IOWA economic development

HISTORIC PRESERVATION TAX CREDIT PROGRAM *2020 PROGRESS REPORT*

INTRODUCTION

Iowa Code Chapter 404A.5 charges the Iowa Economic Development Authority (IEDA) with developing and submitting an annual report to the legislature on the Historic Preservation Tax Credit Program. This report includes information regarding awards and claims made under this program, the current liability to the State and the potential impact on local property taxes as a result of completed projects.

This report includes data from July 1, 2019, through June 30, 2020. Information in this report includes a compilation of data from IEDA and the Iowa Department of Cultural Affairs (DCA).

PROGRAM DESCRIPTION

Iowa's Historic Preservation Tax Credit program was created by the legislature in 2000. Created to encourage the redevelopment and reuse of historic structures across Iowa, the program provides state tax credits for the sensitive rehabilitation of these structures. Since program inception, the Historic Preservation Tax Credit Program has been utilized in the rehabilitation of a variety of buildings, varying in size, style and type. Through this program, underused or vacant schools, warehouses, factories, retail stores, apartments, hotels, houses, offices, residences, and other buildings have been returned to useful life in a manner that maintains historic character.

To be eligible, the building must meet one of the following criteria:

- Listed on the National Register of Historic Places or determined by State Historic Preservation Office staff to be eligible for listing.
- Contribute to the significance of a historic district that is listed, or eligible to be listed, on the National Register.
- Designated as a local landmark by city or county ordinance.
- A barn constructed prior to 1937.

The program provides a state tax credit equal to 25% of the "qualified rehabilitation expenditures" associated with the project. Per Iowa Administrative Code 261-49.3, "qualified rehabilitation expenditures" are expenditures that meet the definition of "qualified rehabilitation expenditures" in Section 47 of the Internal Revenue Code. Iowa Administrative Code 261-49.4(4) clarifies that "qualified rehabilitation expenditures" do not include expenditures financed by federal, state or local grants or forgivable loans, unless allowed for in Section 47.

Work completed on the building must meet the federal Secretary of Interior Standards for Rehabilitation to ensure character defining features and spaces of the structure are maintained. Planned and completed work is reviewed by DCA to ensure compliance with these standards.

Iowa Code 404A stipulates that only an eligible taxpayer may apply for the state tax credit. An eligible taxpayer is defined as the fee simple owner of the property or someone having a long-term lease, which meets the requirements of the federal rehabilitation credit. The applicant may be a nonprofit entity but may not be a governmental body.

Tax credits may be used to offset the applicant's Iowa income tax liability. These credits can be claimed against individual, corporate, franchise, moneys and credits and insurance premium taxes. Credits are also transferrable and refundable.

PROGRAM HISTORY

The Historic Preservation Tax Credit program has always been subject to a cap on the amount of credits that can be allocated to applicants. The program was allocated $2.4 million for its first year of awards in FY 2001. The annual cap has been set at $45 million per year since FY 2013.

A minimum of 5% of the available credits each year are to be set aside for small projects. Small projects are those with qualified rehabilitation expenditures of less than $750,000.

Originally, credits under this program were nonrefundable and nontransferable. Legislative changes in 2003 made the credits transferrable. In 2007, the credit was made refundable as well, allowing the applicant to receive a refund from the State if credits were more than the applicant's liability.

In 2014, the Iowa Legislature passed House File 2453, which clarified requirements of the Historic Preservation Tax Credit program. These changes include:

- Required applicants to enter into an agreement with DCA.
- Limited the amount of credits available to 25% of the expenditures identified in the agreement with DCA.
- Clarified that qualified rehabilitation expenditures did not include federal, state, or local government grants or forgivable loans unless otherwise allowed under section 47 of the Internal Revenue Code.
- Established allowable cost overruns for projects.
- Established a 36-month project completion date for projects.
- Required a CPA examination of all projects.

From 2000 through August 2016, DCA managed the Historic Preservation Tax Credit Program. During the 2016 legislative session, House File 2443 moved the program to the IEDA. In August 2016, IEDA assumed primary responsibility for administering the program.

Today, IEDA and DCA work in partnership to manage the program. All projects awarded prior to August 15, 2016, are managed by DCA, while all projects awarded since that date are managed by IEDA. IEDA and DCA jointly review new projects for eligibility and compliance, at both the application and project close out phases. IEDA and DCA entered into a Memorandum of Understanding in 2016 to describe and clarify each agency's role and function within the program. The roles of each agency are described in more detail under the Application Process section of this report.

APPLICATION PROCESS

Projects completed with assistance from the Historic Preservation Tax Credit program often involve multiple partners and funding sources. A significant amount of planning is necessary to ensure projects are designed and completed in compliance with federal rehabilitation standards and state program requirements.

Applications for the Historic Preservation Tax Credit program involve six steps, described below:

Part 1: Applicants submit information on the proposed project building to determine eligibility. DCA staff evaluate the building's integrity and historic significance, often in consultation with the National Park Service. IEDA staff review property ownership to determine if the applicant is an eligible taxpayer/ applicant.

Part 1.5: Once the property is determined to be eligible under the program requirements, DCA and IEDA staff meet with the applicant to discuss the proposed project and scope of work. Discussions focus on work design. DCA offers feedback to the applicant to assist in developing rehabilitation plans. IEDA staff provides guidance on ownership and project financing.

Part 2: Applicant submits proposed work to DCA for review and evaluation. DCA staff determines if the proposed rehabilitation work meets the Secretary of the Interior's Standards for Rehabilitation. Negotiations may take place between the applicant and DCA during this phase, and the applicant may revise the scope of work based on this review.

Part 2B: Applicant may apply for Historic Preservation Tax Credits. IEDA reviews submitted applications to assess the project's planning and financial readiness. IEDA and DCA consult during the review of Part 2B applications. DCA reviews the project's construction timeline.

IEDA accepts Part 2B applications for small projects on an on-going basis. Applications for large projects are typically accepted twice per year, in the spring and in the fall.

Upon Part 2B application approval, the project is registered for tax credits. IEDA and the applicant enter a contract establishing the terms and conditions that must be met to receive the tax credit and provides the maximum amount of the tax credit.

Part 3: The applicant submits the Part 3 application upon project completion. The Part 3 application describes the completed work, final qualified expenditures, and provides assurance that all contract requirements and regulations have been met.

DCA evaluates work for compliance with the Secretary of the Interior's Standards for Rehabilitation. IEDA reviews financing, expenditures and other submitted information.

After DCA approves completed work and IEDA determines the amount of final expenditures, IEDA issues a tax credit certificate to the applicant.

CURRENT PROGRAM STATUS

The charts included in this report provide a summary of the number of open Historic Preservation Tax Credit Projects and the amount of credits allocated to those projects, in addition to the State's current program liability.

From July 1, 2019, through June 30, 2020:

- IEDA registered 33 projects for tax credits and allocated $44.4 million in tax credits.
- IEDA and DCA issued tax credits for 49 projects totaling $32.9 million, including tax credits issued for reserved projects.
- IEDA maintained 84 open projects totaling $118 million in credits.

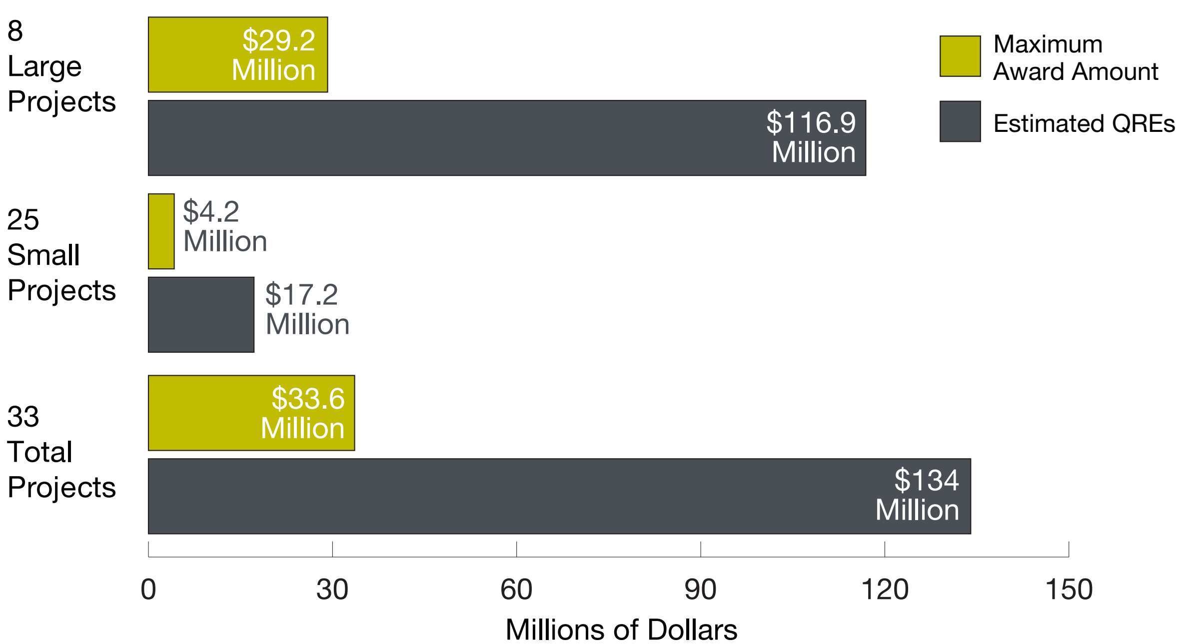
Projects approved for credits between July 1, 2014, and August 1, 2016, were registered by DCA, which remains responsible for project administration. IEDA-registered projects were approved for tax credits after August 15, 2016, and administered by IEDA.

This report differentiates between reserved and registered projects. Prior to the 2014 legislative changes, which were effective July 1, 2014, approved projects received a reservation for tax credits. The program allowed applicants to receive a tax credit on project cost overages. Because cost overages were allowed, the final amount of tax credits for which the applicant was eligible often exceeded the reservation amount. Although DCA administers reserved projects and issues tax credit certificates, since 2016, overage allowances have been paid out of current year allocations made to IEDA, restricting amounts available for active applications.

In FY 2020, DCA issued the final remaining tax credit certificates for reserved projects. As all reserved projects have been closed, in FY 2021, IEDA will be able to utilize its full annual allocation of tax credits to new projects applying for tax credits.

The Historic Preservation Tax Credit program continues to experience high demand. IEDA received $51 million in requests for credits during the Part 2B large project application round in July 2019. Based on feedback and interest from communities and developers, IEDA anticipates this demand will continue in 2021.

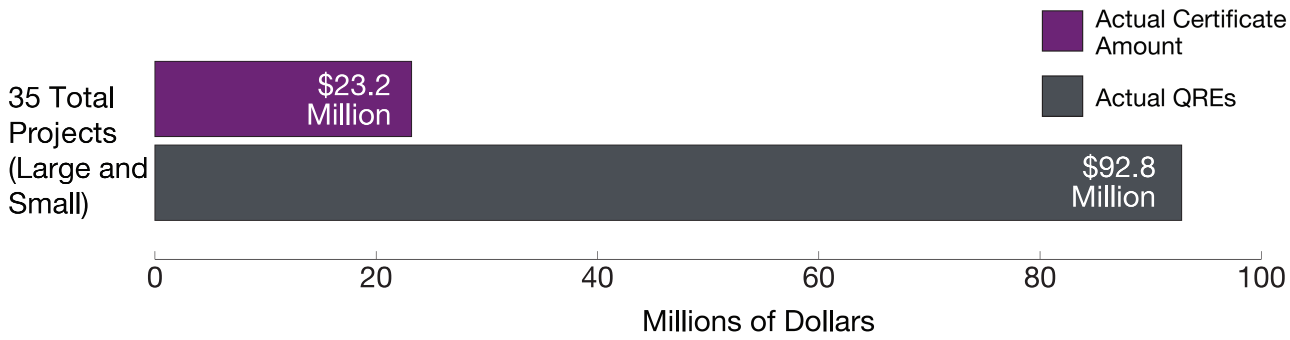
Historic Tax Credits Projects Registered from July 1, 2019- June 30, 2020



* Credits awarded in FY 2020: $44,961,050

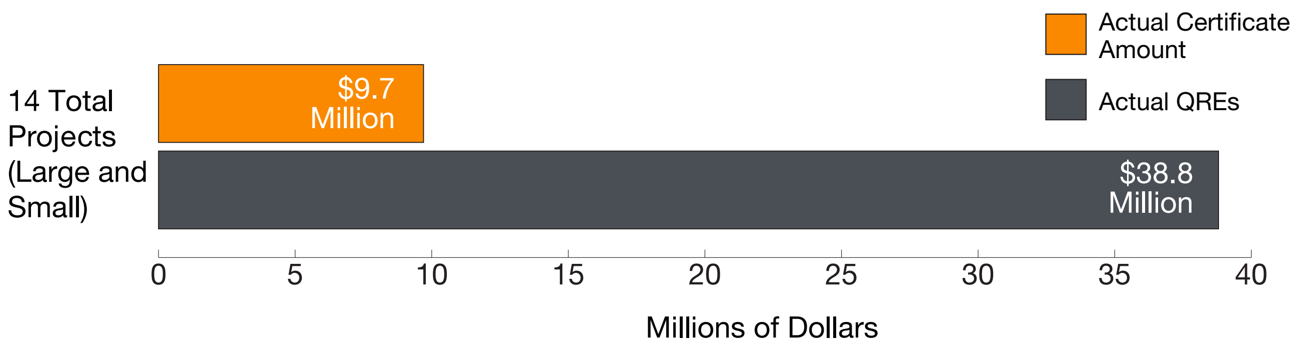
*A portion of the FY 2020 Historic Tax Credit allocation was allocated to 2 Large projects previously registed in FY 2019. These two projects were funded over 2 years, due to the size of the projects. $11,447,097 in credits from the FY 2020 allocation were used to fully fund these two large projects.

Tax Credit Certificates Issued by IEDA between July 1, 2019 – June 30, 2020



*Note: QREs or qualified rehabiltiation expenditures may not reflect the entire project costs. Iowa Code stipulates the amount of tax credit available to a project are calculated based on QREs; However, projects typically include other expenses/costs that are not factored in when calculationg tax credits for this program.

Tax Credits Certificates Issued by DCA from July 1, 2019 - June 30, 2020



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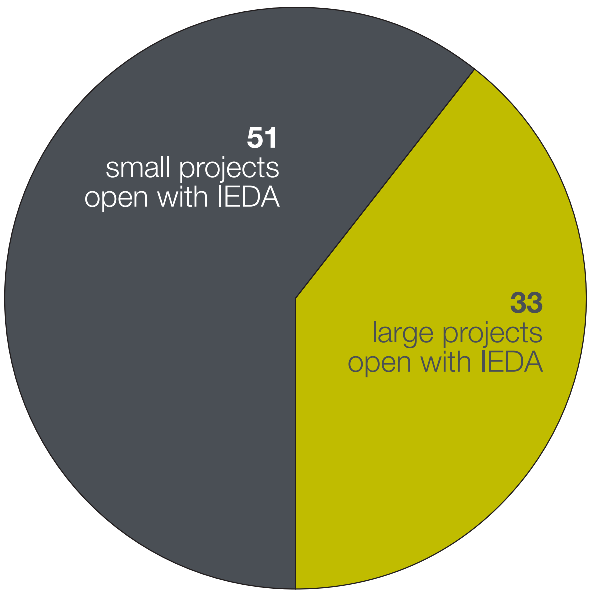
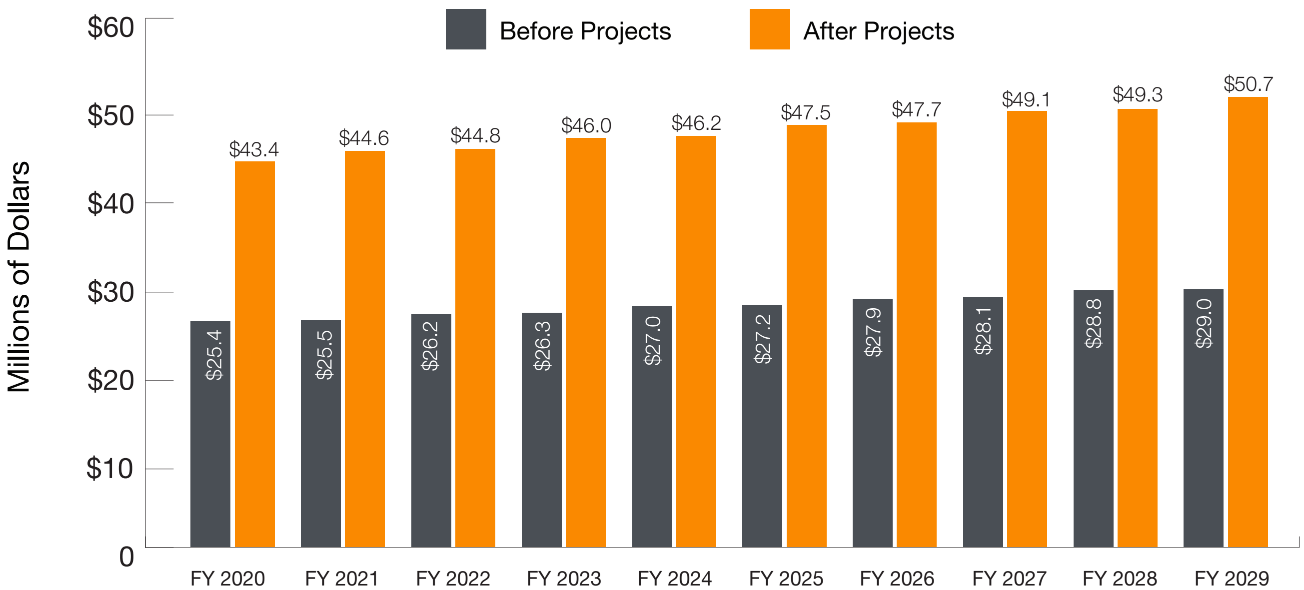
Open Historic Tax Credit Projects - Credits Awarded, But Not Issued as of June 30, 2020
Oustanding Award Amounts



$119,320,444 Total

Anticipated Impact of Completed Projects on Local Property Taxes



Assessed Value

Before Projects: $25,400,031

After Projects: $43,406,449
after tax abatement

Increase: $197,900,852
increase in property value over 10 years

Figures are based on completed projects issued tax credit certificates from IEDA from July 1, 2019 to June 30,2020

Estimates based on information from County Assessor's office in applicable counties

Figures assume annual assessed values increases of 2.75% in odd years and .5% in even years and include local tax abatement as presented in application to IEDA

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