

Tax Credits as an Economic Revitalization Tool: National Park Service's Report

By John M. Tess, Heritage Consulting Group

In January, then Secretary of the Interior Ken Salazar joined Sen. Carl Levin, D-Mich., to host a meeting in Detroit that focused on how the highly successful historic tax credit (HTC) program could be used to spark development in communities that have faced significant long-term decline. Economic development, real estate and design professionals attended the meeting along with state and federal preservation officials and government representatives in addition to Sen. Levin. As a direct result of the discussions held at the meeting, Secretary Salazar announced an internal National Park Service (NPS) review of the HTC, with the goal of maximizing opportunities to use historic preservation in promoting economic development and revitalization.

On March 1, the NPS announced eight critical initiatives:

- ♦ Action 1: Offer a series of webinars, workshops and training opportunities to promote the program and its application as a redevelopment and revitalization tool.
- ♦ Action 2: Join the White House Council on Strong Cities, Strong Communities (SC2), Department of Housing and Urban Development (HUD) and Michigan State Historic Preservation Office (SHPO) to promote the use of HTCs in Detroit as part of the city's pilot SC2 Community Solution pilot. If effective, this partnership would then be repeated in other economically depressed communities.
- ♦ Action 3: Meet with the Internal Revenue Service (IRS) and Department of the Treasury to examine tax policies that may restrict appropriate use of the HTCs.
- ♦ Action 4: Form an interagency group focused on improving coordination and as appropriate agency issues relating to the HTC.
- ♦ Action 5: Look for opportunities to strengthen partnerships with SHPOs, Main Street and local communities in promoting the HTC program. Promote the program through its America's Great Outdoors initiative.
- ♦ Action 6: In consultation with stakeholders, re-examine, and as appropriate, revise its interpretations of the Secretary's Standards, including providing greater clarification and flexibility in five specific areas:
 - Differentiating between levels of significance in interior spaces and flexibility in making changes to secondary spaces;
 - Making changes to certain types of assembly spaces as part of adaptive reuse projects;
 - Applying Standard 1 in cases of continuing historic uses, where modern needs may necessitate specific interior changes;
 - Identifying changes to historic buildings that have occurred over time and have acquired historic significance in their own right; and
 - Applying Standard 2 to interior space, features and materials in highly deteriorated condition.
- ♦ Action 7: Working with stakeholders, re-examine and, as appropriate, revise policy and regulations regarding the rehabilitation of large, functionally related, multiple-building complexes in single ownership.
- ♦ Action 8: Working with stakeholders, re-examine and, as appropriate, revise policies and administrative guidance relating to improving the preliminary consultation process and to reducing the review times for routine project amendments.

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Although a specific action was not identified regarding additional incentives, the internal review acknowledged that additional federal, state and local incentives, such as those provided for the Gulf Opportunity (GO) Zone, may be appropriate to assist economically challenged areas. A copy of the report can be found online at www.historictaxcredits.com.

While it sounds like many of the actions are soft, in that they focus primarily on doing a better job of informing people about the program, there are several important aspects to this review and the results are welcomed.

First, on a thoroughly macro level, while the program is well recognized as an important economic revitalization tool, the importance of that role has not always been officially recognized. Hopefully, the initiative opens the door for a more thoughtful and more sophisticated review that more formally acknowledges the potential economic impact and realities of each project.

Several of the specific actions are also critically important. For example, Action 6 identifies specific areas that have been difficult in the past.

Interior Spaces

The most common HTC project involves adapting commercial buildings into modern uses. At one end of the spectrum, are buildings of architectural importance with high integrity that are individually listed on the National Register. At the other end, are buildings largely generic in design with limited interior integrity, yet important as a piece of a downtown National Register district. In both instances, the upper floors often have a generic corridor pattern that is repeated floor after floor after floor. As the NPS strives for consistency among its reviews, it tends to review upper floor interior spaces equally. Such efforts at consistency make it difficult to accommodate the needs of specific office tenants or residential or office adaptations. Even when the NPS makes accommodations for particular problems - and they do - those accommodations are not precedent-setting and thus don't easily transfer to other projects.

Assembly Spaces

This issue is directly related to fraternal buildings and other buildings with oversized interior open spaces. In the case of fraternal buildings, it is common to have two or more floors with large assembly spaces such as a ballroom or theater, which are two stories in volume and often have balconies. NPS guidelines identify these spaces as character-defining and it is nearly impossible to subdivide the spaces and meet the Secretary's Standards. When such spaces make up more than half of the building, the ability to use the HTC is slight.

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Historic Uses

A phenomenon we are beginning to encounter is the way that desirable design characteristics have shifted over time. For example, an office building constructed in 1913 could be re-used as an office building in 2013, but today's office space organization and design fundamentally conflicts with the interior architecture of a building constructed in 1913. The starkest difference is in the shift from private offices to an open flexible floor plan. The result is a building used for its historic uses but in a way that could be considered incompatible.

Action 7 addresses functionally-related, multiple building complexes. This action addresses industrial complexes, and defunct campuses once used by the military, hospitals, schools and others. Often located in smaller communities, the sheer magnitude of these facilities makes redevelopment difficult. NPS preference is for such complexes to be treated as a single project with a multiphase master plan that details redevelopment for each building. The trouble is that these complexes are often so large that it is nearly impossible for the redeveloped square footage to be absorbed into the marketplace, regardless of the mix of office, housing and retail. The five-year HTC window may simply be too small, while the inability to secure final certification of completed work leaves financing for earlier projects contingent on the approvability of later work.

Action 8 addresses review times for amendments. One of the most problematic aspects here relates to approvals for tenant improvements, particularly for ground floor tenants. It is nearly impossible to market these tenant spaces until there is a true timetable for when the space may be available. Particularly in a down economy, securing any tenant is a challenge. Yet while trying to make the deal, the developer must tell the tenant that there is a 60-day review window needed to get even the most benign designs approved.

At the end of the day, it is important to recognize that these action steps are the direct result of input from the HTC community. It is also important to recognize that the action steps largely involve working with these and other stakeholders in refining the program. The NPS report is an important first step. The next step is for the HTC community to continue the effort to identify those opportunities and barriers to the effective role of the tax credit program in economic revitalization. ❖

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