

HISTORIC PRESERVATION TAX CREDIT PROGRAM  
*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 and Cultural Entertainment District Tax Credit Program (“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 August 15, 2016 through December 31, 2017. This timeframe was selected because the IEDA became responsible for administering projects registered on or after August 15, 2016.

As some open Historic Preservation Tax Credit projects are administered by the Iowa Department of Cultural Affairs (DCA), information in this report includes a compilation of data from IEDA and DCA.

## PROGRAM DESCRIPTION

Iowa’s Historic Preservation Tax Credit Program was created in 2000 to encourage the redevelopment and reuse of historic structures across Iowa and provides state tax credits for the sensitive rehabilitation of these structures. Since inception, the Historic Preservation Tax Credit program has been utilized in the rehabilitation of a variety of buildings, varying in size, style and type.



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 the historic character.

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

- Listed on the National Register of Historic Places or eligible for such listing as determined by the staff of the State Historic Preservation Office
- Contributes to the significance of a historic district 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 percent 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.

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 a long-term lease holder who meets the requirements of the federal rehabilitation credit. The applicant may be a nonprofit but may not be a governmental body.

Tax credits can 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.

## HISTORY

The Historic Preservation Tax Credit program has always been subject to a cap on the amount of credits allocated to applicants. The amount of credits available has increased since inception.

The program allocated \$2.4 million for its first year of awards in FY '01. In FY '06, the annual cap was raised to \$6.4 million.

The cap was increased to \$10 million for FY '08, \$15 million for FY '09, and \$20 million for FY '10 and subsequent years. In 2009, the cap was increased again to \$50 million per year starting in FY 2010. However, the additional \$30 million of tax credits were allocated to reservations for tax years beginning on or after January 1, 2010. The cap was reduced to \$45 million per year beginning in FY 2013. The cap has remained at this level through FY 2018.

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

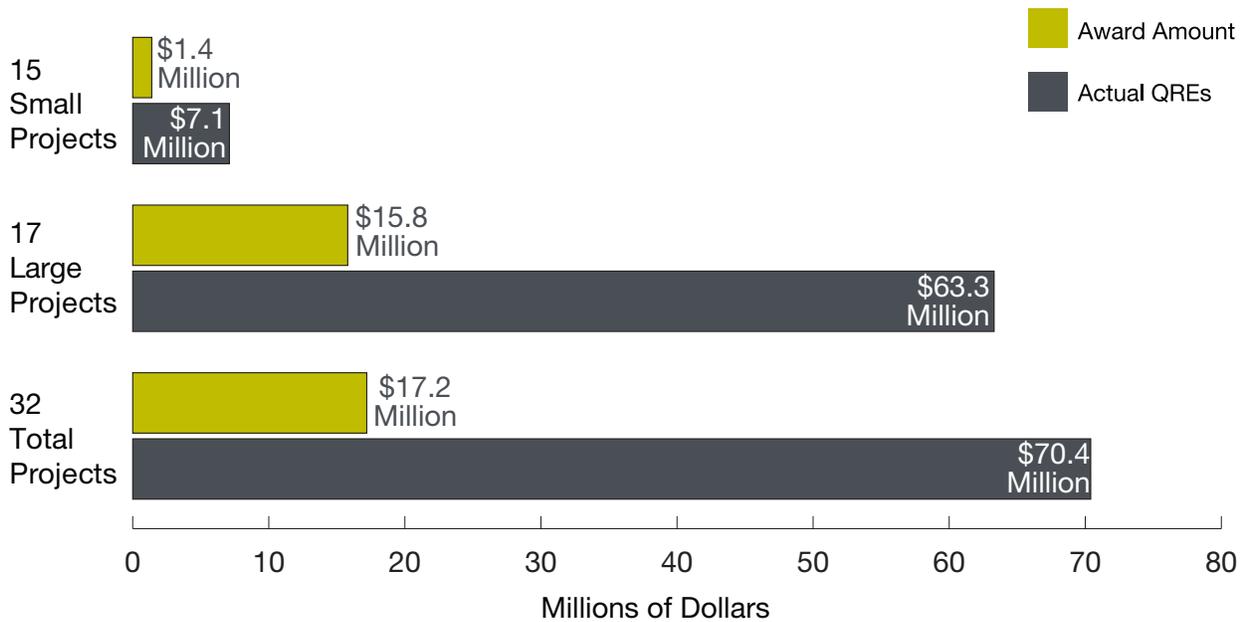
Originally, credits were nonrefundable and nontransferable. Legislative changes in 2003 made the credits transferable. In 2007, the credit was made refundable as well, allowing the applicant to receive a refund from the state if credits exceed the applicant's liability.

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

- Specified applicants would 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
- Required a CPA examination of all projects



**Tax Credits Issued by DCA from August 15, 2016 — December 31, 2017:  
Registered Projects Only**



\*Note: qualified rehabilitation expenditures (QREs) may not reflect the entire project costs. Iowa Code stipulates the amount of tax credit available to a project is calculated based on QREs; however, projects typically include other expenses/costs not factored in when calculating tax credits for this program.

From 2000 through 2016, the Department of Cultural Affairs administered the Historic Preservation Tax Credit program. During the 2016 legislative session, House File 2443 moved the Historic Preservation Tax Credit program to the IEDA. On August 16, 2016, IEDA assumed administrative control.

Today, IEDA and DCA collaborate to manage the Historic Preservation Tax Credit 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. The roles of each agency are described in more detail under the Application Process section.

**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 program involve five parts:

**Part 1:** Applicant submits information on the proposed project building to determine eligibility. DCA staff evaluates the building’s integrity and historic significance. DCA often consults with the National Park Service. IEDA staff reviews property ownership to determine if the applicant is an eligible taxpayer/applicant.

**Part 1.5 Meeting:** Once the property is determined eligible, DCA and IEDA staff will meet with the applicant to discuss the proposed project and the 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 U.S. Secretary of the Interior’s Standards for Rehabilitation. Negotiations may take place between the applicant and DCA during this phase. 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 ongoing basis. Applications for large projects are typically accepted twice per year, in the spring and in the fall.

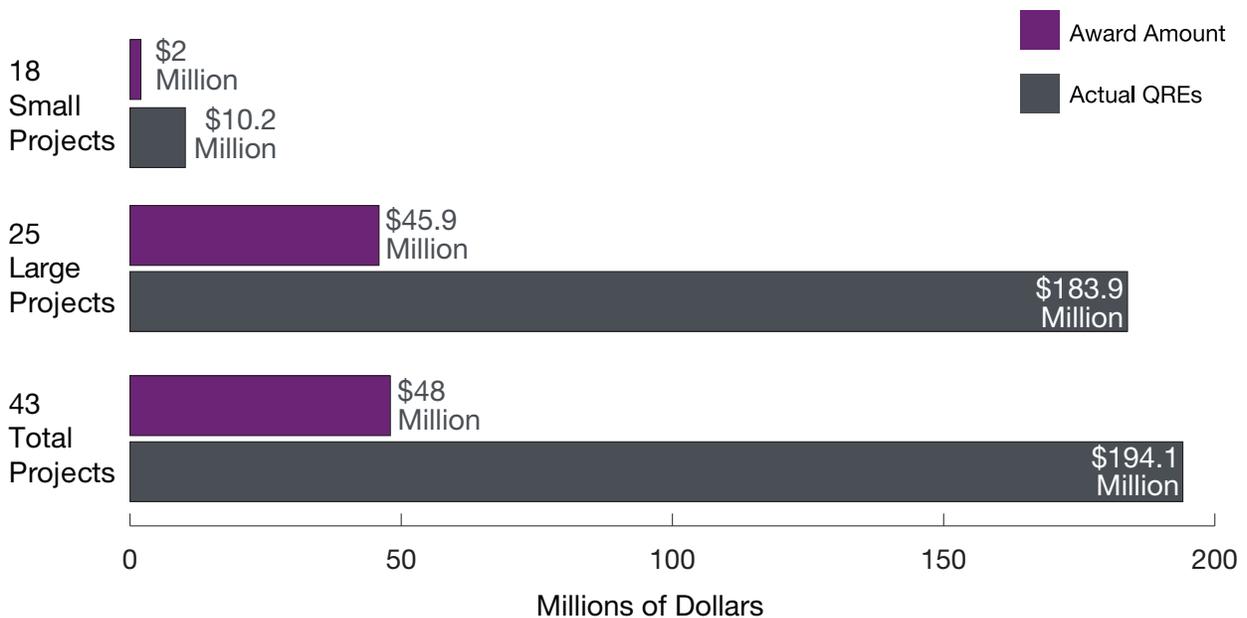
Upon Part 2B application approval, the project is registered for tax credits. IEDA and the applicant enter into a contract to establish the terms and conditions that must be met and that provides the maximum amount of the tax credit.

**Part 3:** Applicant submits Part 3 application upon project completion. The Part 3 application describes the completed work, final qualified expenditures, and provides assurance that all requirements of the contract and regulations are 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 final expenditures, IEDA provides a tax credit certificate to the applicant.

**Tax Credits issued by DCA from August 15, 2016- December 31, 2017:  
Reserved projects only**



\*Note: qualified rehabilitation expenditures (QREs) may not reflect the entire project costs. Iowa Code stipulates the amount of tax credit available to a project is calculated based on QREs; however, projects typically include other expenses/costs not factored in when calculating tax credits for this program.

## CURRENT STATUS

The charts included in this report provide a summary of the 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 August 15, 2016 through December 31, 2017:

- IEDA registered 59 projects for tax credits totaling \$47 million
- IEDA and DCA issued tax credits for 80 projects totaling \$70 million
- There were 87 open projects totaling \$100 million

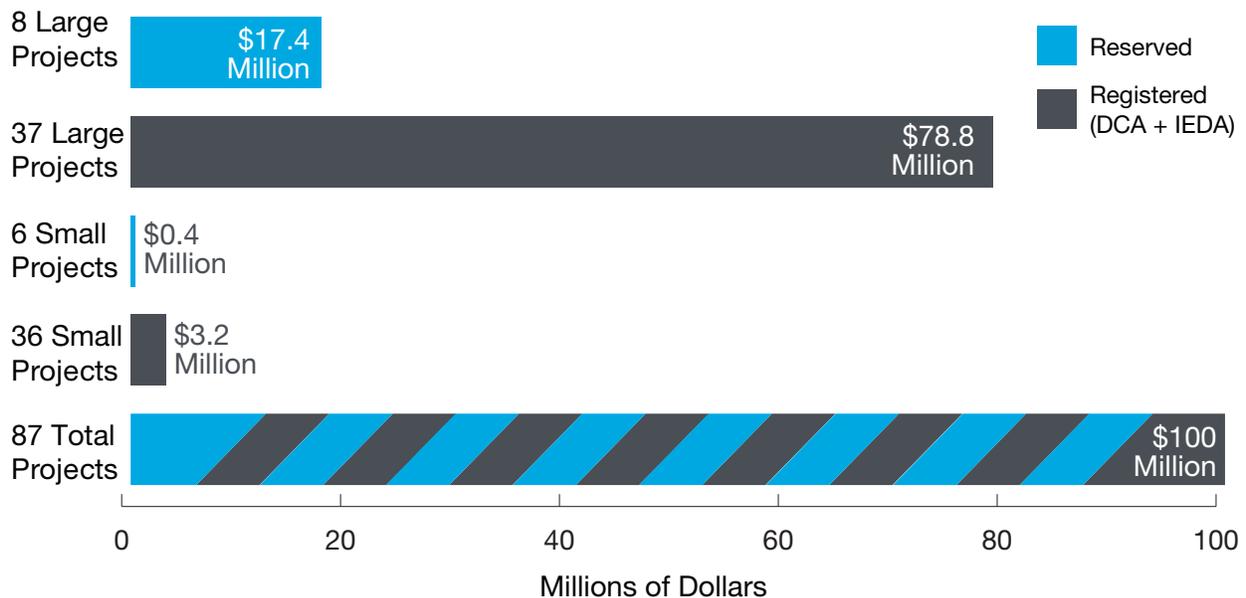
This report differentiates between reserved project and registered projects.

Reserved projects were approved before July 1, 2014. DCA is responsible for the administration of all reserved projects.

DCA registered projects were approved for credits between July 1, 2014 and August 1, 2016. DCA is responsible for the administration of these projects.

IEDA registered projects were approved for tax credits after August 15, 2016. These projects are administered by IEDA.

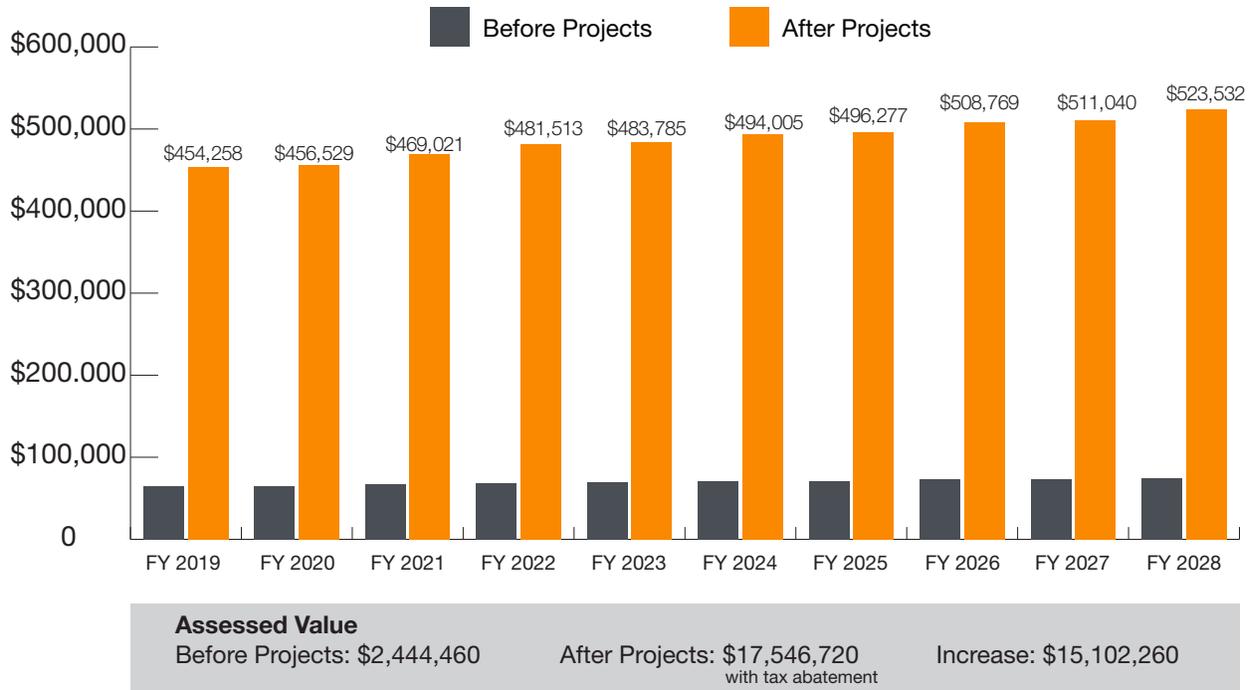
### Open Historic Tax Credit Projects — Credits Awarded, Not Yet Issued



13 large registered projects open with DCA  
 24 large registered projects open with IEDA  
 6 small registered projects open with DCA  
 30 small registered projects open with IEDA

All reserved projects with DCA

## Anticipated Impact of Completed Projects on Local Property Taxes



Figures are based on completed projects issued tax credit certificates from IEDA from 8/15/16 to 12/31/17

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. Abatement figures for straight line assume value of \$450,000 annual for 10 years.

Prior to the 2014 legislative changes, approved projects received a reservation for tax credits on project cost overages. Because cost overages were allowed, the final amount of tax credits for which the applicant was eligible was often over the reservation amount.

Reserved projects eligible for unlimited overage allowances are entering final years of ability to claim credits. IEDA is required to pay those overage allowances out of current year allocations, restricting amounts for active applications until those projects are exhausted. Timeframes and extension eligibilities suggest final payments on reserved projects will be made during FY '20.

The Historic Preservation Tax Credit program continues to experience high demand. IEDA received nearly \$104 million in request for credits during the Part 2B large project application rounds in 2017. Due to the program cap, IEDA was able to award approximately 50 percent of tax credit requests. Based on feedback and interest from communities and developers, this demand is anticipated to continue in 2018.





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