

ECONOMIC IMPACT

OF HISTORIC REHABILITATION TAX CREDITS

IN KANSAS

Research Conducted for

KANSAS PRESERVATION ALLIANCE

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ACKNOWLEDGEMENTS

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This publication has been financed in part with Federal funds from the National Park Service, a division of the United States Department of the Interior, and administered by the Kansas State Historical Society. The contents and opinions, however do not necessarily reflect the view or policies of the United States Department of the Interior or the Kansas State Historical Society.

This project has been funded in part by a grant from the National Trust for Historic Preservation's Nancy Campbell Fund.

This study examines the many significant construction-stage total economic effects (i.e., direct as well as multiplier or secondary economic consequences) of historic rehabilitation investment in Kansas that is aided by the Kansas (state) historic tax credit (KHTC).

Implemented in state fiscal year 2002, the KHTC provides for a state income tax credit equal to 25 percent (30 percent for non-profits) of qualified expenses on qualified historic structures used for either income-producing or non-income producing purposes.

The KHTC builds from and adds to a federal HTC (20 percent) which has been in place for about 30 years and Kansas joins about 30 other states (e.g., Colorado, Missouri, and Oklahoma) that have adopted HTCs of their own because the federal HTC alone does not suffice.

The KHTC may be used in combination with the federal HTC (thus offering a combined credit of 45 percent) or only the 25 percent state tax credit may be used (e.g., in instances where the federal HTC is ineligible such as the rehabilitation of a residence as opposed to an income-producing property).

From FY 2002 through FY 2009, the KHTC has aided about 540 completed projects with an aggregate estimated total project dollar cost of \$245 million, or \$271 million in inflation-adjusted (2009) dollars. A state tax credit of about \$53 million, or \$69 million in inflation adjusted dollars, enabled the rehabilitation investment: an approximate 1 to 4 tax credit to investment ratio—that reflects the typical 25 percent KHTC.

The KHTC has been used widely in Kansas—in about 50 counties—because many locations in this state have tax credit-eligible buildings. These buildings need rehabilitation which is abetted by the tax credit's financial incentive.

While the KHTC is geographically dispersed in Kansas, locations where



Castle Tea Room, Lawrence, Kansas

the KHTC is effected tend to share such characteristics as having (relative to the state overall): a higher density population; a population with a lower median household income and higher economic distress (as measured by percentage in poverty and percentage unemployed); and households encountering greater housing affordability issues (as measured by households paying more than 30 percent of their income for housing costs).

The KHTC has markedly enhanced HTC investment in Kansas. In the 21 years (1981-2001) prior to the adoption of the KHTC, Kansas completed about 50 HTC projects (average 2.4 per year) with an aggregate \$114 million investment in inflation-adjusted (2009) dollars (average \$5.4 million per year). In the eight years since the adoption of the KHTC (2002-2009), a total of 542 tax credit-aided projects (average 68 per year) have been completed, representing an aggregate investment of \$271 million (2009) dollars (average \$34 million per year).

What is the overall impact of the state historic tax credit program on the state's economy? The short answer is quite substantial for major economic benefits

have ensued from the KHTC-aided investment. The in-state (to Kansas) total (direct and multiplier) economic impact from the \$271 million of KHTC-assisted rehabilitation include 4,443 jobs generating \$323 million in output (total value of economic shipments), \$142 million in labor income, \$183 million in gross state product or GSP (wealth or value added at the state level), and \$56 million in taxes (\$41 million federal, \$8 million state, and \$7 million local). The in-state wealth (GSP minus federal taxes) resulting from rehabilitation expenditures amounts to \$142 million, indicating a high 78 percent retention.

The benefits that accrue to Kansas from the cumulative investment in tax credit-aided historic rehabilitation projects are extensive. Almost all sectors of the state's economy see their payrolls and production increased. Just under half of the Kansas-based jobs from the cumulative (\$271 million) tax credit-aided rehabilitation investment (2,003 of 4,443 jobs) and Kansas gross state product (\$84.8 million of \$182.9 million GSP) created by historic rehabilitation within Kansas accrue to the state's construction industry. This is as one would expect, given the share of such projects that require the employment

of building contractors. Other Kansas major beneficiaries are services (832 jobs, \$27.6 million in GSP) as well as the retail trade (605 jobs, \$14.4 million GSP) and manufacturing (500 jobs, \$26.1 million GSP) sectors. As a result of the interconnectedness of a state's economy and because both direct and multiplier effects are considered, other sectors of the economy not immediately associated with historic rehabilitation are affected as well, such as agriculture, mining and transportation and public utilities.

How does tax credit-aided historic rehabilitation fare as an economic pump-primer vis-à-vis other non-preservation investments? The short answer is quite well. A \$1 million investment in historic rehabilitation in Kansas realizes a markedly better economic effect to Kansas with respect to employment, income, GSP, and state-local taxes compared to a similar increment of investment (i.e. \$1 million) in an array of residential and nonresidential new construction (including building highways) in Kansas or a \$1 million investment in an array of business activities important in Kansas, such as manufacturing (e.g., electrical machinery and automobile), agriculture (wheat farming), and services (telecommunication). It is not a question

of historic rehabilitation as opposed to other pursuits, but rather historic rehabilitation joining in a holistic fashion the many activities of the broader economy in Kansas so as to realize the commendable strong economic "bang for the buck" offered by that rehabilitation.

Case study analysis of KHTC implementation points to many additional qualitative benefits of the state tax credit, including providing affordable housing, fostering downtown economic development and encouraging adaptive reuse.

So is the KHTC a "good" investment for Kansas? Clearly that is a decision for Kansas legislators and the public to make considering the many demands on the public purse. The data assembled in this study will hopefully inform the discourse considering how public dollars should be spent.

On the plus side, a \$69 million state tax credit to date has encouraged a four times greater amount of historic rehabilitation (\$271 million) which, in turn, has supported thousands of jobs (about 4,400) and hundreds of millions of dollars of total (direct and secondary) economic gains in Kansas involving output (\$323 million), gross state product (\$183

million), income (\$142 million), and taxes (\$56 million, including \$15 million in state [\$8 million] and local [\$7 million] tax receipts). The KHTC leverage and multiplier benefits support the argument that the KHTC is a "good" investment.

A "good" investment is not without cost and there is no "free lunch" as the KHTC has entailed a cumulative state credit cost of \$69 million. This cost must be weighed against the many economic and tax benefits summarized above that have been realized by the KHTC.

In considering the KHTC "cost-benefit," it should further be realized that our quantification of KHTC economic and tax consequences are understated for various reasons:

1) Significant economic and tax benefits accrue from the KHTC that have not been quantified by Rutgers University because they went beyond the scope of the current investigation. The latter focused solely on the economic effects from the KHTC-associated construction—a one-time investment. In fact, there are recurring year-by-year economic returns from the KHTC. These recurring benefits include the KHTC's investment enhancing tourism to Kansas, specifically heritage and cultural travel, and the KHTC investment appreciating property values in the state, which then annually would raise local property taxes.

2) In a related fashion, we are not capturing how the enhanced "quality of life" (QOL) realized by the KHTC furthers the state economy and state tax generation (e.g., through such means as attracting the "creative class" and more generally from enhanced worker efficiency, reduced medical expenses, and the like.

3) In short, the full economic and tax benefits from the KHTC are yet greater than the already considerable economic and tax consequences documented in the current study.



Fire Station #9, Kansas City, Kansas

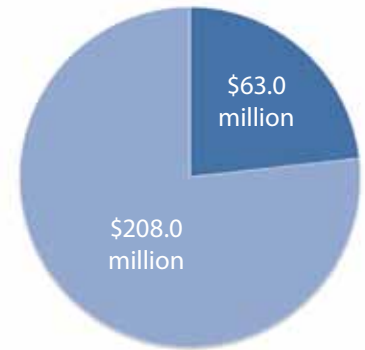
Summary of Cumulative Investment and Benefits of the Kansas Historic Tax Credit (KHTC) (FY 2002-2009)

Total (Direct and Multiplier) Impacts of the KHTC (Cumulative \$271.0 million, FY 2002-2009)

Economic Benefits to Kansas:

Jobs (person-years)	4,443
Income	\$141.6 million
Output	\$323.2 million
Gross state product	\$182.9 million
Total taxes	\$56.2 million
Federal taxes	\$41.4 million
State & local taxes	\$14.8 million
State-alone taxes	\$7.8 million
In-state wealth (GSP less federal taxes)	\$141.5 million

Direct Rehabilitation Investment in Kansas

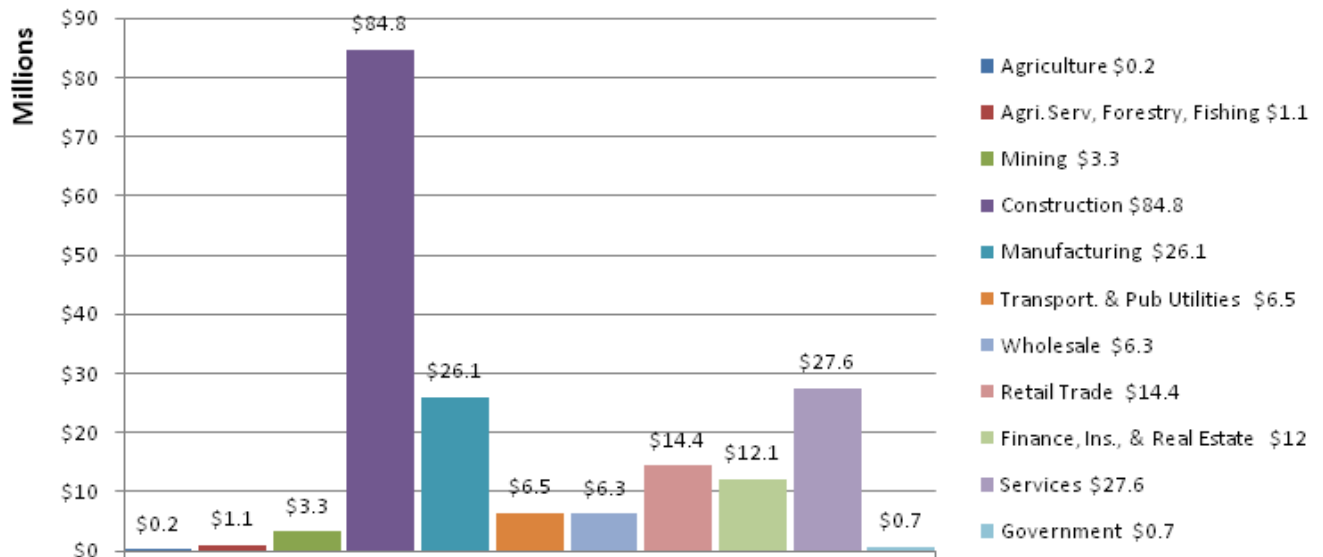


Jobs and Income Benefits to Kansas by Economic Sector:

	JOBS	INCOME
Construction	2,003	\$69.9 million
Services	832	\$27.3 million
Retail trade	605	\$8.7 million
Manufacturing	500	\$17.4 million
Other Sectors	503	\$18.3 million
Total	4,443	\$141.6 million

- State-alone \$63.0 million
- State-and federal-combined \$208.0 million

Gross State Product (Economic Value Added) Created by KHTC-Aided Rehabilitation (\$271.0 million cumulative, FY 2002-2009)



LEAVENWORTH COUNTY COURTHOUSE

300 WALNUT ST.,
LEAVENWORTH, LEAVENWORTH COUNTY, KANSAS



Construction Date:	1911
Total Project Costs:	\$5,047,103
State Historic Tax Credits:	\$862,754
Incentives Used:	State Historic Tax Credits Heritage Trust Fund Grants

The rehabilitation of the Leavenworth County Courthouse, built in 1911, updated and improved what had become a greatly underutilized public building. Without historic preservation tax credits to offset a portion of the costs, the county would not have been able to do the project.

Useable space and overall efficiency were dramatically increased throughout the building, and the rehabilitated courthouse once again reflects its important role as the seat of county government. The availability of historic preservation tax credits prevented county officials from having to increase the mill levy to fund the project, and allowed them to undertake a comprehensive rather than piecemeal approach to updating the courthouse. After three years of work, the public areas of the building were restored to their original early 20th century appearance, while offices and secondary spaces were modernized to meet 21st century needs.

The project injected more than \$5 million into the local and regional economy. Construction wages alone have been estimated at more than

\$2.5 million, and most of that went to Kansas construction workers. (That number conservatively assumes just 50% labor costs.) Although the maximum amount of historic tax credits are 25% of all project costs, the Leavenworth County Courthouse used just 17% of the project total. Each \$1 of state tax credits awarded generated \$5.80 of construction activity.

County Commissioner Clyde Graeber described the rehabilitation project as a “masterpiece,” and noted that the refurbished building has been very popular with the general

public. According to Keyta Kelly, attorney for the county who handled the paperwork for the project, “The historic tax credits offered by the State of Kansas allowed the sitting Leavenworth County Board of County Commissioners to repair, preserve and renovate the courthouse for those citizens who take pride in their history and property while still keeping the price tag palatable... I truly enjoy the looks of awe on the faces of those entering the Leavenworth County Courthouse for the first time since its renovation.”



EAGLE'S LODGE #132

200-202 S. EMPORIA
WICHITA, SEDGWICK COUNTY, KANSAS

Construction Date:	ca. 1916-1921
Original Use:	Meeting Hall and Mortuary
New Use:	Retail
Qualified Project Costs:	\$1,185,379
State Historic Tax Credits:	\$296,344
Federal Historic Tax Credits:	\$237,075
Incentives Used:	State and Federal Historic Tax Credits



Built in 1916, the Eagle's Lodge #132 was slated for demolition to make way for the new Sedgwick County Arena. The building had been abandoned for years and various owners struggled to maintain the property and keep it fully occupied. In part due to the Kansas State historic tax credit, this architectural gem instead saw a major rehabilitation, and today anchors a prominent corner near the new development. The rehabilitated building enlivens the streetscape and provides a visual link between old and new in downtown Wichita.

Without state and federal historic tax credits, the project would not have been financially feasible. From owner Jerry White: "If not for the historic tax credits I would not have renovated the building...It would not have been economically viable to do it." The project resulted in more than \$1 million of private investment in a formerly derelict property adjacent to the new arena. As is common for historic rehabs, labor costs were high, and almost everything required a specialized solution. More than 95% of the rehabilitation costs went to local contractors and workers,

and the availability of the Federal Tax Credits meant that more than \$230,000 stayed in Kansas instead of being paid out in federal taxes.

Had the rehab not been feasible, the city would have lost not only the building, but a long-time downtown business as well. Mr. White had operated his business in another historic building for years, and when that property was lost to the arena project, he considered simply dissolving the business. Instead, county coffers will benefit from the project for years to come; the owner is now paying more than five times as much property tax as he was before the rehab project.

The historic tax credit program has spurred significant investment in historic downtown Wichita. The Eagle's Lodge project is one of at least twenty historic tax credit projects in or near downtown. Those commercial and multi-family housing projects are providing up-to-date spaces for businesses and residents. According to Kathy L. Morgan, Senior Planner for the City of Wichita, "the historic tax credits are an invaluable tool for relocating businesses in the downtown area."



PHILIP HARDWARE STORE

719 MAIN ST.
HAYS, ELLIS COUNTY, KANSAS

Construction Date:	1874
Original Use:	Hardware Store
New Use:	Retail/Residential
Total Project Costs:	\$424,932
Qualified Project Costs:	\$304,480
State Historic Tax Credits:	\$76,119
Federal Historic Tax Credits:	\$60,896
Incentives Used:	State and Federal Historic Tax Credits Property Tax Abatement Heritage Trust Fund Grant



The rehabilitation of the Philip Hardware Store was the first of many historic preservation projects in downtown Hays undertaken by the Liberty Group, a recently formed development company. The Group's belief that historic preservation plays a critical role in economic development is evident in their track record; they have completed 11 commercial rehabilitation projects in Hays, and have another 8 in the works. Most are located in the Chestnut Street Historic District, which is listed in the National Register of Historic Places.

Liberty Group owner Charles G. Co-meau wrote of his company's decision to invest in the community, "Across the U.S. the words on the street are 'Preservation and Revitalization'. Downtown city blocks where shoppers' feet no longer tread and smart money would never invest are now among the most exciting retail development projects in the world.... Hays has all the components necessary to bring about the successful renaissance of its downtown corridor and we are deeply committed as developers to bring our vision to reality."

The redevelopment project has already had a remarkable impact upon

the local economy. Since 2002, appraised value of buildings and land in the downtown district has increased by 122.5%. From 2001–2008, over \$5 million has been invested in Downtown Hays, creating 25 net new businesses. In that same time period, sales tax collections increased 135%. More than 130 new full time and 186 new part time jobs were created. The historic Chestnut Street District now boasts of some 1,425 employees; an impressive number for a town of just over 20,000.

Historic tax credits have become increasingly important in the redevelop-

ment effort in Hays, as the more viable buildings have been completed and the development partners turn to those that will take more creative development plans to be workable. According to Kelli Hansen with Liberty Group, the rehab of the Philip Hardware and many other projects in Hays "would not have been possible to date without the tax credit programs. The funds associated with redevelopment costs exceed the amounts that can be justified or borrowed, so the tax credits provide the necessary incentive to continue with the projects."



CASE STUDY

ROOSEVELT-LINCOLN JR. HIGH SCHOOL

210 W. MULBERRY ST.
SALINA, SALINE COUNTY, KANSAS

Current Name:	Pioneer President's Place
Construction date:	1915-1925
New Use:	Low-Income Senior Housing
Total Project Costs:	\$8,639,603
State Historic Tax Credits:	\$2,042,886
Housing Units:	61 (Rents start at \$275/month.)
Incentives:	State and Federal Historic Tax Credits Low Income Tax Credits Property Tax Rebate for 10 years



The Roosevelt Lincoln Junior High School campus covers most of a city block in downtown Salina. It served as an education facility for nearly 90 years, but despite expansion efforts, student enrollment outstripped its capacity. The Pioneer Group of Topeka purchased the vacated complex which, according to the local newspaper, had the potential to become a “conspicuous downtown eyesore,” and converted it into low-income senior apartments. The 61-unit complex routinely boasts a 100% occupancy rate.

Pioneer Group assembled an expert team of Kansas-based architects and contractors and secured financing from a Salina bank. Just over \$3.5 million was paid in construction wages, and another \$2.3 million went to Kansas suppliers of building materials. In addition to following the many requirements associated with Low Income and Historic Tax Credits, the team met nationally recognized LEED green building standards.

The rehabilitation not only saved the historic building and created clean, safe, senior housing, it also injected more than \$8 million directly



into the Kansas economy. A variety of funding sources were needed to make it work. The project qualified for state and federal historic tax credits, as well as low income housing tax credits. Without any one of them, the buildings could well be empty yet today.

This project already is breathing more life into Salina's downtown, supporting existing businesses and encouraging new business creation. The restored auditorium at Lincoln School, open to both residents and the general public, is developing into a favorite community gathering space. It has given a boost to the owners of surrounding rental proper-

ties, who have enjoyed an improved overall rental market due to the presence of this large, well-maintained complex.

Ross Freeman, President of Pioneer Group, noted, “This was a wonderful economic development project for Kansas. It employed a huge number of Kansans, and generated a lot of economic excitement in and around Salina. It also utilized existing infrastructure and has brought more people to live in the downtown area, helping further revitalize downtown businesses. We would not have even considered the project if the historic tax credits were not available.”

FRANK AND DORA WOLCOTT HOUSE

100 WEST 20TH AVE.
HUTCHINSON, RENO COUNTY, KANSAS

Current Name:	Doug McGovern House
Construction Date:	ca. 1919
Total Project Costs:	\$147,726
State Historic Tax Credits:	\$ 29,545
Incentives Used:	State Historic Tax Credits



This 90-year old house is located near the center of Hutchinson and was one of the first houses built in Hyde Park, one of the more economically stable older neighborhoods in town. In part due to the availability of the Kansas historic tax credit, owner Doug McGovern spent the last several years taking care of everything from deferred maintenance to structural repairs. He has modified the home to accommodate his octogenarian mother, rebuilt the front porch, repaired windows, replaced the roof, and installed a new HVAC system. All work done on the house was locally contracted. For each

\$1 of Kansas tax credits awarded for this project, the owner spent approximately \$4, all of which stayed in Hutchinson.

Today, the house is a neighborhood showpiece. The rehabilitation standards ensured a high-quality finished product that enhances neighborhood property values. It is a stop on the annual holiday tour. Recently McGovern hosted the wedding of the Wolcott's great-grand-daughter, who said that getting married there "was like a gathering of the ancestors." It was also featured in the Fall 2009 issue of Hutchinson Magazine, as well as the September/October 2009 edition of

Kansas Preservation magazine.

The availability of the historic preservation tax credits encouraged a higher level of investment in this historic home than otherwise would have taken place. The incentive also accelerated the rate at which the homeowner invested in major repairs, and helped maintain what the Hutchinson Magazine called a house that is "more accurately described as a 'presence' than simply a structure."

Making the historic tax credit available to homeowners encourages investment in the oldest parts of the community, and, since homeowners almost always patronize local contractors, it helps keep local dollars local. That investment is good for communities; low-density residential use preserves core neighborhoods, uses existing infrastructure, and stabilizes property taxes.

Hundreds of Kansas families have used state historic tax credits to leverage investment in their homes. Although residential projects represent a small percentage of the credits awarded in dollar value--less than 5%, they make up a large number of projects. To date, there have been more than 350 historic tax credit projects for residential properties, in 30 different Kansas cities.





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