INVESTING IN OUR UPSTATE ECONOMY:
THE HISTORIC REHABILITATION TAX CREDIT

MARCH 2011
This past October, New York State earned the dubious distinction of having the least hospitable tax climate in the nation. From 1998 through 2008, New York’s job growth rate was a mere 4.6% just one fifth of the national average. More importantly, three upstate regions in New York actually had a negative job growth rate during this time. With New York losing population and jobs at a rate greater than the national average, it is time to address the factors that have led to an economic climate in New York that has become hostile and less attractive to business and investment. One key strategy is to incentivize businesses to invest in New York State. One tool that has been implemented to create this incentive is the state historic rehabilitative tax credit.

State tax credits are a recent innovation in state finance and economic development policy. The theory is that the job creation and increased tax revenues from incentivized economic development will produce revenues for the state in advance of the tax credit obligation coming due for redemption, thereby increasing tax revenues to meet the tax credit obligation. With regard to the historic rehabilitation tax credit, tax incentives which preserve and rehabilitate historic structures provide investors, entrepreneurs, and community developers with strategic investment incentives and in turn create jobs, opportunity and provide tax dollars to the communities where the investment is made.

In 2006, New York State’s first Rehabilitation Tax Credit Program was established to create tax credit incentives for costs associated with the rehabilitation of historic homes and depreciable (commercial) properties. For commercial buildings – the shops, offices and apartments that make up our urban downtowns and rural main streets -- the program offered an investment credit equal to approximately 6 percent of qualified rehabilitation costs and up to a value of $100,000. While a welcome first step, property owners and developers realized that the 2006 program contained too small an incentive to attract significant new investment in struggling communities. When benchmarked against the most successful rehabilitation tax credits in other states, it was clear that program improvements were needed.

In response, New York State Senator David Valesky undertook a multi-year effort to expand the program’s incentives to attract new and larger investment to rehabilitate

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1 “2011 State Business Tax Climate Index” Kail M. Padgett, The National Tax Foundation Background Paper, October 2010, Number 60


historic structures as well as increase the value of the credits to investors to entice larger scale commercial projects.

In 2009, Senator Valesky reintroduced Senate Bill 2960 which increased the percent of qualified rehabilitation costs that could be claimed for the credit from 6% to 20% and increased the cap on commercial credit value from 100,000 to $5 million. This legislation also increased the number of communities that could utilize the credit, expanding credit availability of both the residential and commercial credit programs to distressed areas throughout the state. This provision ensures is that the program targets investments and job creation where they are most needed - the economically depressed areas of New York State.

In 2010, the program was expanded, with passage of Valesky legislation that allows banks and insurance companies to claim the tax credit, providing more incentive to invest funds in some of the more costly rehabilitation projects across the state.

Governor Paterson signed both of Senator Valesky’s Historic Rehabilitation Tax Credit bills into law. This signing signified the state’s commitment to the revitalization of New York State’s most economically distressed areas, creating for New York an incentive that is on par with similar rehabilitation tax credit programs in other states that have been proven to deliver jobs, spur the economy and drive reinvestment in infrastructure. However, this commitment to Upstate New York and the promise of revenue and job creation was erased in a single moment when the 2010-2011 New York State Budget was passed.

The Deferral

In 2010, the enacted New York State Budget amended New York State tax law to establish the temporary deferral of thirty tax credits, including the New York State Rehabilitation Tax Credit program for commercial properties. Rather than allow investors in New York State revitalization projects to take the full value of the credit in the year the renovated building is placed back into service, all earned credits above 2 million in value are postponed for payout until 2014 to 2016.

The benefits of an estimated $750 million in budget savings from the deferral of thirty state income tax credits would at first blush appear to make fiscal sense for New York State. However, the enhanced New York State Rehabilitation Tax Credits that the

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4 The program defines distressed areas as those being located in census tracts identified as at or below 100 percent of state median family income.

5 Estimated savings of $100 million in FY 2010-2011 and an estimated savings of FY $650 million in 2011-2012 from the deferral of credit payouts from all thirty programs.
Valesky legislation created are set to revert to the credit’s original, significantly lower amounts in 2015. By temporarily deferring the rehabilitation tax credit programs for up to six years, the end result would seem to negate any benefit the enhanced program would provide.

More importantly, with this elimination would go the projected generated economic activity, job creation and affordable housing for Upstate New York. An economic impact study recently conducted by HR&A Advisors of New York, an industry leader in economic development, real estate and public policy consulting, predicted that the enhanced rehabilitation tax credit would have the possibility of spurring over $500 million dollars of economic activity in New York State and create some 2,000 jobs over its initial five-year lifespan. In theory, would the anticipated savings now by deferring the tax credit, be worth the severe economic loss to upstate New York for the next five years to come?

State Tax Credits and the Impact of Deferral

Besides the loss of tax revenue, jobs, and investment capital that the deferral of the historic rehabilitation tax credit has caused and will continue to cause Upstate New York, the collateral consequences to the whole New York State economy are just as detrimental as the actual revenue flow that becomes uncertain. Those investors who had an incentive to rehabilitate the aging stock of properties in the upstate area will lose their desire to do so as the deferral results in what can be seen as a double hit on businesses. As a result of the deferral the investors will suffer an out of pocket cost from the increased tax payments they will be responsible for as a result of the loss of the tax credits and a second financial setback as the tax assets have a reduced value on the businesses balance sheet. Due to the devaluing of these tax credits, the markets for any future tax credits will dissipate, simply due to the uncertainty of the tax redemption and the lack of timeliness of the redemption which is used to pay the investors in the properties.

To extrapolate the theory even further, when one considers the way New York State raises revenue and investment capital, tax credits are not the only financial business the state is in regarding obligations the state makes to outside investors. When the state goes back on its promise to fulfill their tax credit obligation, potential purchasers of other financial products such as municipal bonds, will start to shy away as the state begins to be perceived as a defaulter on its financial obligations. If this does occur and New York

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7 Opposition Memo to the Governor’s Draft Budget Bill regarding the 50 percent deferral of most business credits by the Business Council of New York State. 4/29/2010.
State financial products become unmarketable and investors begin to disappear it is not an unfathomable concept that the direct result will be the price of borrowing going up and across the state which will in turn have a severe impact on local governments who rely on the financial tools of New York State to spur investment and generate revenue.  

**Why is the Historic Rehabilitation Credit so Important to our Upstate Economy?**

**Job Creation:** At a time in New York when job creation should be our primary focus, it is imperative to recognize that rehabilitation projects create more jobs in local and regional economies than new construction. Traditionally, the economic impacts of new construction projects split evenly between labor and material costs. However, the historic rehabilitation projects that will be incentivized by an effective and fully functioning state rehabilitation tax credit program typically spend 60-70 percent of projected costs on labor, meaning more jobs for the Empire State.  

Studies in other states which have longstanding rehabilitation tax credit programs report that dollar for dollar, historic preservation is one of the most impactful jobs generating tools available, even outperforming key industries in individual states. For example, a Michigan study reports that the investment of one million dollars in historic building rehabilitation creates on average 12 more jobs than an equivalent investment in the manufacturing of cars. Finally, the skilled labor that is needed for a rehabilitation project is often found locally. When jobs are created for local electricians, carpenters, painters, and other skilled labor professions, they, in turn, will be spending their earnings locally.

**Tax Revenue:** In addition to job creation, rehabilitation projects also generate greater demand for local materials and goods than new construction, which in turn means increased tax revenue for local municipalities, in addition to the payroll taxes resulting from an increased number of jobs. Local assessments also increase in the wake of building rehabilitation, leading to increased property tax revenue for municipalities.

The timing of these various revenue streams is also a key component of the rehabilitation tax credit program’s positive fiscal impacts. New York State rehabilitation tax credits are the “last dollars in” to a project; the state does not issue credits until the project completes the construction phase and only when the building is certified for use. As such, job creation and tax revenues offset program costs before credits are even issued by New York State, offsetting credit costs.

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The rehabilitation of historic buildings starts to pay back the state’s investment first through taxes on construction permits and fees, income taxes from an increased workforce and the purchase of materials for rehabilitation. Secondly, tax credits are not released by the state until the rehab work is complete. Finally, Local stores will see the benefits as well as the county government, which will benefit from the increased tax revenue. According to the report, “New York Profiting through Preservation”, $1 million spent rehabilitating an historic building in New York State ultimately adds $1.9 million to the state’s economy.11

Private Investment: Rehabilitation tax credits are an effective way to attract significant private investment to New York State redevelopment projects, as studies in other states demonstrate. In Virginia, nearly $952 million in private investment was leveraged by the state tax credit program between 1997 and 2006. In Maryland, a 2009 study by the Abell Foundation showed that $342 million in state tax credits leveraged over $1.5 billion in rehabilitation expenditures -- a fourfold return on that state’s investment.12

Increased Return of Federal Dollars to New York State: Increased use of the state historic preservation tax credit program will require the return of more federal dollars to New York State. New York State requires use the federal rehabilitation tax credit program13 in order to access the state rehabilitation credit. Together, these programs will cover 40% of a building rehabilitation project, providing an extraordinary incentive to invest in older downtowns and urban cores.

Historically, the federal rehabilitation tax credit program has primarily been used downstate, in that region’s stronger real estate and economic markets. Over the 1997-2005 time period, only 4% ($12 million) of federal credit program use occurred in communities north of Albany and west of the Hudson River Valley.14 The lack of federal tax credit use in upstate New York underscores the need for a complementary state level


13 Testimony of Daniel Mackay, Director of Public Policy, Preservation League of New York State, before the Senate Finance and Assembly Ways and means Committees Joint legislative Hearing on the 2009-2010 executive Budget Regarding Economic Development Initiatives, February 3rd 2009.

14 Analysis conducted by Daniel Mackay, Preservation League of NYS. From 1997-2005, nearly $320 million in federal rehabilitation tax credits were allocated to New York State projects, with ~$280 million allocated to projects in New York City and the Boroughs. An additional $828 million was allocated to projects in the Hudson River Valley region from Albany south.
rehabilitation tax credit to incentivize higher levels of targeted rehabilitation investment and return more federal dollars to New York State.\textsuperscript{15}

\textbf{Evidence of the Historic Rehabilitative Tax Credit at Work Across the United States}\textsuperscript{16}

As noted earlier, when the proposed savings for deferring the tax credit was introduced by Governor Paterson, the attraction to the immediate savings to the New York State Budget was hard to resist. Arguing against the deferral was made even more difficult because the loss of jobs, number of rehabilitated properties that would remain depressed and the loss of tax revenue to the state due to the deferral seemed intangible compared to the $650 million dollar savings in 2011-2012 touted by the Governor.

Studies from across the country show how other states have benefitted from enactment of effective historic rehabilitative tax credit programs. These studies clearly show the economic impact of these programs and the importance of restoring the integrity of the New York State program through ending the deferral of these credits.\textsuperscript{17}

- In Missouri, historic preservation contributes more that $1 billion annually, has resulted in 28,000 jobs, $121 million in income, and $60 million in total taxes.

- In Maryland, rehabilitation projects returned 1,050 historic buildings to use and created $501,545,102 in private investment, producing 8,197 construction jobs and an increase of $ 381,826,286 in the Maryland household sector of the economy.

- In Rhode Island, from 2002 to 2005, $1.5 billion dollars of investment in rehabilitation projects produced 17,725 jobs in construction earning Rhode Island residents over $677.54 million in wages.

- In Michigan, more than $819 million was privately invested in state and federal rehabilitation tax credit projects between 1971 and 2001, which created more than 22,250 jobs and a total economic impact of $1.7 billion.

The most apt summary of the economic impact of these programs comes from Rhode Island, where advocates and state government officials alike acknowledged that state’s

\textsuperscript{15} Testimony of Daniel Mackay, Director of Public Policy, Preservation League of New York State, before the Senate Finance and Assembly Ways and means Committees Joint legislative Hearing on the 2009-2010 executive Budget Regarding Economic Development Initiatives, February 3\textsuperscript{rd} 2009.


\textsuperscript{17} Testimony of Daniel Mackay, Director of Public Policy, Preservation League of New York State, before the Senate Finance and Assembly Ways and Means Committee’s Joint Legislative Hearing on the 2009-2010 Executive Budget Proposal Regarding Economic Development Initiatives, February 3\textsuperscript{rd}, 2009.
rehabilitation tax credit as the most effective economic development program in state history.

**The Economic Effects of the Tax Deferral on Upstate New York**

This year the New York State Preservation League compiled a list of projects in Upstate New York that if available would make use of the New York State Rehabilitation Tax Credit Funding in 2010 through 2013. Twenty-eight properties were identified in the regions of Albany, Troy, Saratoga, Poughkeepsie, Syracuse, Rochester, Buffalo, Niagara Falls and Jamestown.

Each project represented not only a concrete dollar amount of investment into the community, but also real job creation and the construction of thousands of units of affordable housing. By the deferring of the tax credit, the stalled investment to the rehabilitation of the identified properties is currently costing New York State the ability to create:

- **Create over 1600 Jobs**
- **Attract over $461 million dollars in new investment capitol**
- **Create over 120 units of Affordable Housing**
- **Expand Commercial and Retail Space Availability in Community Cores**
- **Spark a 250,000 Person Increase in Potential Tourism**

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| 10 Counties | $461 million in possible investment | 1644 Jobs Created |

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See Appendix One
While the central argument surrounding the need for the carve out of the tax rehabilitation credit from the list of tax deferrals is to move forward the progression of the revitalization of the upstate economy, the rehabilitation tax credit programs are also vitally important to the downstate economy as well. There are approximately 16,200 properties in New York City that qualify for these credits. 19
The Carve Out of the Historic Rehabilitative Tax Credit

Immediately after tax deferral was approved in the New York State Budget, Senator Valesky introduced legislation that would make exempt the tax credit for rehabilitation of historic properties from the list of tax credits subject to deferral pursuant to part Y of S.6610C/A.9710D.

Senate Bill 1797 would ensure that the Historic Rehabilitation Tax Credit, specifically the credit for rehabilitation of historic properties, remains a vital tool for economic development in New York State by exemption it from the 2010 budget bill which deferred certain tax credits. As mentioned earlier, the deferral plan enacted in 2010-2011 budget deferred historic rehabilitation tax credits above $2 million in value.

While this $2 million cap presumably eliminates a number of credits from the impact of the deferral plan, as applied to the Historic Rehabilitation Tax Credit, the deferral will impede financing for the largest, most catalytic projects capable of spurring economic development. Such projects generate the largest and most sustained construction employment and post-construction jobs and have the most transformative value, both economically and in terms of community renewal.

2011-2012 New York State Budget

On March 15th, 2011 the New York State Senate passed Budget Bill S2811B. In Part CC of this bill was included Senator Valesky and the Independent Democratic Conference’s request to carve out the tax credit for the rehabilitation of historic properties from the list of the 30 deferred tax credits. Once again the New York State Senate has signaled its commitment to the Upstate economy, its communities and the billions of dollars of investment which will flow to the most needed areas of New York. However, until this tax credit is carved out in the companion Assembly Budget Bill and included in a three way negotiated final budget, the benefits of the historic rehabilitation tax credit remain in jeopardy.

IDC Recommendation

The Upstate economy has been in decline for decades, with low property values, declining tax bases and a depressed economy limiting private investment in our Upstate downtown areas. In addition, New York State as a whole has seen a steady decline in its economic security as we are faced with a budget deficit of over 10 billion dollars. However, this budget crisis should not be an excuse to halt the progress that the Legislature has taken in addressing the needs of the depressed and economically
disadvantaged communities throughout the state. By carving out the Historic Rehabilitation Tax Credit from the tax credit deferment package, we protect the vitality of a program that catalyzes economic activity and promotes environmentally sustainable communities across the State of New York.
Appendix One

Projects Seeking to Use NYS Rehabilitation Tax Credit Funding 2010 – 2013

Steuben Place, Kenmore Building, Albany $20 million conversion of historic properties in downtown Albany. Mixed use space to include first floor commercial space for Steuben Athletic Club and residential apartments. Master lease structure to syndicate NYS and Federal Historic Rehabilitation Tax Credits and New Market Tax Credits.

310 State Street, Albany Circa 1845 vacant structure proposed for renovation as apartments.


Monument Square Apartments, Troy Rehabilitation of structure to convert to 89 low-to-moderate income apartments.

Victory Mills, Victory (Saratoga County) $25 million conversion to residential of an early 20th century factory and current brownfield site. Projected to generate 150 union construction jobs.

Hudson Psychiatric Hospital, Poughkeepsie $24 million conversion to residential uses of a 19th century psychiatric hospital. Projected to generate 145 union construction jobs.

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20 Created by the New York State Preservation League, February 2011. Dollar amounts presented here represent total project costs, not qualified rehabilitation expenses that would be used to calculate the costs of the NYS and Federal Rehabilitation Tax Credits:
Pike Block, Syracuse A redevelopment and revitalization effort for the 300 block of South Salina Street in downtown Syracuse. Plans for the redevelopment of the 300 block include the creation of 87 one- and two-bedroom apartments and 25,000 square feet of retail space, and link two other redevelopment zones in the city. The renovated buildings will also include 'green' features, such as rooftop rain gardens and permeable paving.

The Kirk Hotel, Syracuse $2.4 million dollar project to restore the old Kirk Hotel at the corner of Clinton and West Fayette streets into nine one- and two-bedroom apartments. The ground level will remain the Clinton Street Pub, which will be renovated, converted into a full restaurant and expanded into the adjacent In & Out Building. This renovation is considered key because it helps draw the vitality of Armory Square north along Clinton Street towards Clinton Square and east along Fayette Street towards the 300 block of Salina Street.

Landmark Theater, Syracuse The Landmark Theatre is a proposed $20 million restoration and adaptive re-use project in downtown Syracuse. The theatre, built in 1928 as a movie palace, would have its stage expanded and strengthened to handle travelling Broadway shows. The renovation of the theater would maintain the 175 jobs provided by the theater and its subcontractors. After the expansion is complete, the theater will be open an additional 100 nights per year, attracting an average of 2500 patrons per night, generating 250,000 additional annual visitors to downtown Syracuse that would dine in the restaurants and nightspots in adjacent Armory Square and along South Salina Street.

Hotel Syracuse, Syracuse A $60 million acquisition and renovation of the historic hotel is proposed by Berkley Acquisitions. The project would create 450 hotel rooms in a building constructed in 1924, and added to the National Register of Historic Places in 1928. The revitalized hotel would serve as the main convention facility for Onondaga County. The developer also plans to purchase and renovate three adjacent properties, including the former hotel Syracuse addition which would be renovated for housing, and the Addis Company store. The Hotel Syracuse project would be the largest commercial development project in downtown Syracuse, and would anchor the south end of Salina Street, where several additional major renovation projects are proposed.

The Hubson Building, Syracuse A contributing building to the Armory Square historic district, and one of the last buildings to be renovated, is proposed for a $5 million renovation by developer CRS Companies of Buffalo. The building houses 17,400 square feet of space that is currently vacant, and would be renovated for 5,000 square feet of commercial space and 14 market rate apartments. The project is ready to go except for the resolution of the state historic preservation tax credit.
Frederick Douglass Apartments, Rochester $6.8 million dollar project to rehabilitate 28 apartments in six buildings located within the Madison/West Main Street Historic District of Rochester, NY. The project will serve very low income families who are at or below 50% of Area Median Income, and six of the apartments will be reserved for homeless or formerly homeless residents. A community room and laundry will be constructed in one of the 10 existing first-floor store fronts.

The Mills, Downtown Rochester A mixed-use residential development, targeting those interested in living in a history-rich riverside neighborhood in downtown Rochester. The Mills will provide an affordable rental opportunity for a wide range of household incomes.

Teoronto/Smith Block Projects I and II Circa 1845 buildings proposed for conversion to low-to-moderate income rental housing.

Statler Hotel, Buffalo $80 million conversion to residential of signature office building in Niagara Square, across the street from Buffalo City Hall. Projected to generate 450 union construction jobs.

The Kensington Gardens Project, Buffalo 276 units of preservation housing, expected to be an anchor to the Buffalo/Cheektowaga border. $27 million overall investment to preserve a 65-year old complex; deal awaiting finalization of state credit program.

The Genesee Gateway Project, Buffalo A series of late 1800s and 1900s buildings with over 60,000 square feet of space that stretch between Oak and Ellicott Street that will be renovated into a mix of office and restaurant space as a result of a planned $10 million dollar investment.

AM&A Building, Buffalo $70 million dollar project that will include a Hilton Garden Inn, apartments, a food court and banquet facility. AM&A project and Hotel Lafayette-Buffalo expected to bring in $30 million in new investment from city of Buffalo and 130 jobs.

The Cooperage, Buffalo NY $6.6 million, construction-ready historic rehabilitation of abandoned and blighted former factory complex on Buffalo River which will create 24 market-rate live/work lofts. Part of a transformation of a former industrial area downtown into a new residential and recreational use neighborhood. Estimated 75 construction jobs. Supported by Mayor Byron Brown and many other elected officials.
500 Seneca, LLC, Buffalo $28 million rehabilitation of vacant warehouse building into mixed use space at 500 Seneca Street in Larkin revitalization district in Buffalo, NY. Master lease structure to syndicate NYS and Federal Historic Rehabilitation Tax Credits and New Market Tax Credits.

HH Richardson Center Complex, Buffalo Multi-phased multi-million rehabilitation of former National Historic Landmark H. H. Richardson Complex (the former Buffalo State Asylum for the Insane), into mixed use space to include an Architecture and Visitors Center. NYS and Federal Historic Rehabilitation Tax Credits, New Market Tax Credits and possibly Brownfield Credits.

Niagara City Lofts, Niagara Falls, NY
$14 million historic rehabilitation of abandoned blighting former public school into 54 lofts and commercial space in the heart of Niagara Falls. Estimated 120 construction jobs. Supported by Mayor Paul Dyster and many other elected officials.

The Gateway Station Project, Jamestown Revitalization of the vacant Erie Lackawanna Railroad Station, an Art Deco landmark vacant since 1973 that will reconnect the historic station to the Riverwalk Connector Trail now underway along the Chadakoin River.

The Wellman Building, Jamestown $7 million project that will complete redevelopment of the 50,000 square foot building located at 101-103 West 3rd Street into mixed-use market rate residential, retail and professional office space.

Federation Lofts & Arts Center, Hornell NY $3.9 million historic rehabilitation of two adjacent partially vacant buildings in downtown Hornell into mixed loft, offices, retail and arts center use. Estimated 40 construction jobs. Initiated by and supported by Mayor Shawn Hogan and many other elected officials.

Centerway Commerce Center, Corning, NY $1.8 million historic rehabilitation of historic four-story Drake Building on E. Market Street in center of downtown Corning in collaborative effort of private sector, City of Corning and Corning Enterprises. Estimated to generate 36 construction jobs.

Ansorge Van Heusen Building, Corning, NY $750k historic rehabilitation of distressed contributing building to the Market Street Historic District, a collaboration of private sector, City of Corning and Corning Enterprises.
130-132 The Commons, Ithaca Vacant four-story building located in the strategic heart of the Ithaca Commons commercial district. Recent purchase catalyzed by newly available NYS Rehabilitation Tax Credit program. Planned $3.1 million project that will create a new upscale restaurant, office space, and eight units of housing. The project will create over $1.3 million in gross sales each year resulting in $52,000 per year in sales tax to the State alone plus it will create 23 new FTE jobs, contributing to State Income Tax revenues.