Redevelop Smart: How Tax Credits Can be Used at Fort Monroe

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Rehabilitation Tax Credits

- Preserve historic "sense of place"
- Promote private investment in historic buildings and properties
- Provide financial incentives for re-use of historic buildings
- Revitalize and stabilize communities
- Increase and strengthen tax base
- Couple with low-income housing credit and New Markets Tax Credit

What are Tax Credits?

- Dollar-for-dollar reduction in income tax liability
- Available for rehab of certified historic structures
- Based on percentage of qualified rehabilitation expenditures
- May be "syndicated," i.e. transferred to taxpayer in exchange for capital
  - Provides financial leverage for projects

Comparison of Credits

Federal Program

- Income-producing buildings only
- 100% of adjusted basis
- 20% of eligible expenditures
- 5-year holding period
- 20-year carryforward, 1-year carryback

Virginia Program

- Income-producing and owner-occupied buildings
- 50% building assessment for income-producing
- 25% of eligible expenditures
- No holding period
- 10-year carryforward, no carryback

Economic Impact Study of Virginia's Program:

- Over 1,800 projects certified
- $1.91 Billion in economic impact
- 12,887 full- and part-time jobs
- $531 Million in labor income
- $55 Million of state tax revenue (above tax credits awarded)

Virginia Leads Nation . . .

- Ranked #1 in nation for certified expenses in FY2009 ($471,197,362)
- Consistently ranked #2 in nation for approved proposals and certified projects (FY2005-FY2009)
- Application submissions remain high, despite downturn in economy

Case Study: Miller & Rhoads

- 3 connected buildings = 461,000+ sq. ft.
- $100+ Million project

Case Study: Miller & Rhoads

Hilton Garden Inn and Condominiums

Federal tax credit =	$20 Million
State tax credit =	$25 Million
Tax credits =	$45 Million

Historic Restoration Inc., Developer:

- Project not feasible without tax credits
- Availability of tax credits made project attractive for investors

How to Qualify

- Must be certified historic structure
  - Individually listed on the National and Virginia Landmarks Registers
  - Certified as contributing in a listed historic district
- Follow *Standards for Rehabilitation* and other NPS guidance
- Structure ownership entity appropriately
- Meet required spending thresholds within measuring period

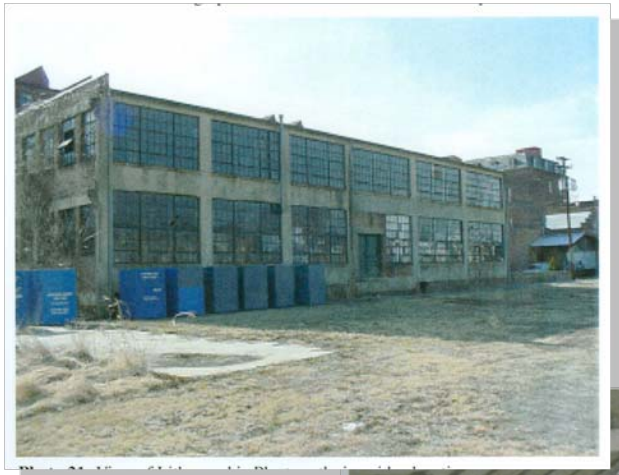
Flexibility and Versatility

- Tax credits work for all kinds of buildings

- Tax credits work for all sizes and types of projects

Industrial Buildings and Mills

Dan River Crossing



Before

Photo 16: View of Cigar Factory 5th floor showing "ridge" monitor.

After

Industrial Buildings and Mills

Carolina Consolidated, Shockoe Bottom

Automotive Buildings

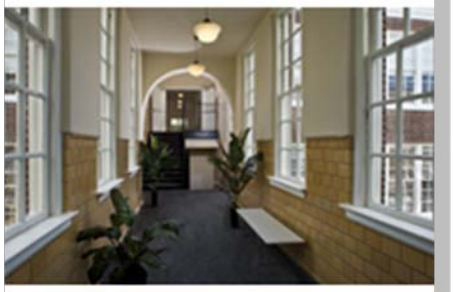
Atlantic Motors, Richmond

Before

After

Schools

Maury School, Fredericksburg

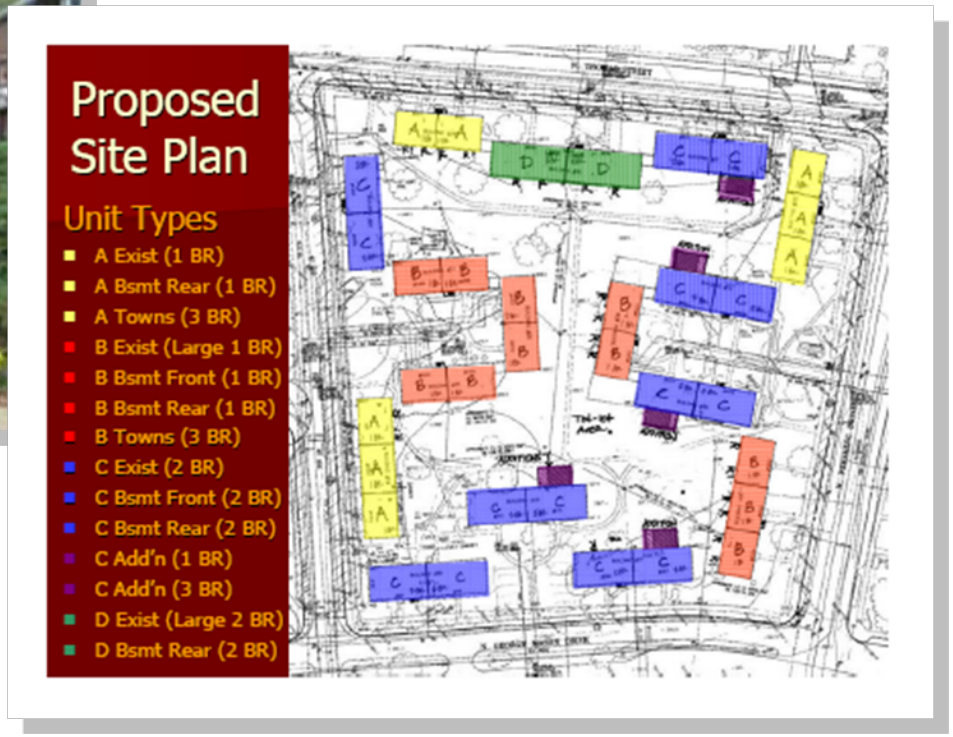


Shopping Centers

Cary Court Park & Shop, Richmond

Residential Complexes

Buckingham Village, Arlington



Multiple Building Properties

The Presidio, San Francisco, California

- National Historic Landmark
- Multi-faceted redevelopment of property
- Rehabilitation of buildings by The Presidio Trust and Partners

Multiple Building Properties

National Park Seminary, Forest Glen, Maryland

- Purchased in 2003 by developer for comprehensive rehabilitation and redevelopment
  - Rehabilitation of buildings for condominium use
  - Construction of new housing units on property

Multiple Building Properties

- Lorton Prison, Fairfax County

- Western State, Staunton

Multiple Building Properties

- Redevelopment of large historic properties throughout country occurs because tax credits:
  - Attract investors from nationwide pool
  - Enhance marketability of project
  - Tax credits provide leverage to fund projects
  - Non-taxpaying entities can participate

Ownership & Syndication

- Non-taxpaying entity may own property
  - Non-profits
  - Local governments
- Partner with taxpayers
- Marketing opportunity
- Nationwide “bank” of taxpayers seeking credits
- Carefully structure ownership to capture credits
- Ownership scenarios:
  - Taxpayer ► takes tax credits
  - Pass-through entity ►credits disbursed among partners
  - Lease ►credits claimed by lessee

Pass-Through Entity

- Taxpaying entity established to own property during rehabilitation
  - Usually a partnership (e.g. LLC)
    - Members include taxpayers that need credits
    - Members may be non-taxpaying entities
  - Credits used to leverage projects
  - Credits awarded to partnership, distributed among members
  - "Syndication"
  - Federal credit:
    - Owner must retain for 5 years after rehab
    - Special IRS rules for non-taxpaying entities

Lease Arrangement

- Property owned by taxpayer or non-taxpaying entity, leased to taxpayer
  - Long-term lease 39 ½ years for income-producing property
  - Taxpayer (Lessee) incurs rehab expenses, and may take credit

- Federal Credit
    - Special rules for non-taxpaying entities