Historic Designation and Financial Incentives for Building Rehabilitation

Macomb, September 23, 2014

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Illinois Historic Preservation Agency
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- Constituent Services Division
- Abraham Lincoln Presidential Library and Museum
- Historic Sites Division
- Preservation Services Division (SHPO)
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- Preservation Services Division (SHPO)
  - National Register of Historic Places
  - Financial incentives
  - Certified Local Government
  - Regulatory review
  - Archaeology
  - Illinois Main Street design
“Not that one—we’ll have the Historical Society after us”
Government Historic Preservation Programs and Redevelopment:

What’s the Connection?
Historic building rehabilitations help preserve our heritage and boost the economy.
The U.S. Department of the Interior keeps an official list of places that have been found to be historic, based on standard criteria, known as the National Register of Historic Places.
What does National Register mean to developers?

National Register listing involves:
- Preliminary determination of eligibility by IHPA
- Final nomination submitted to IHPA
- Review by the Illinois Historic Sites Advisory Council
- Final approval by the National Park Service
What does National Register mean to developers?

Preliminary eligibility can be determined by IHPA without owner consent. But owners must consent to listing on the National Register.

For districts, 51% of the property owners must object in writing for it **not** to be listed on the National Register.
What does National Register mean to developers?

National Register listing does not impose any additional regulations on a property owner.

Any undertaking that involves state or federal funding or permits or licenses (i.e. FDIC, EPA, FCC, HUD, CDAP etc.) and involves buildings listed or eligible for listing on the National Register will be reviewed by the IHPA to ensure that their historic features are preserved.
What does National Register mean to developers?

A local government is not obligated to create a preservation commission or locally designate, regardless of how many National Register properties and/or districts there might be in the community.
Communities also designate local districts and landmarks, regardless of National Register designation.

Since the state enabling legislation requires that a “designation nomination” be prepared before a local landmark or historic district is established, some preservation commissions use a National Register nomination as the basis for a local nomination. (For this reason the two types of designations are sometimes confused.)
National Register listing and local designation are separate and distinct actions.

National Register listing does not mean that local designation will necessarily follow.

Local listing does not mean that a place is eligible for or likely to be listed on the National Register.
Both NR & local designations spur redevelopment

Local landmarks and historic districts are eligible for preservation tax credits only if they are also listed on the National Register.

Local districts that have been certified by the National Park Service specifically for tax credits are eligible as well.
Illinois statutes empower local governments, cities, villages and counties to establish local commissions that can designate landmarks.
Historic Preservation Commissions

Established by an ordinance passed by the local governing board, where there is local interest in historic preservation and the local planning environment is responsive to this interest.

The authority, operations, and procedures of the preservation commission are prescribed by state enabling legislation and local ordinance.
Historic Preservation Commissions

Designate local landmarks and historic districts and review proposed changes that affect them.
What does local designation mean to developers?

- Landmarks can be buildings, structures, sites, areas, or objects that have been designated by ordinance.
- Nominations are based on criteria from the historic preservation ordinance and require due process notification to the owner.
- Local listing often does not require owner consent; however, it establishes a review process for proposed changes.
- Certificate of Appropriateness (COA) – building-permit review by the Commission – is needed before new construction, additions, or rehab projects are approved for local landmarks.
What does local designation mean to developers?

Local districts:
- Provide controls on the appearance of existing and proposed buildings.
- Help improve property values by stabilizing and enhancing neighborhood character.
- Benefit property owners by protecting them from inappropriate changes to the neighborhood.
Regulation with due process protects property owners’ rights and guides development options.
What does local designation mean to developers?

Must obtain a Certificate of Appropriateness (COA) from their preservation commission before making significant changes or additions to a property, before beginning new construction, or before demolishing or relocating a property.

The commission's review of proposed changes ensures that work on these properties preserves their historic character.
The Secretary of the Interior’s Standards for Rehabilitation guide us in the redevelopment of both locally-designated and NR-listed buildings
Federal and state tax incentives programs review may differ from local COAs

An owner of a property that is *both* locally designated *and* listed in the National Register who is seeking federal tax credits or a residential property tax freeze must acquire a local certificate of appropriateness *and* federal or state certification and rehabilitation project approval through separate applications.
However, federal and state tax incentive programs and local COAs may have different levels of review.

Approval for one does not imply or guarantee approval for the other, though in most cases local design review guidelines and federal rehabilitation standards are in concurrence and are mutually reinforcing.

Local commissions, however, do not review interior changes, whereas IHPA and NPS will review both interior and exterior alterations.
Plans for many redevelopment projects require review by the City’s Historic Preservation Commission, and the IHPA for federal historic income tax credits.
Federal Rehabilitation Tax Credits

- Applied to the owner’s federal income taxes owed or to future tax liabilities
- Eligible owners may be individuals or businesses and must pay federal income taxes
- Worth a percentage of the renovation cost
  - For example, under the 20% tax credit a $100K project will result in $20K of credit
- Denial of double benefit
  - Either a deduction or credit, not both
Financial Incentives for Existing Buildings

- 10% Federal Rehabilitation Tax Credit
- 50% Disabled Access Tax Credit
Financial Incentives for Historic Buildings

- 20% Federal Rehabilitation Tax Credit
- Property Tax Assessment Freeze
20% Federal Rehabilitation Tax Credit

Four criteria:
1. Significance: Certified historic building
2. Use: Income-producing property
3. Budget: “Substantial rehabilitation”
4. Work: Must meet the Standards
1. Significance: Certified Historic Building

- Individually listed on the National Register, or
- Contributing building within a historic district that has been listed on the National Register, or a local district certified by the National Park Service
2. Use: Income Producing Property

- Current or proposed use, not historic use:
  - commercial
  - hotel
  - office
  - industrial
  - agricultural
  - rental residential
3. Budget: “Substantial Rehabilitation”

- Owner must spend $5,000 or the Adjusted Basis, whichever is larger, during a 24-month period
  - Adjusted Basis = purchase price – land value – annual depreciation + capital improvements
- May qualify for a 60-month phased project
- Qualified rehabilitation expenditures (QREs):
  - Architectural and construction costs
  - Depreciable soft costs
  - Not purchase price, new additions or site work
4. Work: Must meet the Secretary of the Interior’s Standards for Rehabilitation

- Requires the preservation of the existing significant historic features and materials
- Does not require restoring a building or its features to their original appearance
- Non-historic features may be removed or retained, if desired
- New, compatible alterations or additions may be added
  - New additions outside the existing building envelope cannot be claimed for the credit
3-Part Application Process

- Contact IHPA
- Complete Parts 1 and 2 of the application and submit with ‘before’ photos and architectural drawings
- IHPA will review the application and if necessary request additional information
- IHPA will conduct a site visit
- IHPA will forward the completed Parts 1 and 2 to the National Park Service
- Complete the rehab per approved Part 2 and submit Part 3 with ‘after’ photos
Additional Provisions

- Sliding review fee based on budget, charged by NPS
  - No fee for projects with costs up to $80,000
  - Fee of $845 to $6,500 for larger projects
- Owner must retain the building for 5 years or return a prorated portion of the credits
20% Federal Rehabilitation Tax Credit

Can you flip? **NO.**
- Must retain building for 5 years or return a pro-rated portion of credits
- Credits can be “syndicated”
Layering of Tax Credits

- 20% Credit + New Market Tax Credits
  - 39% Tax Credit
  - Location in a low income census tract
- 20% Credit + Low-Income Housing Tax Credits
  - Credit based on dollars spent to construct or rehab qualified low-income housing
  - Credit received in exchange for long-term commitment to maintain rents at “affordable” level
- LIHTC equity typically supports 50-70% of total development costs
Tip #1:

Don’t replace your windows before you talk to us.
Tip #2:

Don’t gut the building before you talk to us.
Tip #3:

Work with your building’s own history. Non-original alterations may be significant.
Tip #4:

Fill out Parts 1 and 2 and submit plans before work begins.
Tip #5: CONSULT YOUR ACCOUNTANT
Questions?

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