

Roadmap to Mill Redevelopment: Financing the Redevelopment Process

Connecticut Historic Rehabilitation Tax Credits



June 12, 2012
Whitin Mill, Whitinsville, MA



Historic Tax Credits

- Federal Historic Preservation Incentives Tax Credit
- CT Historic Structures Rehabilitation Tax Credit
(C.G.S. §10-416a)
- CT Historic Preservation Tax Credit
(C.G.S. §10-416b)
- CT Historic Homes Tax Credit (C.G.S. §10-416)

Federal Historic Preservation Tax Incentives Program

- The Federal Historic Preservation Tax Incentives Program was established in 1977 by the National Park Service in response to the Tax Reform Act of 1976, which corrected a long-standing imbalance in the federal tax code that favored new construction
- By offering a 20% tax credit for the rehabilitation of income-producing properties, the law helped historic buildings attract major private investment for the first time
- Nationwide in FY 2011, 937 new rehabilitation projects were approved; 55,458 jobs were created; 7,470 new low and moderate income housing units were created; and \$4.02 billion investment dollars were spent on new rehabilitation work
- In FY 2011, CT ranked 12th in the country in spending on historic rehabilitations with \$92,561,630.00

Program Requirements

- In order to obtain the tax credit, the property must be listed on the National Register of Historic Places
- The property must be income producing when placed back in service
- The rehabilitation must meet the IRS definition of “substantial” in order to qualify. Substantial rehabilitation means that the qualified rehabilitation expenditures incurred in a two-year measuring period must exceed the adjusted basis of the building— usually the cost of acquisition minus the value of the land plus any improvements minus any prior depreciation
- Credits can only be used by individuals or business firms that have ownership standing in the property
- If the owner does not hold the building for five years after completing the rehabilitation, the tax credits are subject to recapture
- The rehabilitation must be “certified.” A certified rehabilitation is a completed rehabilitation project that is approved by the National Park Service as being consistent with the historic character of the property and following the guidelines described in the Secretary of the Interior’s *Standards for Rehabilitation*

Getting Started

The Connecticut State Historic Preservation Office (SHPO) serves as the first point of contact for property owners.

- Provides application forms, regulations, and other program information
- Maintains complete records of the State's buildings and districts listed in the National Register of Historic Places, as well as State and local districts that may qualify as registered historic districts
- Assists anyone wishing to list a building or a district in the National Register of Historic Places
- Provides technical assistance and literature on appropriate rehabilitation treatments
- Makes certification recommendations to the NPS



CT Historic Structures Rehabilitation Tax Credit Program (C.G.S. §10-416a)

Connecticut General Statutes Section 10-416a establishes a 25% tax credit for qualified rehabilitation expenditures (QREs) associated with the rehabilitation of historic commercial, industrial, institutional, cultural and former government buildings as well as residential buildings of historically more than 4 units to residential use, including rental or condominium units. Partial tax credits are available for mixed residential and nonresidential rehabilitations.



Program Requirements

- QREs are hard costs associated with rehabilitation of the certified historic structure; site improvements and non-construction costs are excluded

Remediation within the building envelop, including LBP, asbestos and environmental contamination are considered QREs under the state tax credit program

- Buildings must be listed on the National or State Register of Historic Places, either individually or as part of an historic district
- State tax credits may be combined with the 20% federal historic preservation tax credits, LIHTC and New Market Tax Credits and others, as applicable
- Annual aggregate cap of \$15 million in tax credit reservations
- Per building cap is up to \$2.7 million in tax credits
- Tax credit vouchers are issued after completion of rehabilitation work or, in phased projects, completion of rehabilitation work to an identifiable portion of the building placed in service for residential use
- Tax credits can only be used by C corporations with tax liability under Chapters 207 through 212 of the Connecticut General Statutes

Historic Preservation Tax Credit Program (C.G.S. §10-416b)

Connecticut General Statutes Section 10-416b establishes a 25% tax credit for qualified rehabilitation expenditures associated with the conversion of historic commercial, industrial, institutional, cultural and former government buildings as well as historic mixed-use buildings to mixed residential and nonresidential use or solely nonresidential use.

Residential units can be rental or for sale (that is, condominiums). Nonresidential uses include commercial, institutional, governmental or manufacturing.



An additional 5% tax credit is available for projects that include affordable housing.



Program Requirements

- If the project includes an affordable housing component, at least 20% of the rental units or 10% of for sale units must qualify under CGS Section 839a.
- Qualified rehabilitation expenditures are hard costs associated with rehabilitation of the certified historic structure; site improvements and non-construction costs are excluded

Remediation within the building envelop, including LBP, asbestos and environmental contamination are considered QREs under the state tax credit program

- Buildings must be listed on the National or State Register of Historic Places, either individually or as part of an historic district
- State tax credits may be combined with the 20% federal historic preservation tax credits, LIHTC, New Market Tax Credits and others, as applicable
- \$50 million in tax credit reservations are available in three year cycles
- Per building cap is up to \$5 million in tax credits
- Tax credit vouchers are issued after completion of rehabilitation work or, in phased projects, completion of rehabilitation work to an identifiable portion of the building placed in service for residential use
- Tax credits can only be used by C corporations with tax liability under Chapters 207 through 212 of the Connecticut General Statutes



How to Apply

State Historic Rehabilitation Tax Credit Applications are available for download on DECD's website –www.ct.gov/edc.

There is a five part application process.

Part 1 and Part 2 mimic the National Park Service's application process. All rehabilitation plans must be reviewed and approved by SHPO prior to beginning construction

Part 3 – Preliminary Certification of Costs and Reservation of Tax Credits

Part 4 – Request for Final Certification of Completed Rehabilitation

Part 5 – Request for Issuance of Tax Credit Voucher. Vouchers are issued for the tax year in which the building is placed in service.

Recent Success Story- Cheney Mill Dye House, Manchester



Project Challenges

- ❑ Blighted abandoned building, in middle of fully improved historic neighborhood.
- ❑ Hazardous materials; asbestos, lead, soil
- ❑ Need to maintain historic components
- ❑ Several failed redevelopment attempts
- ❑ “Market Rate” development unfeasible

*The following images and rehabilitation project information courtesy of James Carter, Carter Realty, LLC

Recent Success Story- Cheney Mill Dye House, Manchester

Project Outline

- 57 Rental Housing Units
- Unit Mix
 - 35% One Bedroom
 - 54% Two Bedroom
 - 11% Three Bedroom
- Economic Mix (2011 AMI= \$87,700)
 - 58% at 60% AMI
 - 16% at 50% AMI
 - 26% at 25% AMI
- Development Budget: \$20.6 million
- Construction Schedule: 15 months
- Total Development Timeframe: 4 Yrs, 3 Mo.





State of Connecticut
Department of Economic and
Community Development
The State Historic Preservation Office

Recent Success Story- Cheney Mill Dye House, Manchester

The Result

- Creation of a new historic landmark
- Fulfillment of historic neighborhood redevelopment
- >90% leased within 6 months of completion
- 57 affordable housing units added to market





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Key To Success

- Commitment by developer
- Public-private funding sources:
 - ▣ SHPO, CHFA, DECD
 - ▣ TD Bank, John Hancock
- 100% income qualified units
- Support of local community
- Expertise of Development Team
- Teamwork
- A little luck



Contact Information

Julie Carmelich, Historian
CT State Historic Preservation Office
1 Constitution Plaza, 2nd Floor
Hartford, CT 06013

T: (860) 256-2762
E: julie.carmelich@ct.gov