Using State Historic Tax Credits to Create Affordable Housing

JUNE 30, 2021
Nationally, State HTCs on the Rise

- Labs for rehab incentives
- New credits since 2019 – *California, Hawai‘i, Michigan, New Jersey*
- Past 3 years also seen states increase caps, make permanent
- Modeled after federal Historic Tax Credit
- Report available on Forum
State historic credits help create affordable housing

• All 39 programs encourage adaptive reuse ...

• But a handful of states including Delaware, Maine, and Massachusetts have also added specific provisions

St. Luke’s Hospital, Cleveland (1927) Long vacant, rehabbed in 2014 to create 137 affordable apartments for seniors using Historic Tax and New Market Credits.
Two Bills Would Improve Federal HTC and Help with Housing Creation

- **Historic Tax Credit Growth and Opportunity Act (S. 2266 / H.R.2294)**
  - Eliminates requirement that the value of the HTC must be deducted from a building’s basis (making it easier to pair LIHTC).
  - Eliminates several IRS restrictions with tax exempt leasing that make it challenging for affordable housing providers to partner with developers on historic rehabilitation projects.

- **Ask YOUR delegation:**
  - To co-sponsor
  - To include in upcoming infrastructure bills

- **Questions?** Shaw Sprague, NTHP  ssprague@savingplaces.org or Mike Phillips, NTCIC, mphillips@ntcic.com
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Use of State historic credits to create affordable housing

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Leveraging HTC for affordable housing

• 39 states offer a companion state treasury credit to leverage up the federal 20% credit.
• 9 of these are refundable credits
• State credit percentages range from 20-34% - on top of FHTC. Credits are cumulative
• More equity, *less debt* = better chance to create affordable rents. Also pairs with LIHTC (4% & 9%)
Couple of recent Maine deals

Portland  66 State Street – SRO Women in recovery

Portland  30 Mellen Street – perm housing for people with psychiatric disabilities
S-T-R-E-T-C-H those equity dollars

- Advocate for bump in credit allocation based on delivering affordable rents.
- Use multiplier data to convince state policy folks on financial impacts.
- The Maine Example: 25% state, refundable credit in ordinary eligible projects - Bumps to 34% when rent schedule targets 60% AMI rents in at least half the units – approved by HFA.
- Several models to convert SHTC into $$ for the deal.
State Credit Syndication vs. Bridge lending

- Refundable credits allow developer/owner to A) “take it themselves” or, B) “syndicate (sell) the credits to an investor.

- A) Developers “take it themselves” - Bridge lending delivers the whole dollar of credit to the deal. Use rebate to repay bridge loan 1pmt/yr. Careful of tax consequences

- B) Syndicate with a state non-profit who can claim the full rebate and price their investment on cost of funds over 5 yr compliance period.
Partners  “May I have this dance?”

- CDFI is logical mission driven investor partner.
- Banks and credit unions can be “brought in.”
- Muni folks generally like more rental housing, more affordable housing
Thanks for listening....
There are lots of examples to share; most are replicable in your state

• Please contact me at:

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Madison Park Development Corporation has spent more than 55 years in the Lower Roxbury community of Boston, creating and maintaining **mixed-income homes**, providing **programs for families and children** and promoting **local arts and culture** at the historic Hibernian Hall.

**Key Accomplishments**
- Over 1,500 units home to more than 3,000 residents
- Tutoring, college counseling, and job training services for more than 6,000 community members annually
- Annual production of arts and culture programming at Hibernian Hall for over 8,000 guests

Our **mission** today remains true to our history—to foster a vibrant, healthy Roxbury neighborhood that supports the well-being and advancement of the community.
COMMUNITY DEVELOPMENT AND HISTORIC TAX CREDIT FINANCING

- 10 buildings
- 261 homes
- 32,000 SF Non-Residential
- 3 Adaptive Re-use
- Enhanced accessibility and energy efficiency
Federal Historic Tax Credit Program

Historic Tax Credit Basics

- Program started in 1976
- Administered by the IRS and NPS
- 20% Federal income tax credit for all QRE
- Must be a “certified historic structure”
- Must be an income-producing property
- Ownership must be maintained for five years
- Must be a “substantial rehabilitation”

Austin, Nichols and Co. Warehouse, Brooklyn, NY
Substantial Rehabilitation Test

Project costs must exceed the adjusted basis

Adjusted basis = A − B − C + D

A = Purchase price of the property
B = Cost of the land at the time of purchase
C = Depreciation taken for income producing property
D = Cost of any capital improvements made since purchase

Building 18, Philadelphia Naval Shipyard
Application Process

Part 1: Evaluation of Significance
• Documents the existing condition of the resource through photographs and written description
• Certification of historic status

Part 2: Description of Rehabilitation
• Describes the scope of the rehabilitation project through drawings and written description

Part 3: Final Certification
• Documents the completed work through photographs

All applications are first reviewed by the State Historic Preservation Office (SHPO). The Technical Preservation Services Division of the National Park Service (NPS) then reviews the application and provides final approval, approval with conditions or denial of certification.
Secretary of the Interior’s Standards for Rehabilitation

- A property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment.

- The historic character of a property shall be retained and preserved. The removal of historic materials or alteration of features and spaces that characterize a property shall be avoided.

- Each property shall be recognized as a physical record of its time, place, and use. Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings, shall not be undertaken.

- Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.

- Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a historic property shall be preserved.

- Deteriorated historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.

- Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest means possible.

- Significant archeological resources affected by a project shall be protected and preserved. If such resources must be disturbed, mitigation measures shall be undertaken.

- New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.

- New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.
State Historic Tax Credits

- 39 states have put historic tax credits in place
- Unlike the Federal program, the program format and requirements vary by state, as well as how the amounts are allocated
- In general, the state historic tax credit application process consists of the Federal application, along with supplemental information
- Applicants can apply for both the Federal and State credits, or for each alone
State HTCs and Affordable Housing

- Of the 39 states that have a historic tax credit, Massachusetts, Maine and Delaware offer a supplemental credit for projects that include affordable housing.

- The Delaware credit was first offered in 2001 and is currently funded through 2024.

- Delaware offers an additional 10% State credit, which can be claimed under the same application.

- 4-part application, plus fees.

Wilmington Public Building, Wilmington, DE
1) Affordable Housing & Density  
2) Diversity, Inclusion and Racial Justice  
3) Preservation Trades and Workforce Development  
4) Sustainability and Climate Change  

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