



# Policy Recommendations

# to Strengthen the Power of Preservation

A Companion Report to:

**Economic Benefits of Historic Preservation Activities in Pennsylvania**

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## **Policy Recommendations to Strengthen the Power of Preservation:**

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Economic Benefits of Historic Preservation Activities in Pennsylvania

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<sup>1</sup> The activity that is the subject of this report has been financed in part with federal funds from the National Park Service of the US Department of the Interior. However, the contents and opinions do not necessarily reflect the views or policies of the US Department of the Interior, nor does mention of trade names or commercial products constitute endorsement or recommendation by the US Department of the Interior.

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# TABLE OF CONTENTS

1.0	Introduction.....	4
2.0	Economic and Fiscal Impacts.....	5
3.0	Policy Recommendations.....	9
4.0	Conclusion.....	14

## 1.0 INTRODUCTION

In light of statewide real estate, economic, and fiscal distress, it may be time to think about historic preservation in a different light. There is no doubt that there are many legitimate reasons to advocate for more historic preservation, and that the Commonwealth is rich in potential locations for historic preservation. But these desires must be balanced against the realities of a fiscally constrained public sector and a landscape of economically challenged communities. Stating the case for historic preservation in simply aesthetic, cultural, and historical terms leaves out the significant economic benefits it generates.

Therefore, the purpose of this report is twofold:

- First, to account for the significant economic and fiscal impacts generated by historic preservation.
- Second, to offer recommendations to the Commonwealth to support historic preservation, whether directly through state-level efforts or through its influence on local policy decisions, in order to continue achieving these significant economic and fiscal impacts.

This report, “Policy Recommendations to Strengthen the Power of Preservation: A Companion to the Economic Benefits of Historic Preservation Activities in Pennsylvania,” was funded, in part, by a grant from the National Park Service’s Preserve America Program<sup>2</sup>, administered by Preservation Pennsylvania and supported by a coalition of community revitalization advocates. Econsult Corporation was engaged as a Research Partner to produce this report. The Econsult team also consists of Urban Partners, Studio for Spatial Practice, and J. Randall Cotton, former associate director of the Preservation Alliance for Greater Philadelphia.

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## 2.0 ECONOMIC AND FISCAL IMPACTS

**H**istoric preservation confers many economic and fiscal benefits on the Commonwealth: economic stimulus through construction projects, wealth gains and tax revenue generation through property value appreciation, and jobs supported from tourism activity. These impacts are summarized here, and are further articulated in the report, “The Economic Benefits of Historic Preservation Activities in Pennsylvania.”

### 2.1 Economic and Fiscal Impact from Federal Tax Credit Projects

Historic preservation projects within Pennsylvania have leveraged federal resources through the Historic Rehabilitation Tax Credit program to stimulate considerable private investment throughout the Commonwealth, resulting in \$7.0 billion in project expenditures from 1978 to 2010. Those expenditures have led to \$17.1 billion in total economic impact within the Commonwealth, supporting 148,000 jobs and generating \$380 million in state tax revenues (see Table 2.1). While construction was by far the most impacted industry, many other industries are also estimated to have benefitted from the historic preservation work: 68% of the expenditure impact and 65% of the employment impact were in industries besides construction.

Support of historic preservation efforts within the Commonwealth makes possible the leveraging of the federal tax credit to stimulate significant private investment, resulting in considerable construction activity, with sizeable economic and fiscal implications for the Commonwealth as a whole. A robust historic preservation industry is therefore one that puts people to work, generates tax revenues, and converts federal dollars into local impacts.

**Table 2.1** Estimated Total Economic and Fiscal Impact within the Commonwealth of Pennsylvania Resulting from Federal Historic Rehabilitation Tax Credit Projects, from 1978 to 2010 (in 2010 \$)

	Total from Tax Credits	Annual Average
Total Expenditures	\$17.1 billion	\$534 million
Total Employment	148,000 Jobs	4,600 Jobs
Total State Tax Revenues	\$380 million	\$12 million

*Source: US Dept. of Commerce – Bureau of Economic Analysis (2007), National Park Service (2011), PHMC (2010), Econsult Corp. (2011)*

## 2.2 Potential Economic and Fiscal Impact of a State Tax Credit Program

It is projected that adding a state-level tax credit, which is currently being discussed within the Commonwealth, would induce an additional \$55 million to \$110 million in historic preservation projects, which would conservatively create an additional \$130 million to \$270 million in total economic impact each year, supporting 1,200 to 2,300 jobs and generating \$3 million to \$6 million in state tax revenues, and would be the equivalent of a 5% to 8% annual return on the public investment represented by the initial tax credit (see Table 2.2).

These preliminary figures indicate that a state-level tax credit is an investment in the Commonwealth that is worth considering. Such a program will induce significant new historic preservation activity, which yields a more robust tax base from which municipalities and school districts can generate property taxes. The upfront investment in tax revenues foregone is matched by upfront economic impacts from construction and rehabilitation, as well as ongoing fiscal impacts from higher local property tax bases, as each year's investment returns 5% to 8% per year back to state and local governments, thus paying back each year's investment within 12 to 21 years.

## 2.3 Property Value Impact

An analysis of three historic districts within the Commonwealth suggests that historic designation increases property values (see Table 2.3), which shifts the potential role of historic preservation as a statewide strategy. Historic preservation need not only be thought of in aesthetic, cultural, or historical terms, but can be included in the discussion by economic development practitioners and neighborhood stabilization and revitalization advocates, as a potential addition to those professional toolkits.

In addition, at a time when many homeowners have negative equity and communities are negatively impacted by the spillover effect of foreclosures and disinvestment, the stabilizing and enhancing effect of historic designations can generate household wealth and prevent further distress in local housing markets.



Landis Valley Farm Museum, Lancaster County. Photo by PHMC.

**Table 2.2 Estimated Total Annual Increase in Economic and Fiscal Impact within the Commonwealth of Pennsylvania from Historic Preservation Projects as an Outcome of a Proposed State-Level 25% Tax Credit Program, Assuming it Induces 25% to 50% More Investment (in 2010 \$)**

Total Expenditures	\$130 million to \$270 million
Total Employment	1,200 to 2,300
Total State Tax Revenues	\$3 million to \$6 million
Return on Investment on Year 1 Outlay	5% to 8%

Source: Urban Partners (2011), Econsult Corp. (2011)

**Table 2.3 Estimated Effects on Property Values from Designations or Expansions of Selected Historic Districts within the Commonwealth of Pennsylvania**

Powelton Village (Philadelphia)	Annual price appreciation of 3% more than citywide average in the years after designation
Mexican War Streets (Pittsburgh)	15% increase in house prices the year after district expansion
West Chester Downtown (West Chester)	Houses within newly expanded district command a premium of 36% over West Chester houses

Source: City of Philadelphia Dept. of Records and Office of Property Assessment (2011), Econsult Corp. (2011), Terradatum (2011)

Furthermore, since many municipalities are facing severe fiscal distress, actions that can increase property values can, if assessments are properly adjusted to account for those market realities, result in much needed property tax revenue increases.

## 2.4 Economic and Fiscal Impact from Heritage Tourism

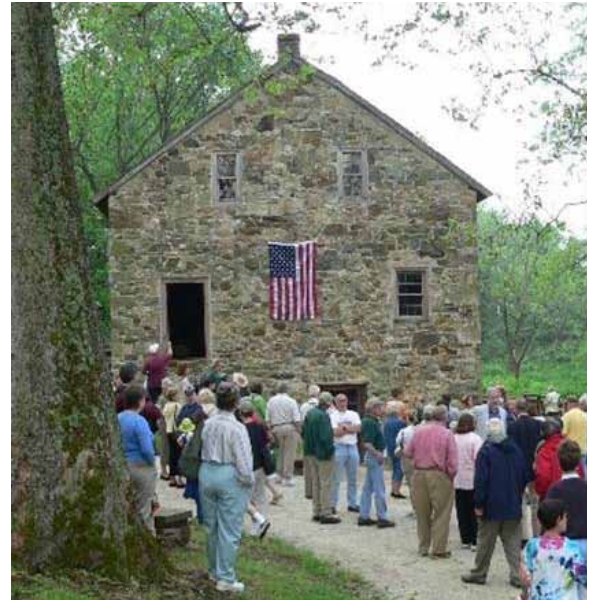
Historic preservation safeguards assets unique to the Commonwealth that are significant tourism draws. It is estimated that heritage tourism (as defined as activity to over 50 heritage sites located throughout the Commonwealth, Pennsylvania’s 12 Heritage Areas, and the historic district in Philadelphia centered on Independence Mall) accounts for 32 million visitors and \$1.0 billion in visitor spending each year, which, when combined with direct expenditures associated with the ongoing operations of such destinations, results in an industry that has a total annual economic impact of \$2.9 billion, supporting 37,000 jobs and generating \$90 million in state tax revenues (see Table 2.4).

Thus, an important economic benefit of historic preservation activities within the Commonwealth is that they safeguard structures and locations that draw visitors from outside the Commonwealth, whose spending within the Commonwealth – on recreation, accommodations, and travel – supports local economies. To the extent that the Commonwealth can maintain its historic assets, and more effectively promote them to visitors, it can benefit from the economic stimulus provided by heritage tourism, through the importation of purchasing power from outside the Commonwealth for the benefit of merchants and communities within Pennsylvania.

## 2.5 Qualitative Impacts

Historic preservation activities confer additional benefits that are more qualitative in nature, but are no less important in making the case for more historic preservation activity:

- Aesthetics and education – Historic buildings have been described as “primary documents” for the study and appreciation of history, architecture, art, and culture, and help preserve an area’s unique identity and sense of place.



The Mill at Anselma, Chester Springs, Chester County. PHMC Photo Collection

**Table 2.4 Estimated Total Annual Economic and Fiscal Impact within the Commonwealth of Pennsylvania Resulting from Heritage Tourism Operating Expenditures and Visitor Spending (in 2010 \$)**

Total Visitor Spending	\$1.0 billion
Total Expenditures	\$2.9 billion
Total Employment	37,000 Jobs
Total State Tax Revenues	\$90 million

*Source: US Department of Commerce – Bureau of Economic Analysis (2007), PHMC (2010), HeritagePA (2008), Urban Partners (2007, 2010), Econsult Corp. (2011)*

- Environmental sustainability – Rehabilitation of historic buildings capitalizes on the “embodied energy” of existing structures, and avoids the more environmentally costly route of constructing new buildings and using up open space.
- Revitalization and stabilization – Historic preservation contributes to the mending and safeguarding of older communities and structures, can improve housing stock and stabilize working class neighborhoods, and has been used to great effect to target economic activity to areas of need.

These qualitative impacts are very much in line with the kinds of objectives being pursued by governments at all levels. As a result, historic preservation is increasingly understood in these terms, and there are many opportunities for collaboration across state and local agencies towards mutually desired ends, with historic preservation playing its role in stimulating economic development. In the report, "The Economic Benefits of Historic Preservation Activities in Pennsylvania," case studies on three communities within the Commonwealth (Phoenixville, Gettysburg, and Lewisburg) confirm that there are many ways to achieve these ends, using a combination of federal, state, and local initiatives and connecting to active local bodies and unique local assets.



Susquehanna Depot, Susquehanna County. Photo by PHMC.



Phoenixville Historic District, Chester County. Photo by PHMC.



Powelton Village Historic District, Philadelphia. Photo by PHMC.



## 3.0 POLICY RECOMMENDATIONS

**I**n qualitative and quantitative terms, historic preservation has been shown to have a positive impact on economic development efforts at the state and local levels. It is not simply a matter of aesthetics or quality of life, but also a tool for neighborhood stabilization and community revitalization that should be connected to broader strategies concerning land use, smart growth, and job creation. In the same way that historic preservation is inextricably intertwined with the Commonwealth’s government documents and its sense of identity and uniqueness, so should historic preservation be embedded in its future planning and economic development efforts.

Accordingly, three sets of recommendations are offered in this section, which emerge naturally from the analyses from the preceding sections. Importantly, in light of present financial difficulties within the Commonwealth, these actions are intended not only to encourage more historic preservation and accrue its many aesthetic, cultural, and intangible benefits, but also to improve economic and fiscal conditions within the Commonwealth.

### 3.1 Reinvestment in Traditional Central Business Districts and Neighborhoods

New environmental, fiscal, and real estate realities have brought more attention to the importance of investing in traditional central business districts and neighborhoods rather than abandoning them for “greenfield” sites on the periphery of residential and employment centers. The Commonwealth can and should play a role in providing guidance, knowledge sharing, and resources to guide local decisions regarding land use, building codes, and transportation infrastructure so as to accrue the benefits of historic preservation.

Encouraging the designation of additional historic districts and the coordination of regulations can help preserve the unique character of the Commonwealth’s historic neighborhoods and corridors, strengthening their standing as destinations of choice for residents, merchants, and visitors, and

thus conferring gains in property values, with attendant increases in private wealth and property tax revenue collection. This positive effect has been borne out in this report's own property value analysis, as well as in the successes of communities in places as disparate as Kansas City, Indianapolis, and Memphis.<sup>3</sup>

Accordingly, the Commonwealth should continue to invest in historic preservation as an important component of an overall strategy to support traditional central business districts and neighborhoods:

- Reinstating funding for successful grant programs for historic preservation projects and continuing the Commonwealth's Main Street and Elm Street programs (restoring funding to previous higher levels) will help the Commonwealth to manage and grow its communities in ways that are consistent with smart growth principles and with broader objectives concerning land use patterns, infrastructure investment, and open space preservation.
- Act 32 of 2000, the "Downtown Location Law," was designed to facilitate the revitalization of traditional central business districts and neighborhoods by motivating the Commonwealth to lead by example by locating agency offices in downtown areas. Whether by formal amendment or simply through more focused enforcement, the Commonwealth's Department of General Services can steer more activity to such locations, thus encouraging additional re-use and clustering. Similarly, the Commonwealth's Department of Education can develop policies that prioritize rehabilitation of existing neighborhood schools (or, alternatively, the siting of new schools in pedestrian-friendly neighborhoods where students can walk and bike to school), thus encouraging reinvestment in current structures and historic communities.
- The Commonwealth can also amend the Municipalities Planning Code to further motivate and coordinate historic preservation activity at the local level. Municipal actions can be made to be more closely connected to the work of PHMC, and localities can be impelled to maintain historic resource inventories to further facilitate the prioritization of traditional business districts and residential neighborhoods.



Titusville Historic District, Titusville, Crawford County. Photo by PHMC.



Brookville Historic District, Jefferson County. Photo by PHMC.



Koontz Koffee Pot, Bedford, Bedford County. Photo by PHMC.

Much of the economic benefit discussed in this report accrues at a local level. Rehabilitation activity creates local jobs and generates local tax revenues, heritage tourism imports spending dollars, and the property value gains from historic district designation translate into wealth gains for property owners and property tax revenues for municipalities and school districts.

Therefore, localities should similarly review their planning, zoning, permitting, and land use policies to ensure that they support and not deter historic preservation, especially so as to manage growth in ways that minimize environmental burdens and infrastructure costs. Also, historic commissions and historic districts should be encouraged to facilitate grassroots participation, concentrate activity in key priority areas, and stabilize and enhance property values.

### 3.2 Coordinated Support of Heritage Tourism

The growth of heritage tourism, combined with the depth and breadth of sites available for visitation within the Commonwealth, argues for an aggressive and unified approach to capturing more tourists and more visitor spending.<sup>4</sup> Commonwealth-led efforts, such as the Pennsylvania Wilds initiative, which sought to brand and promote 12 counties in the north central part of the Commonwealth to prospective visitors, have been shown to make a difference in increasing tourism activity and stimulating local economies by focusing marketing attention on a unified set of destinations and experiences, marketing that could not have been as effective if done at a single-site level.<sup>5</sup>

Similarly, the Commonwealth can help support local and regional efforts to bring tourists and their purchasing power into the Commonwealth, and related efforts to preserve and showcase the historic sites that draw them. Heritage tourism continues to grow, as people increasingly value unique and authentic experiences, and historic preservation safeguards the assets that make that possible, whether those assets are buildings, destination sites, or entire districts.



Allentown National Bank, Allentown, Lehigh County. PHMC Photo Collections.



Rowley House Museum, Williamsport, Lycoming County. Photo by Preservation Pennsylvania.

Therefore, the Commonwealth should make sure its heritage sites and Heritage Areas are properly funded, maintained, and marketed, for they are not just expenditures to the Commonwealth but are also key assets from which the Commonwealth generates visitation, economic activity, and tax revenues. These actions are made even more effective, and more cost-effective, through partnerships, with other levels of government, with advocacy groups, and with the private sector, to improve the efficiency of maintaining and showcasing sites, and to coordinate and improve promotional efforts.

There are many mechanisms by which the Commonwealth and individual localities can come together to safeguard key heritage tourism assets. Design guidelines, directional signage, and coordinated web resources all represent touch points for Commonwealth agencies to work together and to engage with municipalities, planning entities, advocacy organizations, and citizen groups to preserve, showcase, and leverage the unique historic assets contained within the Commonwealth.

### 3.3 State-Level Tax Credit

The experience of other states that have supplemented the federal Historic Rehabilitation Tax Credit with a state-level version has informed an estimation of the impact of such a move by the Commonwealth on induced historic preservation investment and attendant construction and related activity within the Commonwealth. While it is unknown at this time what proportion and type of project would be induced by the additional state-level credit, it appears that the return on investment on such a program would be attractive enough to consider.

In determining how to facilitate the most beneficial use of such a credit, so that the Commonwealth gains the most from the resulting federal contribution to local investment and from the economic impact of rehabilitation efforts, the example of other, successful states is instructive. Maryland's former Governor, Parris Glendening, led the way in re-engineering the historical preservation tax credit, leading to over \$200 million in private investment and making the tax credit one of the state's most successful community revitalization tools.<sup>6</sup>



PSFS, Philadelphia. PHMC Photo Collections.

A recent publication by the National Trust for Historic Preservation attempts to distinguish between successful programs and unsuccessful ones and makes the following conclusions:<sup>7</sup>

- Program-wide caps change the dynamic of the program, encouraging a rush to claim the credits rather than resulting in the credits being reserved for the most suitable candidates.
- Project caps prevent very large-scale efforts, which provide the most impact, both financially and psychologically, from moving forward.
- The inability to transfer credits unnecessarily narrows the pool of candidates and may deter an otherwise beneficial project from proceeding.
- Clear standards on what qualifies, what standards are being advanced, and how the credit amount is determined minimizes uncertainty and thus attracts more and better projects.

This guidance should inform the Commonwealth’s implementation of a state-level tax credit program: the program should strive to have neither program nor project caps, to allow for free transfer of credits, and should have clear standards on eligibility and objectives. There should also be sufficient staffing and organizational reach to ensure regular connection to localities, whose on-the-ground knowledge of developers, advocates, and sites can assist in disseminating information about the state tax credit program and in screening for attractive candidates for participation.

Since local governments stand to gain considerably from historic preservation projects, in the form of increases in municipal and school district property tax bases, they too should be engaged in the identification of strong local projects that merit use of the state tax credit. Requiring some local government involvement in the application for state tax credits may assist in saving the credits for projects whose feasibility truly depends on this additional incentive, lest the credits be used exclusively on projects that would have otherwise proceeded even in the absence of a state tax credit.

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<sup>3</sup> “Preservation Makes Dollars and Sense,” Memphis and Shelby County Office of Planning and Development (March 2003); “The Economic Power of Restoration,” Donovan Rypkema (January 15, 2001).

<sup>4</sup> “A Position Paper on Cultural and Heritage Tourism,” US Department of Commerce (2005).

<sup>5</sup> “Pennsylvania Wilds – Program Evaluation,” Econsult Corporation (February 2010).

<sup>6</sup> “Smart Growth 10 Years Later,” Smart Growth @ 10 Conference (October 2007).

<sup>7</sup> “State Tax Credits for Historic Preservation,” National Trust for Historic Preservation (2009).

## 4.0 CONCLUSION

**H**istoric preservation efforts come in all shapes and sizes, befitting the diversity of assets contained within the Commonwealth. To continue achieving the significant economic and fiscal impacts described above, the Commonwealth should consider strategies to support historic preservation, whether directly through state-level efforts or through its influence on local policy decisions.

Specifically, the Commonwealth has levers to encourage reinvestment in traditional central business districts and neighborhoods, to coordinate heritage tourism efforts, and to make available a state-level tax credit to further leverage federal dollars and private investment. If properly implemented, such measures will pay dividends to the Commonwealth not only in aesthetic, cultural, and historic terms, but also as it relates to job creation, economic activity, municipal revenues, and real estate conditions.



Mexican War Streets Historic District, Pittsburgh, Allegheny County. Photo by PHMC.



Armstrong Cork Factory, Pittsburgh, Allegheny County. Photo by Preservation Pennsylvania.