ECONOMIC IMPACT OF HISTORIC REHABILITATION TAX CREDIT PROGRAMS IN VIRGINIA

Presented to:

Joint Subcommittee to Evaluate Tax Preferences

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House Room D, General Assembly Building
Center for Urban & Regional Analysis (CURA)

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• Background: History & Historic Preservation in the Virginia economy

• Key Findings from *Economic Impact of Historic Rehabilitation Tax Credit Programs in Virginia* (2014)

• Limitations of the 2014 Impact study

• Toward a more comprehensive accounting of impact and ROI
• People value history & the historic built environment.

• Historic Preservation is complex, time-consuming & driven mostly by experts with passion for the work.

• Historic Preservation has many impacts – aesthetic, social, environmental, economic – many are hard or impossible to isolate & quantify. Most ultimately affect the economy.

• Economic analysis can capture only a portion of the total impact.
## Example: Heritage Tourism

### Estimated Impacts on the Commonwealth of Virginia from Heritage Tourism Associated Expenditures

<table>
<thead>
<tr>
<th>Economic Impact</th>
<th>Labor Income</th>
<th>Employment Impact (number of jobs)</th>
<th>Tax Impact State and local</th>
</tr>
</thead>
<tbody>
<tr>
<td>$6,478,554,794</td>
<td>$3,356,576,565</td>
<td>105,373</td>
<td>$640,529,476</td>
</tr>
</tbody>
</table>

*Source:* Estimates developed on TNS, CRUSA and CURA Survey data by the Center for Urban and Regional Analysis at VCU, using IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

*Note:* All dollar values are in 2015 Dollars
Policy Questions might include

- What roles, if any, should Government play in historic preservation?

- What impacts or ROI should such policies yield, and over what period of time?

- When or how should Government policy change?
Key Findings of CURA’s 2014 Study
Methodology

Calculate economic impacts of the Virginia historic tax credit program, 1997 – October 2013:

- Private expenditures & tax-credit data on each project from Virginia Department of Historic Resources.

- Survey of tax-credit recipients conducted 2011 to gauge importance of tax credit in investment decisions.

- IMPLAN\textsuperscript{PRO} model used to calculate quantitative impacts. \textit{(economy as system of interconnected industries)}
### Historic Rehabilitation Tax Credit Program Data for Virginia by Year

(Dollar Values in Millions of constant 2013 Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Projects</th>
<th>Projects Receiving Federal Tax Credits</th>
<th>Rehabilitation Expenditures</th>
<th>State Tax Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997 - 2013</td>
<td>2375</td>
<td>1264</td>
<td>$3,973.80</td>
<td>$986.35</td>
</tr>
</tbody>
</table>

Source: Virginia Department of Historic Resources
Virginia State tax credits are leveraging more private rehabilitation expenditures over time. Virginia is doing better than other states on this measure.
A Conservative Approach to Estimating Construction Expenditures

- 85% of investors would not have completed their projects (entirely or partially) without the State tax credit.

- Half would have done somewhat less work – we assumed only 50% less work.
Economic Impact of Construction Activities Attributed to Historic Rehabilitation Tax Credits

During Construction / Rehabilitation Period:

$1 Million State Tax Credits generates

- $3 Million in Private Rehabilitation Expenditures
- $4 Million in Total Economic Impact
- $130,000 in Tax Revenue from Construction Activity
- 31.5 Jobs
The Impact:

Almost $4 billion in overall (additional) economic activity and more than 31,000 supported jobs.
Employment Impact by Sector

- Construction: 64%
- Trade: 10%
- Professional Services: 6%
Geographic Distribution of Historic Tax Credit Projects


Source: VCU Center for Urban and Regional Analysis on DHR data
<table>
<thead>
<tr>
<th>MSA Region</th>
<th>Number of Projects</th>
<th>Rehabilitation Expenditures</th>
<th>State Tax Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richmond MSA</td>
<td>1185</td>
<td>$2,120.2</td>
<td>$527.0</td>
</tr>
<tr>
<td>Hampton Roads MSA</td>
<td>278</td>
<td>$361.3</td>
<td>$89.9</td>
</tr>
<tr>
<td>Roanoke MSA</td>
<td>121</td>
<td>$313.9</td>
<td>$78.3</td>
</tr>
<tr>
<td>Lynchburg MSA</td>
<td>81</td>
<td>$180.2</td>
<td>$43.9</td>
</tr>
<tr>
<td>Northern Virginia MSA</td>
<td>269</td>
<td>$171.1</td>
<td>$42.7</td>
</tr>
<tr>
<td>Winchester MSA</td>
<td>38</td>
<td>$137.8</td>
<td>$34.2</td>
</tr>
<tr>
<td>Charlottesville MSA</td>
<td>48</td>
<td>$92.7</td>
<td>$22.7</td>
</tr>
<tr>
<td>Danville MSA</td>
<td>17</td>
<td>$43.3</td>
<td>$10.8</td>
</tr>
<tr>
<td>Harrisonburg MSA</td>
<td>15</td>
<td>$22.1</td>
<td>$5.6</td>
</tr>
<tr>
<td>Bristol MSA</td>
<td>9</td>
<td>$18.7</td>
<td>$4.6</td>
</tr>
<tr>
<td>Blacksburg-Christiansburg-Radford MSA</td>
<td>14</td>
<td>$12.8</td>
<td>$3.2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2075</strong></td>
<td><strong>$3,474.2</strong></td>
<td><strong>$862.7</strong></td>
</tr>
</tbody>
</table>

Limitations of the Study

1. Impact Analysis includes only the Construction / Rehabilitation Period.

Employment and tax revenue from post-rehabilitation uses is not included. Missing are revenues such as:

- Use of historic buildings for activities such as office, retail, hotel, restaurant, residences, etc. generates income taxes, sales taxes, & BPOL tax revenues for the State.

- Additional property tax revenues from increases in assessed value accrue to local governments.
2. Employment and tax revenue from the ripple effects surrounding the rehabilitated structure is not included. Missing are revenues such as:

- Additional income, sales, & BPOL tax revenue accrue to the State from these economic activities.

- Additional property tax revenue accrues to local government as nearby property attracts new private investment.
3. Without a full accounting of revenues one cannot calculate ROI for the State or the period over which returns are generated.
Next Steps: Accounting for all State & Local Revenues

1. Include employment and fiscal impacts from post-rehabilitation uses.
   a. Revenue from new economic activities
   b. Revenue from increases in property value

2. Include employment and fiscal impacts from economic transition of areas surrounding the rehabilitated buildings.
   a. Revenue from new economic activities
   b. Revenue from increase in property value

Thank you!