



THE MISSING KEY

EXECUTIVE SUMMARY

A STUDY OF THE IMPACT AND POTENTIAL OF THE PENNSYLVANIA STATE HISTORIC TAX CREDIT
Prepared for Preservation Pennsylvania | April 2019

EXECUTIVE SUMMARY

Pennsylvania is a state of history. With a diversity of heritage resources, there is virtually no limit to the economic development potential—but only if these resources are appropriately maximized. The Pennsylvania Historic Preservation Tax Credit (PA-HPTC) program was established by state legislative action in 2012 and has since helped rehabilitate irreplaceable historic buildings across Pennsylvania. As with any public incentive program, it is appropriate to review the program, analyze its impact, and consider potential improvements. With the PA-HPTC set to expire in 2020, such an assessment is timely. This study examined the impacts and effectiveness of historic tax credit projects that utilized the PA-HPTC, the Federal Rehabilitation Tax Credit, or both. This study also compares the PA-HPTC to other states with more effective state historic tax credit programs, providing a data-driven analysis of the potential impacts of an improved PA-HPTC.

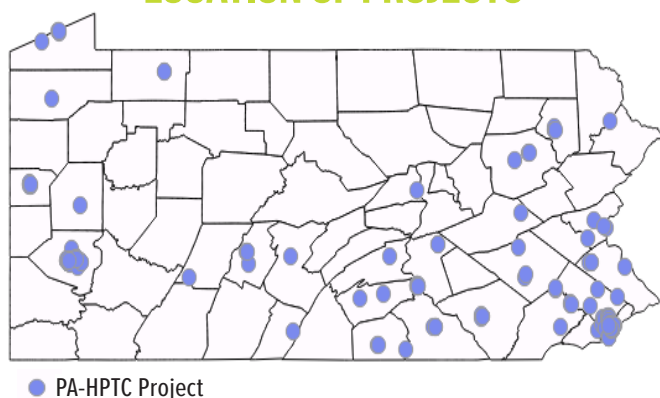
The Program

The PA-HPTC is a dollar-for-dollar offset of taxes that would otherwise have been paid, awarded through a provision of tax credits equal to 25% of the qualifying rehabilitation expenditures (QREs) up to \$500,000 per qualified taxpayer. The state authorizes up to \$3,000,000 in tax credits per fiscal year. The demand for the program is immense, as the requested amount of tax credits has far exceeded the \$3,000,000 available each year. Each year the \$3,000,000 in tax credits is awarded in a balanced spread to each region of the state.

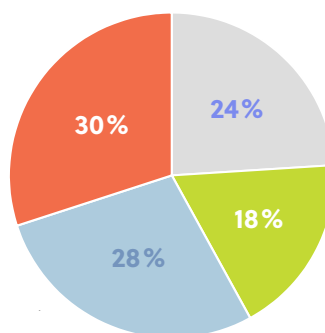
THE IMPACTS

1. The PA-HPTC program has awarded \$15.0 million in credits, which has supported projects with a total projected value of more than \$700 million.
2. The Pennsylvania Treasury receives back over 37% of the credit that was awarded during the construction phase—before the credit can even be used.
3. A \$1,000,000 investment in a historic rehabilitation project generates 6.4 direct jobs and 5.6 indirect/induced jobs in Pennsylvania.
4. The resulting wages represent \$391,766 direct income and \$290,283 indirect/induced income. An additional \$853,514 of economic activity is generated elsewhere in the Pennsylvania economy.
5. If the cap on the Pennsylvania Historic Preservation Tax Credit were increased to \$50 million per year, it is anticipated an additional 2,800 jobs and \$160 million in labor income would be generated.

LOCATION OF PROJECTS



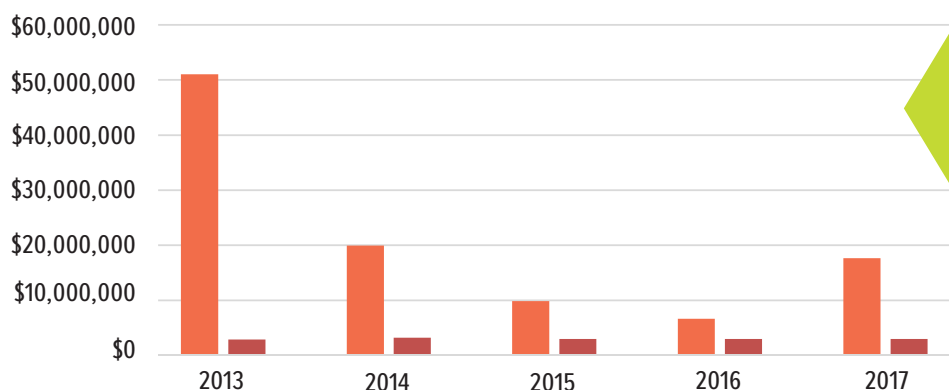
SIZE OF PROJECTS



42% OF PROJECTS ARE LESS THAN \$1 MILLION. PROJECTS OF DIVERSE SCALES ARE RECEIVING THE CREDIT.

- Less than \$500,000
- \$500,000-\$1 million
- \$1 million-\$5 million
- Greater than \$5 million

TAX CREDITS REQUESTED VS REWARDED



THE DEMAND FOR THE USE OF THE PA-HPTC FAR EXCEEDS THE CREDITS AVAILABLE, WITH REQUESTS FOR \$8 OF CREDITS FOR EVERY \$1 THAT CAN BE AWARDED UNDER THE EXISTING CAP.

- Amount Requested
- Amount Awarded

Job Creation from Building Rehabilitation

When \$1,000,000 is invested in the rehabilitation of a Pennsylvania historic building, 6.4 direct jobs and 5.6 indirect or induced jobs are created. This investment produces \$391,766 in direct Labor income, or \$61,213 per job, and \$290,283 in indirect/induced labor income, or \$51,836 per job. But the outputs don't stop there—that \$1,000,000 investment on just one site means an additional \$853,514 of activity elsewhere in the Pennsylvania economy. The table to the right compares the jobs and incomes of six other major economic sectors in the state.

How does \$1,000,000 spent on historic rehabilitation compare with \$1,000,000 in output from other industries?

	HISTORIC REHAB	FOOD PROCESSING	NATURAL GAS INDUSTRIES	FABRICATED METALS	MEDICAL DEVICES	CHEMICAL MANUFACTURE	DRUGS/ PHARMACEUTICALS
DIRECT JOBS	6.4	1.9	3.1	2.1	2.2	0.8	1.6
INDIRECT INDUCED JOBS	5.6	4.0	3.9	3.6	4.1	2.6	4.2
TOTAL JOBS	12.0	5.9	7.0	5.7	6.3	3.4	5.8
DIRECT INCOME	\$391,766	\$109,462	\$322,833	\$153,144	\$216,104	\$104,363	\$215,874
INDIRECT/ INDUCED INCOME	\$290,283	\$226,587	\$243,521	\$220,161	\$246,901	\$164,194	\$275,289
TOTAL INCOME	\$682,049	\$336,049	\$566,354	\$373,305	\$463,005	\$268,557	\$491,163

Compared to other states:

Pennsylvania has always been an avid user of the Federal Historic Tax Credit. However, the study found that the growth in the use of the credit has fallen behind not only states in general, but even among states that have never had a state tax credit. While most states see a sizable increase in activity in both the absolute and relative basis after a state tax credit is adopted, that has not been the case in Pennsylvania. Even in the years since the PA-HPTC was implemented, the state still lags in growth relative to the baseline states.

While the National Register listings – a reasonable proxy for properties on which the tax credit might be used – is comparable to most other states, the actual per person investment, the amount of the cap per person, and other indicators in Pennsylvania lag behind comparable states.

Many parts of the Pennsylvania Historic Tax Credit are as good as any in the country. The ease of transferability and the fact that the credit is 25% of Qualified Rehabilitation Expenditures are both very competitive aspects. The credit is not reaching its optimum potential, however, primarily because of two elements – the extraordinarily low annual cap on usage of the credit and the low per-project limit.

What about the cap?

- 17 states have a cap on their tax credits
- Annual caps range from \$2.2 million (Vermont) to \$120 million (Missouri)
- Average cap is \$25 million
- Cap as % of total federal historic tax credit ranges from 1% (Pennsylvania) to 69% (Georgia)
- Average cap as % of federal historic tax credit average usage is 28.2%
- Average cap per person ranges from \$.23 (Pennsylvania) to \$14.67 (Missouri)

An analysis of other states reveals that 40% to 60% of the use of the Federal Tax Credit is attributable to the existence of a state tax credit. No such pattern exists in Pennsylvania.

The only state with a lower cap than Pennsylvania's \$3 million is Vermont (\$2.4 million), a state with less than a quarter of the number of historic resources, and less than 5% of the population of the Keystone State.



"Our return threshold is lower than most developers, but we believe in patient equity. But it makes the \$250,000 tax credit that much more valuable."

- Rick Belloli, Q Development
Bayard School, Pittsburgh



"When working with historic buildings, there are things you can't anticipate, things you can't budget for. Having these tax credits at the end helps to defray these unexpected costs."

- John Ginocchi, Trek Development
Brew House, Pittsburgh



"We care about who signs the back of the check. We are working with many small and local contractors and subcontractors to share the wealth from this project. We also require that these companies report employee profiles, so we can ensure that minority and women employees are benefiting."

- Blanda Nace, York County Industrial Development Authority
Yorktowne Hotel, York



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Preservation Pennsylvania is the Commonwealth's only private statewide nonprofit organization dedicated to helping people protect and preserve the historic places that matter to them. We assist individuals, organizations, corporations, and governmental agencies from across the Commonwealth (and sometimes the nation) in their own preservation-related efforts, through a dynamic scope of activities and services. Whether as a leader, partner, or advisor, Preservation Pennsylvania works to secure the future of the past through educational outreach workshops and events, legislative advocacy, advisory and technical assistance in the field, and other special initiatives.