million.

State	Amount of Credit	Eligibility of Properties	Minimum Investment
Colorado	20% of rehab expense up to \$50,000	Designation by national, state, local government & contributing buildings.	\$5,000
Connecticut	30%	Rehab of owner-occupied residential properties	\$25,000
Delaware	20% for income -producing, 30% for owner-occupied (\$20,000 cap)		
Indiana	20% of rehab costs, up to \$100,000	commercial rental housing, barns & farm buildings	\$5,000 over 2 years
Iowa	25% credit for commercial, income and non-income producing residential	National register, locally designated properties or barns built prior to 1937.	Residential -rehab must equal \$25,000 or 25% of fair market value. Commercial - rehab must be at least 50% of non-land assessed value
Kansas	25% for commercial & residential properties		\$5,000
Maine	20% for rehab of income-producing properties (\$100,000 cap)	National Register or National Register-eligible properties	\$5,000
Maryland	25% for income-producing and owner-occupied	National Register or locally designated properties	Owner-occupied- \$5,000 w/in 24 months. Commercial- \$5,000 within 24 months or expenditures must exceed the adjusted basis
Michigan	25% for historic commercial & residential buildings	National, state or locally designated properties	10% of property's value
Missouri	25% for commercial or residential properties	Listed on National Register or in a certified historic district	Costs exceed 50% of the property basis
New Mexico	50% of costs up to \$25,000	State Registered Commercial, owner-occupied, rental residential, & archeological properties. Tenants with 5 year leases	
North Carolina	30% for residential and 20% for commercial		For residential with 30% credit must be \$25,000
North Dakota	50% of investment	Designated in a zone project made 01-01-00 - 12-31-04	
Rhode Island	10% owner-occupied (w/ \$1,000 a year cap), 30% for income producing properties	State register properties	\$2,000 for residential. Investment must exceed 50% of adjusted value for commercial
Utah	20% owner-occupied & non owner-occupied		\$10,000 over three years
Vermont	25% State Tax Credit (up to \$25,000) & 5% piggyback credit w/ Federal 20%	5% piggyback in designated downtown areas.	
Virginia	25%	State registered properties	Investment should amount to at least 25% of the assessed value for residential and 50% for commercial
West Virginia	20% for private residential, 10% for rental residential & income-producing	Private residential listed on National Register and 10% for National, state or local register properties	20% of the property's basis
Wisconsin	25% owner-occupied residential w/ \$10,000 cap, 5% piggyback credit for commercial		\$10,000 over 2 year period

Sources: National Historic Trust, 2002; Bay Area Economics, 2002.

Credit Transfers

The Maryland Tax Credit program allows a credit to be refunded to the extent the credit exceeds the taxpayer's tax liability, so a homeowner can receive a cash rebate. Previously, the credit was transferable to another taxpayer with sufficient tax liability. Intermediary brokers typically arrange those transfers with the original property owner receiving 50 to 90 percent of the value of the credit depending on its size. Though the cost to the State Treasury was the full amount, individual homeowners were receiving only half to two-thirds of the value of the incentive.

The legislation originally allowed transfer of the credit to a local lender in exchange for a lower principal amount or interest rate in an attempt to make the credit more available to low-income households that did not have sufficient tax liability or income to fund the improvements. This provision had difficulties throughout its implementation. The mortgage certificate allowed banks to purchase the tax credits and reduce their State tax liability. However, the majority of banks in the State of Maryland are incorporated elsewhere and pay no Maryland taxes. Without the State tax liability there was no incentive for the banks to purchase the tax credits. Smaller banks, incorporated in the state, accepted only one to two credits a year.

Credit Calculation

Qualified rehabilitation expenditures include materials, labor and services. The program allows homeowners to include interior renovations that constitute routine maintenance, such as painting, so as to prevent deterioration. In addition, built-in appliances, such as microwaves, are included. Architectural fees can be included in the costs.

Other Historic Preservation Incentives

Local incentive programs work in conjunction with the tax credit to loan or grant monies for the renovations. However, the State of Maryland reviews the likely financial benefit of the tax credit before giving out monies from other incentive programs. In the past, large commercial projects received bond support from the General Assembly, using this public money to invest in their property and then including this public investment in their calculation of the State tax credit.

Credit Utilization

The Maryland Tax Credit program has had strong participation by homeowners. From 1997 through 2000, plans for 240 units have been approved for a total investment of \$8.7 million. In 2000, the average single-family rehabilitation cost \$67,707. During 2001, an additional 137 applications were received for single-family properties. Commercial activity with Phase II applications approved for tax credits totaled \$417.5 million with 95 projects using the program from 1997 through 2001.

The utilization of the program in terms of value of completed projects is as follows:

Year	Project Value
1997	\$ 24,103,000
1998	\$ 41,000,000
1999	\$ 95,000,000
2000	\$100,000,000
2001	\$108,000,000

Utilization for single-family properties was low in the initial three years with only 11 applications in 1997, 36 in 1998 and 68 in 1999.

North Carolina

Amount of Tax Credit

The North Carolina Rehabilitation Investment Tax Credit program, created under the Tax Reform Act of 1986, established a five-percent piggybacked income-tax credit for the rehabilitation of historic structures. In 1993, the five-percent income-tax credit piggybacked on the 20-percent Federal Rehabilitation Investment Tax Credit for income-producing buildings with substantial rehab costs incurred in 24 months. In 1997, new legislation to expand this program was proposed, which increased the income-producing credit value to 20 percent. This legislation added the use of a pass-through entity (501 (c)(3)) for those eligible income-producing properties. In addition, the new legislation established a 30-percent credit for owner-occupied residences requiring a \$25,000 rehabilitation expense over 24 months, and lengthened the time to take the credit from one to five years. The tax credit bill encompassing these changes became effective on January 1, 1998.

Eligible Properties

The North Carolina Rehabilitation Investment Tax Credit program allows non-income-producing properties with certified historic structures either individually or as a contributing building to qualify for credits. These structures must be listed in the National Register of Historic Places. Income-producing properties must be listed as a certified historic structure on the National Register of Historic Places, either individually or as a contributing building in a historic district.

Threshold Investment

The State of North Carolina requires a minimum investment of \$25,000 within a 24-month period for non-income-producing properties. The State does not require a minimum expenditure for exterior work on historic structures, nor does the program place a cap on household claims for tax credits. For income-producing properties, the rehabilitation expense must exceed the greater of \$5,000 or the "adjusted basis" of the structure within a 24-month period. For those projects with a phased schedule, the rehabilitation threshold investment must be reached within 60 months.

Credit Transfers

The North Carolina Rehabilitation Investment Tax Credit program allows the transfer of the State tax credits to a new owner(s) if the transfer occurs prior to the rehabilitated property being placed in service. When a transfer of ownership occurs after the final certification from the State Historic Preservation Office, the new owners must obtain the certification as well.

Credit Calculation

The eligible rehabilitation work must meet the Secretary of the Interior's Standards for Rehabilitation, and may include heating, air conditioning, and kitchen and bathroom remodeling. The credits cannot be used for the cost of acquisition, new additions, site work or personal property.

For income-producing properties with a piggyback tax credit, the credit is based on the adjusted basis of the property. The Federal portion of the credit can be taken back one year and spread forward over several years. The State portion of the credit must be spread over five years with up to ten years to carry it forward. The ten-year carry forward depends on each eligible tax credit recipient's State tax liability. For non-income-producing properties, the credit is spread over five years equally with the ability to carry forward 10 years depending on State tax liability.

Other Historic Preservation Incentives

The State of North Carolina has enabling legislation (General Statutes 160A-400.1 through 160A-400.14) that allows counties and municipalities to create historic preservation commissions and to designate local historic districts and landmarks. Owners of locally designated landmarks and properties within the local historic districts are eligible to apply for an annual 50-percent property tax deferral. The Local Designation Property Tax Deferral program requires that the property's historic features be maintained.

Credit Utilization

The historic preservation state tax credit program receives strong participation from both the income- and non-income-producing property owners. In 1999, 26 non-income-producing projects were approved with a total of \$2,353,961 in rehabilitation expenditures. In addition, the State of North Carolina reports a large increase in the number of requests for National Register listing. Because listing on the National Register is a prerequisite for non-income-producing properties, the State believes its participation will increase over the next several years. For the income-producing properties, the change in legislation from 5 to 20 percent more than doubled proposed projects in the tax credit program.

Income-Producing Properties with Original Legislation

Year	Projects	Rehab Costs	5% Credit
1994	26	\$9,608,766	\$480,438
1995	34	\$13,769,094	\$688,455
1996	32	\$22,102,493	\$1,105,125

Non-Income-Producing Properties under the Changed Legislation

Year	Information Requests	Proposed Projects	Eligible Rehab Expenditures	Certified Projects	Total Rehab Expenditures
1998	904	134	\$9,591,400	3	\$393,849
1999	562	123	\$9,657,095	26	\$2,353,961

Income-Producing Properties under the Changed Legislation

Year	Information Requests	Proposed Projects	Eligible Rehab Expenditures	Certified Projects	Total Rehab Expenditures
1997	359	30	\$14,434,345	23	\$6,062,428
1998	628	67	\$84,625,522	27	\$6,748,550
1999	458	73	\$56,284,274	36	\$25,187,152

Utah

Amount of Tax Credit

The Utah Historic Preservation Tax Credit program was established through the Heritage Foundation lobbying efforts at the State legislator. The Utah Historic Preservation Tax Credit program provides a 20-percent nonrefundable tax credit for the rehabilitation of historic structures.

Eligible Properties

The State of Utah Historic Preservation Tax Credit program includes both owner-occupied residences and residential rentals. These historic structures must be listed in the National Register of Historic Places within three years of the approval of the completed project.

Threshold Investment

The State of Utah requires a minimum investment of \$10,000. The State does not require a minimum expenditure for exterior work on historic structures, nor does the program place a cap on household claims for tax credits.

Credit Transfers

The credits are not transferable, though the credit recipient need not be the owner of the property. Any person who pays for the rehabilitation costs can claim the credit.

Credit Calculation

For the Utah Historic Preservation Tax Credit program, interior and/or exterior repair, rehabilitation or restoration costs may all be included in the rehabilitation costs, including decorative, structural and historic element, architecture, engineering and permit fees. However, the program does not qualify the purchase price, site work, new additions, work on outbuildings, or purchase and installation of moveable furnishings or equipment as eligible costs.

Other Historic Preservation Incentives

The State of Utah places no restrictions on other State incentive programs that can be used in conjunction with the State Historic Preservation Tax Credit. The Utah Heritage Foundation supports several financial assistance programs such as the Revolving Fund Loan Program, which provides property owners with low-interest loans. These loan funds can be used to restore or rehabilitate historic residential and neighborhood commercial buildings.

Credit Utilization

The average project costs in the Utah Historic Preservation Tax Credit program vary from year to year, ranging from \$38,885 per project in 1995 to \$374,424 in 1993. The average cost per project over the nine years of the program is \$79,356. Over the past seven years, only 45 percent of eligible taxpayers have claimed their credits, according to the State Tax Commission.

Number of Projects by Rehab Investment

Range	Number	Percentage
Less than \$15,000	60	17%
\$15,000 to \$24,999	89	25%
\$25,000 to \$49,999	85	24%
\$50,000 to \$99,999	67	19%
\$100,000 to \$249,999	93	11%
\$250,000 to \$499,999	6	2%
\$500,000 to \$999,999	4	1%
\$1,000,000 and above	1	1%
Total	405	100%

III. TAX EXPENDITURES

The proposed legislation provides credits against Oregon State income taxes. In fiscal parlance, those foregone revenues are a “tax expenditure”. The amount of tax expenditure will depend on program usage, the average size of private investments and when credits can be taken. Because there are alternative approaches to the timing of credits and their transferability, this analysis considers two alternatives:

- as proposed with credits taken over five years; and
- having credits refundable in the first year.

Special Assessment Program

Currently, Oregon’s primary incentive for historic preservation is the Special Assessment of Historic Property Program. Since 1975, historic properties that go through a certified rehabilitation are eligible to “freeze” their assessed valuation for a period of 15 years. That assessment freeze lets the owner of a newly rehabilitated property continue to pay property taxes based on the much lower assessed value the property held before rehabilitation. Extension for another 15 years is possible with additional investment. At the end of 2000, 1,554 properties were participating in the program, including 250 condominiums. Another 768 properties that participated in earlier years had exhausted their eligibility or were removed from participation.

This incentive program has been very successful in encouraging maintenance and rehabilitation of the state’s historic assets, resulting in an estimated \$900 million in rehabilitation activity since its inception. However, the incentive value of participating in the program has declined in recent years with the adoption of Measures 5 and 50. These caps on the increase in property tax assessments and tax rates have lessened the burden that owners of historic properties experienced when major increases in property taxes followed their rehabilitation efforts.

The Special Assessment program is markedly less attractive now for owner-occupied housing and small commercial properties. Most of the new applications to the Special Assessment Program now come from large commercial projects. The tax credit proposal responds directly to the needs of small projects.

Impact of Measure 50

Oregon’s Measure 50 property tax legislation has had a major impact on the Special Assessment program, and it will help determine individual property owners’ decisions as to whether to use tax credits or the Special Assessment Program. Property owners must choose between the two programs because the proposed legislation exempts all projects participating in the Special Assessment Program from eligibility for tax credits.

Put simply, Measure 50 limits the increase in the assessed value of a property, outside of bonded indebtedness, to no more than 3.0 percent per year unless major improvements are made to the property. “Minor” construction has no impact on the property’s assessment. It is defined as expenditures of \$10,000 in one assessment year or \$25,000 for all cumulative improvements made over five assessment years. General on-going maintenance and repairs (e.g., painting, roof replacement) do not impact assessed value and are not included in the calculations for minor construction. If improvements exceed the minor construction thresholds, the value of the improvements is added to the property’s assessment.

Because Measure 50 limits those increases in property tax assessments, the Special Assessment program is less valuable to small projects whose assessments wouldn't increase much, if at all, as a result of rehabilitation.

Choice Between Special Assessments and Tax Credits

For property owners choosing between tax credits and the Special Assessment program, the value of a tax credit has to be weighed against the value of a 15-year freeze in property assessments. For small projects where investment is likely to be less than \$20,000 over two years or \$25,000 over five years, the tax credit is clearly a superior incentive relative to Special Assessment because the property assessment would not increase any faster than without improvements. The same is true for historic properties being repaired, because general maintenance repairs have no impact on their assessed value. Many of the improvements made to historic properties fall into the category of general maintenance.

The net present value of the Special Assessment property tax break received over 15 years is calculated by discounting the future tax savings. Discounting allows one to assign a value to a future stream of income. A dollar received next year is not worth as much as a dollar received today if you have to borrow the dollar and pay interest for one year or if you forego the opportunity to invest your dollar and earn a return during the year. For this analysis, future income is discounted at a rate of 7.0 percent per year. Shown in Table 2, an investment of \$40,000 that increased assessed value by a like amount would result in additional property taxes of \$713 in the first year (based on Multnomah County tax rate). Those property taxes would then increase 3.0 percent annually, exclusive of bonded indebtedness. Taken over 15 years, the property tax savings made possible by the Special Assessment program would total \$13,255. That future tax savings would have a net present value of \$6,066 in the first year. That is, an investor would be willing to spend up to \$6,066 today for the property tax savings over the next 15 years.

For larger projects, the choice between the Special Assessment and the tax credit would depend on the property owner's cost of money and return on selling the tax credits to investors. The property owner would compare the net present value of the Special Assessment program with the net present value of the tax credit. The tax credit is 20 percent of total qualified rehabilitation expenditures, excluding new additions. The credit is paid out over five years, assuming that the claimant has sufficient tax liability. (If not, the credit may be carried forward against income taxes for up to 10 years.) The Oregon Department of Revenue reports an average 1999 State tax of \$1,900 after credits for households with adjusted gross incomes of \$40,000 to \$45,000. Most homeowners would be able to claim the full credit in five years without needing to carry it forward to future tax years, given that a \$40,000 rehabilitation investment generates an annual credit of \$1,600 for five years.

Discounting the tax credit for five years at the assumed discount rate of 7.0 percent shows that the \$8,000 tax credit generated by an investment of \$40,000 has a net present value of \$6,560 at the time the credit is first claimed. However, most developers of commercial properties who do not have significant State income tax liabilities of their own will sell the credits to investors. They are likely to receive about 80 cents on the dollar. So the tax credit could be sold to an investor for about \$5,250 (80 percent of the discounted value). As shown in Table 2, that potential return is less than the value of the 15-year Special Assessment property tax savings.

Table 2: Consequences of Alternative Rehabilitation Incentive Choices

Investment	Value of Special Assessment		
	15 Years with a 3% Annual		
	Year 1*	Increase	15 Years Discounted**
\$5,000	\$0	\$0	\$0
\$10,000	\$178	\$3,314	\$1,812
\$20,000	\$356	\$6,627	\$3,624
\$30,000	\$535	\$9,941	\$5,436
\$40,000	\$713	\$13,255	\$7,249
\$50,000	\$891	\$16,569	\$9,061
\$60,000	\$1,069	\$19,882	\$10,873
\$70,000	\$1,247	\$23,196	\$12,685
\$80,000	\$1,425	\$26,510	\$14,497
\$90,000	\$1,604	\$29,824	\$16,309
\$100,000	\$1,782	\$33,137	\$18,122

Investment	Value of Tax Credit					
	5 Year Total	Les Disc. Prop. Taxes*	Credit Used by Owner		Credit Sold to Investor	
			5 Year Discounted**	Discounted Value After Property Tax Increase	5 Year Discounted***	Discounted Value After Property Tax Increase
\$5,000	\$1,000	\$0	\$820	\$820	\$738	\$738
\$10,000	\$2,000	\$0	\$1,640	\$1,640	\$1,476	\$1,476
\$20,000	\$4,000	\$0	\$3,280	\$3,280	\$2,952	\$2,952
\$30,000	\$6,000	-\$5,436	\$4,920	-\$516	\$4,428	-\$1,008
\$40,000	\$8,000	-\$7,249	\$6,560	-\$688	\$5,904	-\$1,345
\$50,000	\$10,000	-\$9,061	\$8,200	-\$860	\$7,380	-\$1,681
\$60,000	\$12,000	-\$10,873	\$9,840	-\$1,032	\$8,856	-\$2,017
\$70,000	\$14,000	-\$12,685	\$11,481	-\$1,205	\$10,332	-\$2,353
\$80,000	\$16,000	-\$14,497	\$13,121	-\$1,377	\$11,809	-\$2,688
\$90,000	\$18,000	-\$16,309	\$14,761	-\$1,549	\$13,285	-\$3,024
\$100,000	\$20,000	-\$18,122	\$16,401	-\$1,721	\$14,761	-\$3,361

Notes:

*Based on Multnomah County property tax rate.

**Discounted at 7 percent with a one-year assessment lag.

***Assumes sold to investor at 80 percent of the credit's discounted face value.

Source: Bay Area Economics, 2002.

For most developers of large commercial properties, it would be more advantageous to take the 15-year Special Assessment rather than the tax credit. This is particularly true for major projects that include new additions to historic buildings, additions that are not eligible for historic tax credits. If, however, the tax credit were made refundable, many commercial developers could find it more attractive to apply for the tax credit to offset initial rehabilitation costs.

Future Use of Tax Credits

Commercial Properties. This analysis assumes that commercial projects with investments below \$50,000 would choose to use tax credits rather than the Special Assessment program.

Shown in Table 3, Oregon has 1,418 buildings listed individually on the National Register of Historic Places. Another 6,578 buildings are designated as “contributing” to historic districts on the National Register. Of these buildings, an estimated 3,421 buildings (43 percent) are commercial properties. Excluding projects that are participating in the Special Assessment program and are therefore ineligible for income tax credits leaves 2,972 commercial projects potentially eligible to claim historic tax credits.

Locally designated properties that SHPO concurs are historic would also be eligible. However, their participation would likely be low, especially initially. Qualifying these locally designated properties would in many cases require significant ground work to correct inadequacies in the local designation ordinances and processes, followed by SHPO concurrence that the designated properties would be eligible for the National Register. No statewide database exists to identify and quantify the locally designated properties that are not on the National Register. Locally designated properties not also on the National Register are estimated conservatively at 15 percent of the statewide inventory, or an additional 4,250 properties. Of these properties, 1,818 are estimated to be commercial properties.

Historical use of the Special Assessment program in the last three years indicates that 26 properties, or roughly 0.8 percent of eligible commercial (depreciable) properties, joined the Special Assessment program in an average year. In 2001, 27 percent of these commercial projects had investments less than \$50,000 with an average investment of \$18,100 (equivalent to \$20,300 in 2004 dollars).

This suggests that six commercial properties would take advantage of historic tax credits annually. This analysis assumes that locally designated properties not also on the National Register would participate at a rate equal to one-third the rate of participation among National Register properties. That implies rehabilitation of one additional commercial property per year from among locally designated historic properties. Given an average investment of \$20,300, these properties would be able to claim a total of \$28,400 in tax credits, averaging \$5,680 per year for five years.

In other states, usage of historic tax credits starts slowly as word of their availability is spread through the development community. The first year’s activity for commercial properties is projected at 60 percent of the stabilized level.

The State’s tax expenditures for commercial properties would grow from \$4,000 in the first year to \$32,000 in the sixth year. The sixth year would be the first stabilized year when five years’ worth of projects would be claiming credits. Following the sixth year, credit usage is projected to stabilize, increasing primarily through inflation (assumed to average 3.0 percent per year).

Table 3: National Register Buildings and Contributing Buildings in Historic Districts						
County	Total Properties			Residential Properties		
	Contributing to a District	Individually Listed	Total Eligible	Contributing to a District	Individually Listed	Total
Baker	103	9	112	5	2	7
Benton	127	42	169	114	19	133
Clackamas	89	70	159	85	41	126
Clatsop	195	56	251	130	30	160
Coos	-	35	35	-	11	11
Columbia	126	6	132	25	4	29
Crook	-	5	5	-	2	2
Curry	-	10	10	-	-	-
Deschutes	347	23	370	278	7	285
Douglas	599	33	632	289	2	291
Gilliam	22	2	24	-	1	1
Grant	-	8	8	-	-	-
Harney	-	6	6	-	-	-
Hood River	-	27	27	-	5	5
Jackson	1,476	120	1,596	1,022	9	1,031
Jefferson	-	2	2	-	1	1
Josephine	12	31	43	1	4	5
Klamath	-	22	22	-	1	1
Lake	-	13	13	-	-	-
Lane	435	88	523	343	8	351
Lincoln	-	16	16	-	1	1
Linn	675	50	725	506	3	509
Malheur	-	8	8	-	1	1
Marion	302	89	391	150	2	152
Morrow	-	4	4	-	-	-
Multnomah	1,601	412	2,013	1,068	201	1,269
Polk	160	24	184	128	3	131
Sherman	-	4	4	-	-	-
Tillamook	-	7	7	-	-	-
Umatilla	37	35	72	2	2	4
Union	93	16	109	4	-	4
Wallowa	-	12	12	-	-	-
Wasco	113	25	138	54	4	58
Washington	14	32	46	-	2	2
Wheeler	-	1	1	-	-	-
Yamhill	52	75	127	5	-	5
Total	6,578	1,418	7,996	4,209	366	4,575

Sources: Oregon State Historic Preservation Office; BAE, 2002.

Residential Properties. Owner-occupied residential properties without new additions would typically find tax credits simpler and more valuable than the Special Assessment program. Special Assessment projects are required to submit a rehabilitation plan and hold annual open houses.

Oregon’s experience provides little guidance as to the likely usage of tax credits. Owner-occupied residential properties have declined significantly in their use of the Special Assessment program since Measure 50 restricted annual increases in property assessments. Before Measure 50, the Special Assessment program attracted 18 applications for owner-occupied residential property in 1996. The Maryland experience with a comparable tax credit program has grown to 137 single-family properties in 2001. In North Carolina, property owners proposed rehabilitation of 123 non-income-producing properties in 1999.

One way to estimate the frequency and extent of rehabilitation of owner-occupied residential properties is to evaluate the typical life expectancy of major house components. Table 4 identifies the typical frequency and cost of major rehabilitation improvements.

Required Improvements	Frequency	Percent of Houses	Typical Amount
Roof	10-15 years	7%	\$ 10,000
Paint	10 years	10%	\$ 7,500
Seismic Retrofit	once	3%	\$ 1,500
Electrical	25 years	4%	\$ 5,000
Plumbing	25 years	4%	\$ 3,000
Furnace	15 years	7%	\$ 5,000
Air Conditioning	15 years	7%	\$ 1,000
Hot Water Heater	14 years	7%	\$ 500
Kitchen Appliances	10 years	10%	\$ 4,000
Average		6.4%	\$ 37,500

Source: Bosco-Milligan Foundation; Consumer Reports; BAE, 2002.

Given the frequency of replacement, one would expect that the equivalent of 6.4 percent of all historic houses would need significant investments for maintenance and upgrading each year. Adding the annual costs of the required improvements yields an average investment of \$37,500. This assumes that homeowners pursue one major improvement effort, combining several improvements at one time. Most likely, the costs for any individual homeowner would be spread in chunks every few years at a lower average cost, so one might see 12.8 percent of homeowners investing an average of \$18,750 or 51.2 percent investing an average of \$4,700 in one year. However, the sum total of these investments for all Oregon homeowners would be the same even if they were more spread out over time.

Oregon has 366 residential properties listed individually on the National Register of Historic Places and an estimated 4,209 contributing residential properties in historic districts. If 6.4 percent of these properties were to make qualified rehabilitation expenditures of more than \$2,500 in one year, that would indicate a universe of 293 owners of National Register homes eligible to claim historic tax credits each year. Many of those homeowners would not know about the credits or bother to apply for certification. This analysis assumes that one-half of the eligible homeowners would apply for the

historic tax credits and that 90 percent would choose the tax credit program over the Special Assessment program. That would indicate potential annual use by 107 owners of National Register homes per year.

Locally designated properties also would be eligible to participate in the tax credit program. Oregon has an estimated 2,432 such residential properties. Because of the greater effort required to secure SHPO concurrence that the property would be eligible for the National Register, this analysis assumes that participation in the program by locally designated properties would be at one-third the rate of participation of National Register properties. That suggests that 23 locally designated residential properties would be rehabbed and claim the tax credit annually.

The average annual expenditure of \$37,500 based on typical house maintenance requirements compares with the actual experience of an average rehabilitation investment of \$67,700 in Maryland and \$78,500 in North Carolina. This analysis assumes a lower average qualified rehabilitation expenditure of \$50,000 for Oregon homeowners for three reasons:

- higher-cost projects are more likely to use the Special Assessment program;
- Measure 50 encourages homeowners to spread their construction investment out over several years to avoid property tax increases; and
- Oregon's proposed tax credits have a much lower minimum required investment (\$2,500 versus \$5,000 in Maryland and \$25,000 in North Carolina).

With an average rehabilitation investment of \$50,000, these 130 homeowners would claim historic tax credits totaling \$1,300,000. These credits would be spread over five years, averaging \$260,000 per year (measured in 2002 dollars).

Homeowners' use of historic tax credits takes some time to build as they become aware of the program and plan their improvements in accordance with the Secretary of the Interior's Standards for Rehabilitation. In Maryland the number of homeowners participating increased from 11 in the first year, growing to 36 by the third year and 137 in 2001. This analysis assumes that the first and second years' use of the Oregon tax credits would be 25 and 60 percent of the stabilized level, respectively before reaching the stabilized level in the third year. After that, the number of homeowners applying for historic tax credits is assumed to increase by five percent per year.

Total Tax Expenditures and Other Direct Costs

Credits Claimed Over Five Years. Table 5 projects the tax credits claimed during Tax Years 2004 through 2013. Tax expenditures under the historic tax credit program would begin at \$74,000 in FY 2004, the assumed first year of eligibility. This low level reflects the fact that only one year's worth of claims would be included and that the new program would take time to become widely known and used. The seventh year would represent the stabilized level with \$1,750,000 in annual credits being deducted from State income taxes.

Table 5: Value of Tax Credits Claimed for Rehabilitated Historic Properties Assuming that Credits are Taken Over Five Years

	Tax Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
National Register Properties Rehabbed										
Residential										
Number of Properties	27	64	107	112	118	124	130	137	144	151
Average Investment	\$53,000	\$54,600	\$56,300	\$58,000	\$59,700	\$61,500	\$63,300	\$65,200	\$67,200	\$69,200
Average Five-Year Credit	\$10,600	\$10,920	\$11,260	\$11,600	\$11,940	\$12,300	\$12,660	\$13,040	\$13,440	\$13,840
Average Annual Credit	\$2,120	\$2,184	\$2,252	\$2,320	\$2,388	\$2,460	\$2,532	\$2,608	\$2,688	\$2,768
Total Annual Credit	\$57,000	\$140,000	\$241,000	\$260,000	\$282,000	\$305,000	\$329,000	\$357,000	\$387,000	\$418,000
Commercial										
Number of Properties	4	6	6	6	6	6	6	6	6	6
Average Investment	\$20,300	\$21,600	\$22,200	\$22,900	\$23,600	\$24,300	\$25,000	\$25,800	\$26,500	\$27,300
Average Five-Year Credit	\$4,060	\$4,320	\$4,440	\$4,580	\$4,720	\$4,860	\$5,000	\$5,160	\$5,300	\$5,460
Average Annual Credit	\$812	\$864	\$888	\$916	\$944	\$972	\$1,000	\$1,032	\$1,060	\$1,092
Total Annual Credit	\$3,000	\$5,000	\$5,000	\$5,000	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$7,000
Locally Designated Properties Rehabbed										
Residential										
Number of Properties	6	14	23	24	25	26	27	28	29	30
Average Investment	\$53,000	\$54,600	\$56,300	\$58,000	\$59,700	\$61,500	\$63,300	\$65,200	\$67,200	\$69,200
Average Five-Year Credit	\$10,600	\$10,920	\$11,260	\$11,600	\$11,940	\$12,300	\$12,660	\$13,040	\$13,440	\$13,840
Average Annual Credit	\$2,120	\$2,184	\$2,252	\$2,320	\$2,388	\$2,460	\$2,532	\$2,608	\$2,688	\$2,768
Total Annual Credit	\$13,000	\$31,000	\$52,000	\$56,000	\$60,000	\$64,000	\$68,000	\$73,000	\$78,000	\$83,000

Table 5: Value of Tax Credits Claimed for Rehabilitated Historic Properties Assuming that Credits are Taken Over Five Years (Continued)

	Tax Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Commercial										
Number of Properties	1	1	1	1	1	1	1	1	1	1
Average Investment	\$20,300	\$21,600	\$22,200	\$22,900	\$23,600	\$24,300	\$25,000	\$25,800	\$26,500	\$27,300
Average Five-Year Credit	\$4,060	\$4,320	\$4,440	\$4,580	\$4,720	\$4,860	\$5,000	\$5,160	\$5,300	\$5,460
Average Annual Credit	\$812	\$864	\$888	\$916	\$944	\$972	\$1,000	\$1,032	\$1,060	\$1,092
Total Annual Credit	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Tax Credits Claimed										
Residential										
National Register	\$57,000	\$197,000	\$438,000	\$698,000	\$980,000	\$1,228,000	\$1,417,000	\$1,533,000	\$1,660,000	\$1,796,000
Locally Designated	\$13,000	\$44,000	\$96,000	\$152,000	\$212,000	\$263,000	\$300,000	\$321,000	\$343,000	\$366,000
Total Residential	\$70,000	\$241,000	\$534,000	\$850,000	\$1,192,000	\$1,491,000	\$1,717,000	\$1,854,000	\$2,003,000	\$2,162,000
Commercial										
National Register	\$3,000	\$8,000	\$13,000	\$18,000	\$24,000	\$27,000	\$28,000	\$29,000	\$30,000	\$31,000
Locally Designated	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
Total Commercial	\$4,000	\$10,000	\$16,000	\$22,000	\$29,000	\$32,000	\$33,000	\$34,000	\$35,000	\$36,000
Total Tax Expenditure	\$74,000	\$251,000	\$550,000	\$872,000	\$1,221,000	\$1,523,000	\$1,750,000	\$1,888,000	\$2,038,000	\$2,198,000

Note: Investment and tax credits are shown in current, inflated dollars. Annual inflation is projected to average 3.0 percent.

Source: Bay Area Economics, 2002.

Credits Refundable in First Year. If the tax credits were made refundable as an alternative, homeowners would receive a tax refund if their tax credits exceeded their tax liability. The impact on the State budget, shown in Table 6, would be to accelerate the tax expenditure to the year in which the rehabilitation is certified. This would affect primarily the program's first five years. Refunding the tax credits would make the incentive more effective and more accessible to lower-income households with lower tax liabilities. While the credits would be transferable to investors under the program as proposed, the difficulty in finding an investor and the 20- to 50-percent fee charged by the broker would reduce the benefit to the actual homeowner.

The improved ease of use and the greater immediate benefits also would likely increase the demand for and use of the historic tax credits. The Table 2 comparison of benefits from historic tax credits and Special Assessments indicates that in most cases a refundable credit received in the first year would be more attractive than a 15-year tax assessment freeze. The key exceptions would be projects with additions and other major expenditures not recognized as qualified rehabilitation expenditures. Use by commercial properties could be expected to triple with an increase in average expenditures to \$78,600, the average for Special Assessment projects spending less than \$200,000 in 2000. Residential use would likely increase by 50 percent in response to a refundable credit.

With refundable credits, the State's tax expenditure would begin at \$785,000 in Tax Year 2004, increasing to \$3,536,000 by Tax Year 2010.

Geographic Distribution. Historically, use of the Special Assessment program has been spread throughout the state in all but five counties. A similar pattern is likely for the historic tax credits, particularly given the geographic distribution of eligible historic structures and the low threshold investment required.

Administrative Costs. The increase in applications for certification will require one additional staff person to administer the program. That staff position is assumed to be a Program Technician 2, which carries a monthly salary of \$3,122 to \$4,396. An additional program cost equal to 50 percent of salary would be incurred for fringe benefits, office costs and other expenses. This analysis assumes a midpoint salary of \$3,759 per month for a total annual cost of \$67,700 (2002 dollars).

Table 6: Value of Tax Credits Claimed for Rehabilitated Historic Properties Assuming Refundable Credits

	Tax Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
National Register Properties Rehabbed										
Residential										
Number of Properties	40	97	161	169	177	186	195	205	215	226
Average Investment	\$53,000	\$54,600	\$56,300	\$58,000	\$59,700	\$61,500	\$63,300	\$65,200	\$67,200	\$69,200
Total Credit	\$424,000	\$1,059,000	\$1,813,000	\$1,960,000	\$2,113,000	\$2,288,000	\$2,469,000	\$2,673,000	\$2,890,000	\$3,128,000
Commercial										
Number of Properties	11	18	18	18	18	18	18	18	18	18
Average Investment	\$88,500	\$93,900	\$96,700	\$99,600	\$102,600	\$105,600	\$108,800	\$112,100	\$115,400	\$118,900
Total Credit	\$195,000	\$338,000	\$348,000	\$359,000	\$369,000	\$380,000	\$392,000	\$404,000	\$415,000	\$428,000
Locally Designated Properties Rehabbed										
Residential										
Number of Properties	9	21	35	37	39	41	43	45	47	49
Average Investment	\$53,000	\$54,600	\$56,300	\$58,000	\$59,700	\$61,500	\$63,300	\$65,200	\$67,200	\$69,200
Total Credit	\$95,000	\$229,000	\$394,000	\$429,000	\$466,000	\$504,000	\$544,000	\$587,000	\$632,000	\$678,000
Commercial										
Number of Properties	4	6	6	6	6	6	6	6	6	6
Average Investment	\$88,500	\$93,900	\$96,700	\$99,600	\$102,600	\$105,600	\$108,800	\$112,100	\$115,400	\$118,900
Total Credit	\$71,000	\$113,000	\$116,000	\$120,000	\$123,000	\$127,000	\$131,000	\$135,000	\$138,000	\$143,000
Tax Credits Claimed										
Residential										
National Register	\$424,000	\$1,059,000	\$1,813,000	\$1,960,000	\$2,113,000	\$2,288,000	\$2,469,000	\$2,673,000	\$2,890,000	\$3,128,000
Locally Designated	\$95,000	\$229,000	\$394,000	\$429,000	\$466,000	\$504,000	\$544,000	\$587,000	\$632,000	\$678,000
Total Residential	\$519,000	\$1,288,000	\$2,207,000	\$2,389,000	\$2,579,000	\$2,792,000	\$3,013,000	\$3,260,000	\$3,522,000	\$3,806,000
Commercial										
National Register	\$195,000	\$338,000	\$348,000	\$359,000	\$369,000	\$380,000	\$392,000	\$404,000	\$415,000	\$428,000
Locally Designated	\$71,000	\$113,000	\$116,000	\$120,000	\$123,000	\$127,000	\$131,000	\$135,000	\$138,000	\$143,000
Total Commercial	\$266,000	\$451,000	\$464,000	\$479,000	\$492,000	\$507,000	\$523,000	\$539,000	\$553,000	\$571,000
Total Tax Expenditure	\$785,000	\$1,739,000	\$2,671,000	\$2,868,000	\$3,071,000	\$3,299,000	\$3,536,000	\$3,799,000	\$4,075,000	\$4,377,000

Note: Investment and tax credits are shown in current, inflated dollars. Annual inflation is projected to average 3.0 percent.

Source: Bay Area Economics, 2002.

IV. REVENUE AND JOB IMPACTS

The construction activity engendered by the historic tax credits would have economic and fiscal consequences. While some of this activity would have occurred with or without the incentive of tax credits, the state's rehabilitation industry would be more active than otherwise. Homeowners would be less likely to postpone major maintenance expenses, and commercial property owners would be more likely to reinvest.

Construction Activity and Resulting Employment

The rehabilitation of houses and small commercial properties would represent \$1.9 million of construction activity in 2004, growing to \$7.5 million in 2006 once the program was widely known and used. Table 7 summarizes the future construction activity. It reflects only construction directly related to the tax credits; it does not include any additional rehabilitation induced in neighborhoods revitalized by the reinvestment in historic buildings.

Spin-Off Income. Construction also creates business income for supplier industries as contractors purchase supplies and services and elsewhere in the Oregon economy as construction workers spend their paychecks. Known as the multiplier effect, the U.S. Bureau of Economic Analysis calculates that for each \$1.00 invested directly in construction, another \$1.26 in spin-off income is created for other Oregon industries. Total income introduced into the Oregon economy would reach \$17.0 million in 2006.

Construction Jobs. Typically, one-half of construction dollars go to labor costs. The Oregon Employment Department reports that the average Oregon construction worker had \$38,540 in annual wages in 2000. To that must be added the cost of unemployment insurance, worker's compensation, Social Security and other fringe benefits, estimated at 25 percent of wages. In 2004, one job would be created for every \$104,200 of construction expenditures. The rehabilitation of historic properties would support 68 direct construction jobs annually by 2006.

Spin-Off Jobs. When the dollars invested in construction create income in other industries, those expenditures also create spin-off jobs. For each direct construction job created, these expenditures create an additional 1.48 indirect, spin-off jobs in other industries. Construction workers' spending for housing, food, clothing, transportation and other items would support 112 other jobs throughout the state economy in 2006.

Impacts Assuming Credits are Refundable. Shown in Table 8, construction-related income created in the state economy would total \$30.5 million in 2006. At the same time, a total of 321 jobs would be created in construction and other industries.

Table 7: Economic Benefits of Historic Rehabilitation Generated by Proposed Tax Credits Assuming That Credits are Taken Over Five Years

	Tax Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Annual Investment in Property Rehabilitation										
Residential	\$ 1,749,000	\$ 4,258,800	\$ 7,319,000	\$ 7,888,000	\$ 8,537,100	\$ 9,225,000	\$ 9,938,100	\$ 10,758,000	\$ 11,625,600	\$ 12,525,200
Commercial	\$ 101,500	\$ 151,200	\$ 155,400	\$ 160,300	\$ 165,200	\$ 170,100	\$ 175,000	\$ 180,600	\$ 185,500	\$ 191,100
Total Investment	\$ 1,850,500	\$ 4,410,000	\$ 7,474,400	\$ 8,048,300	\$ 8,702,300	\$ 9,395,100	\$ 10,113,100	\$ 10,938,600	\$ 11,811,100	\$ 12,716,300
Spin-Off Income in Oregon Economy *										
	\$ 2,370,000	\$ 5,648,000	\$ 9,572,000	\$ 10,307,000	\$ 11,145,000	\$ 12,032,000	\$ 12,952,000	\$ 14,009,000	\$ 15,126,000	\$ 16,286,000
Total Income Created in Oregon Economy *										
	\$ 4,220,500	\$ 10,058,000	\$ 17,046,400	\$ 18,355,300	\$ 19,847,300	\$ 21,427,100	\$ 23,065,100	\$ 24,947,600	\$ 26,937,100	\$ 29,002,300
Construction Wages (50% of Expenditures)										
	\$ 925,000	\$ 2,205,000	\$ 3,737,000	\$ 4,024,000	\$ 4,351,000	\$ 4,698,000	\$ 5,057,000	\$ 5,469,000	\$ 5,906,000	\$ 6,358,000
Jobs Created										
Construction Jobs **	18	41	68	71	74	78	81	85	89	94
Spin-Off Jobs ***	30	68	112	117	122	129	134	140	147	155
Total Jobs	48	109	180	188	196	207	215	225	236	249

Notes:

* Based on U.S. Bureau of Economic Analysis economic multiplier of 2.2567.

** Based on average annual wage and benefits package of \$52,100 in 2004.

***Based on U.S. Bureau of Economic Analysis jobs multiplier of 2.4758.

Sources: U.S. Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics; Bay Area Economics, 2002.

Table 8: Economic Benefits of Historic Rehabilitation Generated by Proposed Tax Credits Assuming That Credits are Refundable in the First Year

	Tax Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Annual Investment in Property Rehabilitation										
Residential	\$ 2,597,000	\$ 6,442,800	\$ 11,034,800	\$ 11,948,000	\$ 12,895,200	\$ 13,960,500	\$ 15,065,400	\$ 16,300,000	\$ 17,606,400	\$ 19,030,000
Commercial	\$ 1,327,500	\$ 2,253,600	\$ 2,320,800	\$ 2,390,400	\$ 2,462,400	\$ 2,534,400	\$ 2,611,200	\$ 2,690,400	\$ 2,769,600	\$ 2,853,600
Total Investment	\$ 3,924,500	\$ 8,696,400	\$ 13,355,600	\$ 14,338,400	\$ 15,357,600	\$ 16,494,900	\$ 17,676,600	\$ 18,990,400	\$ 20,376,000	\$ 21,883,600
Spin-Off Income in Oregon Economy *										
	\$ 5,026,000	\$ 11,137,000	\$ 17,105,000	\$ 18,363,000	\$ 19,668,000	\$ 21,125,000	\$ 22,638,000	\$ 24,321,000	\$ 26,096,000	\$ 28,026,000
Total Income Created in Oregon Economy *										
	\$ 8,950,500	\$ 19,833,400	\$ 30,460,600	\$ 32,701,400	\$ 35,025,600	\$ 37,619,900	\$ 40,314,600	\$ 43,311,400	\$ 46,472,000	\$ 49,909,600
Construction Wages (50% of Expenditures)										
	\$ 1,962,000	\$ 4,348,000	\$ 6,678,000	\$ 7,169,000	\$ 7,679,000	\$ 8,247,000	\$ 8,838,000	\$ 9,495,000	\$ 10,188,000	\$ 10,942,000
Jobs Created										
Construction Jobs **	38	81	121	126	131	137	142	148	154	161
Spin-Off Jobs ***	63	134	200	208	216	226	234	244	254	266
Total Jobs	101	215	321	334	347	363	376	392	408	427

Notes:

* Based on U.S. Bureau of Economic Analysis economic multiplier of 2.2567.

** Based on average annual wage and benefits package of \$52,100 in 2004.

***Based on U.S. Bureau of Economic Analysis jobs multiplier of 2.4758.

Sources: U.S. Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics; Bay Area Economics, 2002.

Offsetting Tax Revenues

The construction workers hired to work on historic building rehabilitation would pay State income taxes, and construction companies would pay corporate income taxes. The Oregon Department of Revenue indicates that households with a gross income of \$35,000 to \$40,000 had a taxable income equal to 65.7 percent of their Adjusted Gross Income if they itemized deductions in 1999. Households that use the standard deduction had taxable incomes equal to 85 percent of Adjusted Gross Income. Assuming that construction workers are evenly split between those that use the standard deduction and those that itemize, taxable income is calculated at 75.4 percent of wages. With an 8.0-percent average tax rate and 15.3 percent of taxes offset by credits, these households would pay an average of \$2,220 in State income taxes after exemptions, deductions and credits (measured in 2004 dollars). Workers in spin-off jobs are assumed to average \$30,000 in annual incomes. State income taxes associated with the historic rehabilitation activity would total \$85,900 in 2004, increasing to \$343,100 in 2006. If the credits were made refundable in the first year, worker income taxes would increase to \$180,800 in 2004 and \$611,600 in 2006. (See Table 9.)

Construction companies identified by *Engineering News-Record* as the 400 largest contractors in the U.S. had an average profitability of 4.4 percent of income. State income taxes based on those profits would yield \$21,700 in 2006 if the credits were taken over five years or \$38,800 annually with the higher construction levels associated with refundable credits.

Consumption taxes on cigarettes and alcoholic beverages as well as lottery revenues could be expected to increase modestly in response to increased wages for construction workers.

Administrative Fees

The proposed legislation calls on the SHPO to charge administrative fees for the certification of historic rehabilitations; however, it sets no fee schedule. Applicants to the Special Assessment program are charged one-third of one percent of the property value. This analysis assumes that the same fee level would be applied to the tax credit program. At that level, certification fees would yield \$6,100 in 2004, growing to \$24,700 in 2006 given tax credits that are taken over five years. With refundable credits, certification fees would generate \$13,000 in 2004 and \$44,100 in 2006, as shown in Table 9.

Table 9: State Tax Revenues Associated with Historic Tax Credits

	Tax Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Credits Taken Over Five Years										
Oregon Income Taxes										
Construction Workers	\$ 40,000	\$ 93,900	\$160,500	\$172,500	\$185,000	\$201,200	\$215,500	\$232,900	\$251,000	\$272,600
Other Workers	45,900	107,400	182,600	196,600	211,100	229,600	245,200	263,200	285,200	310,000
Total Income Taxes	\$ 85,900	\$201,300	\$343,100	\$369,100	\$396,100	\$430,800	\$460,700	\$496,100	\$536,200	\$582,600
Corporation Excise Taxes Paid by Rehabilitation										
Contractors*	\$ 5,400	\$ 12,800	\$ 21,700	\$ 23,400	\$ 25,300	\$ 27,300	\$ 29,400	\$ 31,800	\$ 34,300	\$ 36,900
Certification Fees**	\$ 6,100	\$ 14,600	\$ 24,700	\$ 26,600	\$ 28,700	\$ 31,000	\$ 33,400	\$ 36,100	\$ 39,000	\$ 42,000
Credits Refundable in First Year										
Oregon Income Taxes										
Construction Workers	\$ 84,400	\$185,500	\$285,600	\$306,200	\$327,500	\$353,500	\$377,700	\$405,500	\$434,300	\$466,900
Other Workers	96,400	211,700	326,000	349,400	373,700	402,300	428,200	458,700	492,800	532,000
Total Income Taxes	\$180,800	\$397,200	\$611,600	\$655,600	\$701,200	\$755,800	\$805,900	\$864,200	\$927,100	\$998,900
Corporation Excise Taxes Paid by Rehabilitation										
Contractors*	\$ 11,400	\$ 25,300	\$ 38,800	\$ 41,600	\$ 44,600	\$ 47,900	\$ 51,300	\$ 55,100	\$ 59,200	\$ 63,500
Certification Fees**	\$ 13,000	\$ 28,700	\$ 44,100	\$ 47,300	\$ 50,700	\$ 54,400	\$ 58,300	\$ 62,700	\$ 67,200	\$ 72,200

Notes:

*Based on average contractor profitability of 4.4 percent of revenues.

**Assumed to equal 0.33 percent of construction value.

Sources: Oregon Department of Revenue; Engineering News; U.S. Department of Labor, Bureau of Labor Statistics; Bay Area Economics, 2002.

Net Tax Expenditures

As noted earlier, no one can know with any certainty how much of the projected historic rehabilitation activity would have occurred anyway without the tax credit incentive. Complying with the Secretary of the Interior's Standards for Rehabilitation often imposes higher costs for rehabilitation than would replacement with modern elements (e.g., repairing wooden windows rather than replacing them). The timing of investment also is likely to be accelerated for homeowners and building owners that might otherwise postpone improvements until they had more money.

For the purpose of calculating the net impact on the State budget, this analysis assumes that one-third of the rehabilitation investment would be a direct result of the tax credits. Thus, the net cost to the State would total \$109,300 in 2004 and \$1,639,000 in 2010 if the tax credits were taken over five years as currently proposed. The net cost would increase to \$779,700 in 2004 and \$3,277,800 in 2010 if the tax credits were fully refundable in the first year.

Table 10: Net State Tax Expenditures Generated by Historic Tax Credits

	Tax Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Credits Taken Over Five Years										
Tax Expenditures	\$ 74,000	\$ 251,000	\$ 550,000	\$ 872,000	\$ 1,221,000	\$ 1,523,000	\$ 1,750,000	\$ 1,888,000	\$ 2,038,000	\$ 2,198,000
Administrative Costs	71,800	74,000	76,200	78,500	80,800	83,300	85,800	88,300	91,000	93,700
Total Expenditures	\$ 145,800	\$ 325,000	\$ 626,200	\$ 950,500	\$ 1,301,800	\$ 1,606,300	\$ 1,835,800	\$ 1,976,300	\$ 2,129,000	\$ 2,291,700
Offsetting Revenues*	\$ 30,400	\$ 71,400	\$ 121,600	\$ 130,800	\$ 140,500	\$ 152,700	\$ 163,400	\$ 176,000	\$ 190,200	\$ 206,500
Certification Fees	6,100	14,600	24,700	26,600	28,700	31,000	33,400	36,100	39,000	42,000
Total New Revenues	\$ 36,500	\$ 86,000	\$ 146,300	\$ 157,400	\$ 169,200	\$ 183,700	\$ 196,800	\$ 212,100	\$ 229,200	\$ 248,500
Net State Cost	\$ 109,300	\$ 239,000	\$ 479,900	\$ 793,100	\$ 1,132,600	\$ 1,422,600	\$ 1,639,000	\$ 1,764,200	\$ 1,899,800	\$ 2,043,200
Credits Refundable in First Year										
Tax Expenditures	\$ 785,000	\$ 1,739,000	\$ 2,671,000	\$ 2,868,000	\$ 3,071,000	\$ 3,299,000	\$ 3,536,000	\$ 3,799,000	\$ 4,075,000	\$ 4,377,000
Administrative Costs	71,800	74,000	76,200	78,500	80,800	83,300	85,800	88,300	91,000	93,700
Total Expenditures	\$ 856,800	\$ 1,813,000	\$ 2,747,200	\$ 2,946,500	\$ 3,151,800	\$ 3,382,300	\$ 3,621,800	\$ 3,887,300	\$ 4,166,000	\$ 4,470,700
Offsetting Revenues*	\$ 64,100	\$ 140,800	\$ 216,800	\$ 232,400	\$ 248,600	\$ 267,900	\$ 285,700	\$ 306,400	\$ 328,800	\$ 354,100
Certification Fees	13,000	28,700	44,100	47,300	50,700	54,400	58,300	62,700	67,200	72,200
Total New Revenues	\$ 77,100	\$ 169,500	\$ 260,900	\$ 279,700	\$ 299,300	\$ 322,300	\$ 344,000	\$ 369,100	\$ 396,000	\$ 426,300
Net State Cost	\$ 779,700	\$ 1,643,500	\$ 2,486,300	\$ 2,666,800	\$ 2,852,500	\$ 3,060,000	\$ 3,277,800	\$ 3,518,200	\$ 3,770,000	\$ 4,044,400

Notes:

*One-third of new revenues are assumed to be new revenues resulting from the historic tax credits.

Sources: Oregon State Historic Preservation Office; Oregon Department of Revenue; Engineering News; U.S. Department of Labor, Bureau of Labor Statistics; Bay Area Economics, 2002.

V. OTHER ECONOMIC BENEFITS

Historic preservation generates other benefits more difficult to quantify, but nevertheless important.

Local Property Taxes

Measure 50 limits the potential fiscal benefits to local governments. However, rehabilitation projects with more than \$25,000 in minor construction within five years would pay higher property taxes following rehabilitation.

Tourism

According to the Oregon Tourism Commission, tourism is a \$5.2 billion industry in Oregon that continues to grow by three to five percent per year. Nearly one-third of these domestic pleasure travelers visit historic sites and attractions. In cities such as Baker City and Albany, historic preservation has created a tourism attraction and increased each area's tourism industry.

Baker City was once considered to be the premier social center along the Oregon Trail but by the mid-1980s had fallen on hard times. The revitalization of Baker City began in 1987. Since that time the vacancy rate has dropped from 25 percent to 8 percent with over \$10 million invested in the downtown district from 1992 to 1998. Historic Baker City's Inc., through its Destination Downtown program, has facilitated over 75 historic façade renovations. Baker City is a nationally recognized historic shopping district, ranked #22 in 1997 in a nation-wide downtown contest sponsored by the National Main Street Center.

The City of Albany has one of the largest and most varied collections of historic buildings in the State of Oregon. This collection represents styles from 1840 through the 1930's and is concentrated in an eight square block area. The U.S. Department of the Interior lists the three Albany Historic Districts on the National Register of Historic Places.

Reinvestment in Existing Neighborhoods

By their nature, most historic structures are located in established business districts and neighborhoods. Rehabilitation of historic structures that have fallen into disrepair can provide a major impetus toward neighborhood revitalization and a new cycle of neighborhood reinvestment. Throughout the nation, individuals, couples and families are being drawn to historic neighborhoods by the quality of the historic houses and the charm of established neighborhoods often in close proximity to their jobs.

Recycling and revitalizing these existing neighborhoods reduces the demand for new development on the outer edges of the state's urbanized areas. Healthy historic neighborhoods are an important resource in the fight against urban sprawl.

Environmental Benefits

Rehabilitation of existing housing and commercial buildings offers significant environmental benefits when compared with new construction. Recycling historic structures reduces the need for new construction materials. Their preservation helps to avoid demolition and the resulting burden on solid waste disposal sites.

The close-in location of many historic neighborhoods often allows residents to commute by transit, walking or bicycling.