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HISTORIC PRESERVATION TAX CREDIT PROGRAM  
*2019 PROGRESS REPORT*



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## 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 January 1, 2018, through June 30, 2019. 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 the program 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. 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 eligible by State Historic Preservation Office staff for listing
- Contribute 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% of the “qualified rehabilitation expenditures” associated with the project. Per Iowa Administrative Code 261-49.3, “qualified rehabilitation expenditures” meet the definition of “qualified rehabilitation expenditures” in Section 47 of the Internal Revenue Code. Iowa Administrative Code 261-49.4(4) clarifies “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 that 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, money 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 may be allocated to applicants; however, the amount of credits available has increased since program inception.

The Historic Preservation Tax Credit program was allocated \$2.4 million for its first year of awards, FY 2001. In FY 2006, the annual cap was raised to \$6.4 million.

The cap was increased to \$10 million for FY 2008, \$15 million for FY 2009, and \$20 million for FY 2010 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 limited 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 amount through FY 2018.

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 costs 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 are in excess of 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 for projects
- Required a CPA examination of all projects

From 2000 through August 2016, the program was managed at the Department of Cultural Affairs. 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 of 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 in 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 Historic Preservation Tax Credit program includes these steps:

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

**Part 1.5 Meeting:** Once the property is determined eligible under 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 that assists in developing rehabilitation plans. IEDA provides guidance on ownership and project finance.

**Part 2:** Applicant submits proposed work to DCA for review and evaluation. DCA 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. 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 into 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. Part 3 describes the completed work, final qualified expenditures, and provides assurance that all requirements of the contract 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 final expenditures, IEDA provides a tax credit certificate to the applicant.



## CURRENT PROGRAM STATUS

The charts included with 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 January 1, 2018, through June 30, 2019:

- IEDA registered 49 projects for tax credits totaling \$45.5 million
- IEDA and DCA issued tax credits for 100 projects totaling \$99 million
- IEDA and DCA had open projects totaling \$119 million in credits

This report differentiates between reserved project and registered projects. Reserved projects are those projects 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.

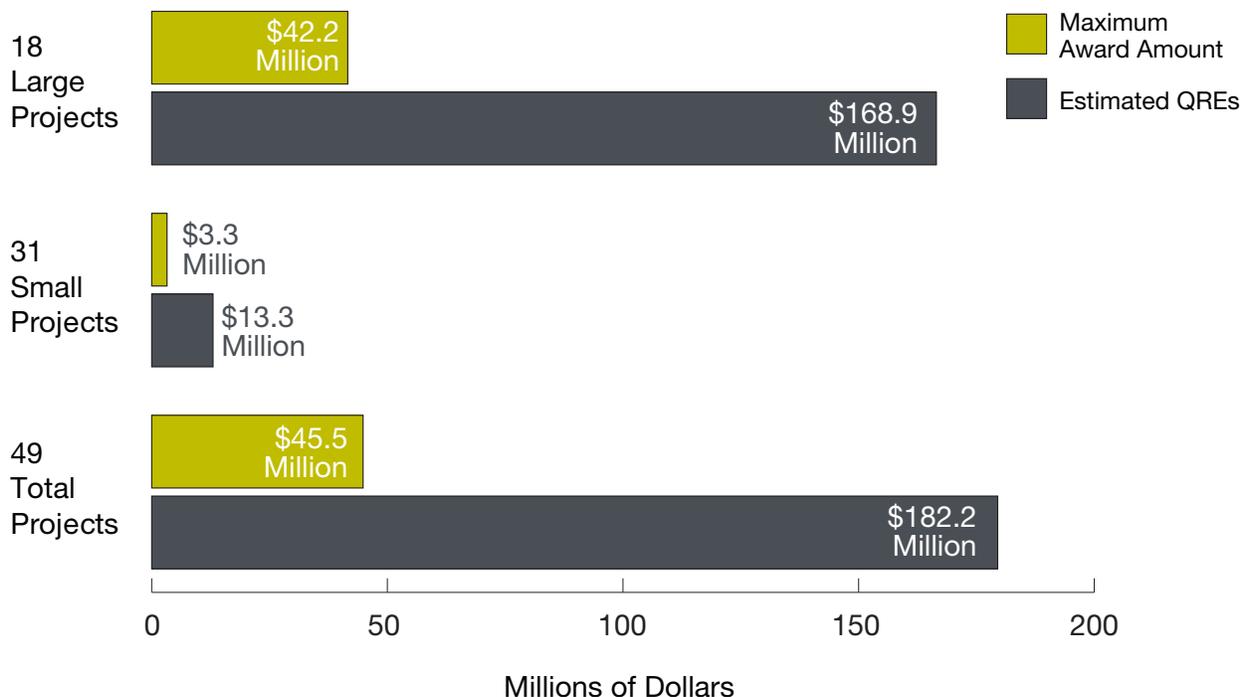
IEDA-registered projects are those that were approved for tax credits after August 15, 2016. These projects are administered by IEDA.

Prior to the legislative changes made in 2014, approved projects received a reservation for tax credits. The program allowed for applicants to receive a tax credit on project cost overages. Because cost overages were allowed, the final amount of tax credits the applicant was eligible for was often over the reservation amount.

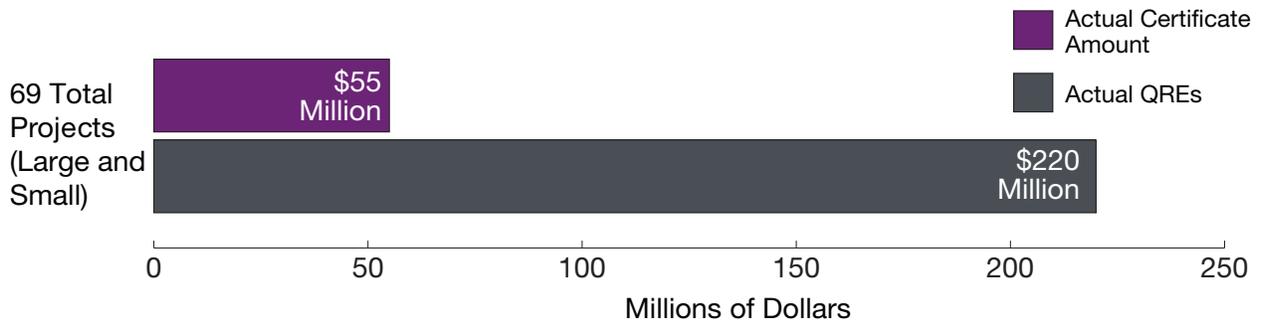
Reserved projects eligible for unlimited overage allowances are entering final years of ability to claim credits. IEDA is currently required to pay those overage allowances out of current year allocations, restricting amounts for active applications until those projects are exhausted. Timeframes and extension eligibilities suggest final reserved payments made during FY 2021.

The Historic Preservation Tax Credit program continues to experience high demand. IEDA received \$132 million in request for credits, during the two Part 2B large project application rounds between January 2018 and June 2019. Due to the program cap and open reserved projects, IEDA was able to award approximately one-third of tax credit requests. Based on feedback and interest from communities and developers, IEDA anticipates this demand will continue in 2020.

**Historic Tax Credits Projects Registered from January 1, 2018- June 30, 2019**

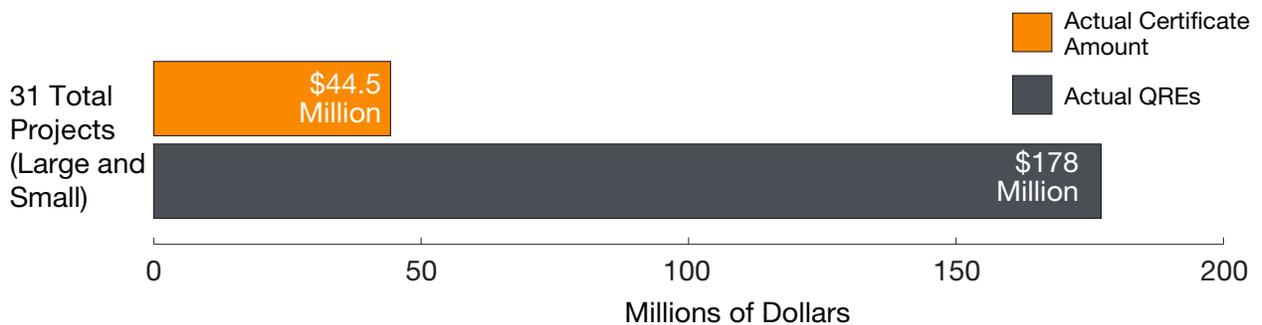


### Tax Credit Certificates Issued by IEDA between January 1, 2018 – June 30, 2019



\*Note: QREs or qualified rehabilitation 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 calculating tax credits for this program.

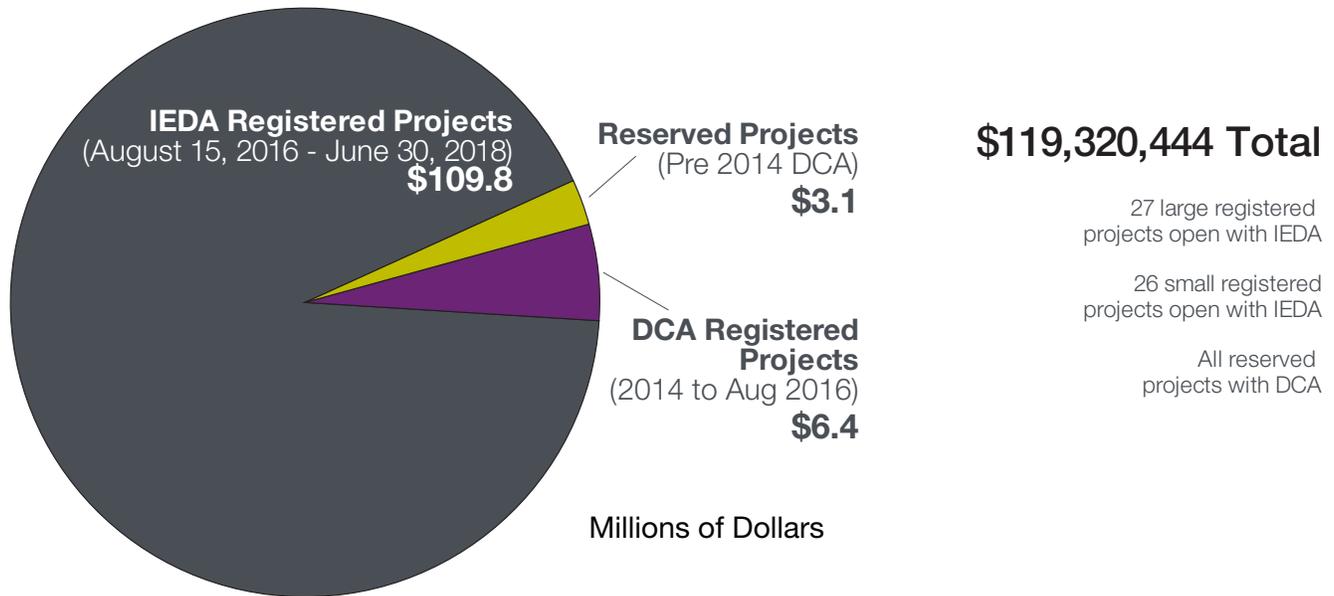
### Tax Credits Certificates Issued by DCA from January 1, 2018 - June 30, 2019



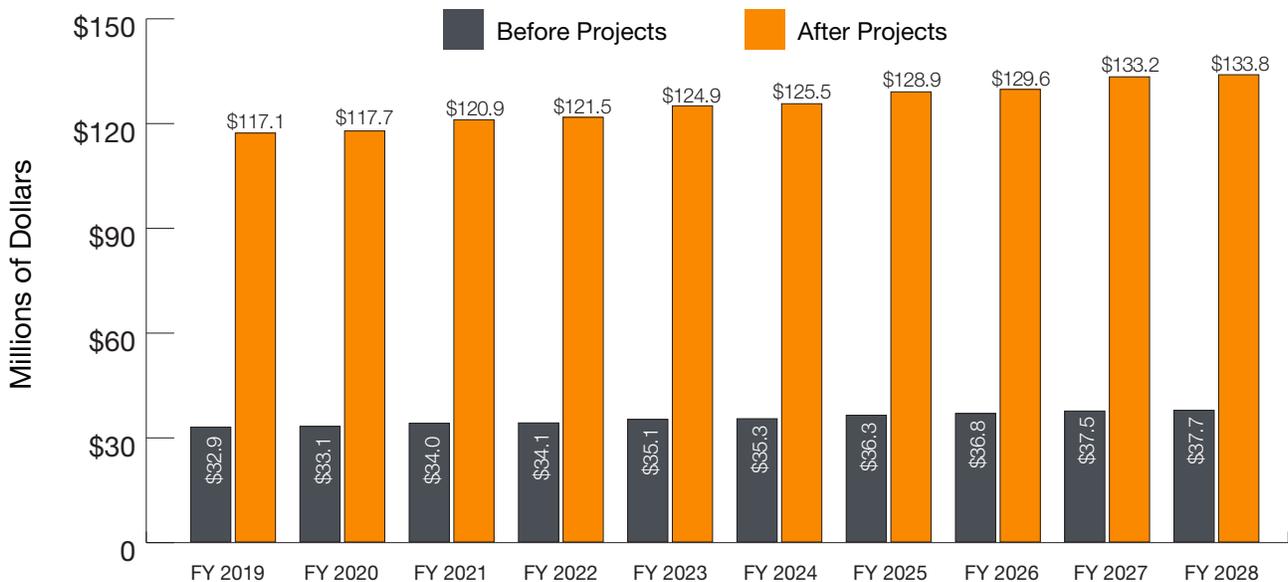
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## Open Historic Tax Credit Projects - Credits Awarded, But Not Issued as of June 30, 2019 Outstanding Award Amounts



## Anticipated Impact of Completed Projects on Local Property Taxes



### Assessed Value

Before Projects: \$32,973,310

After Projects: \$117,136,019  
after tax abatement

Increase: \$90,362,788  
increase in property value over 10 years

Figures are based on completed projects issued tax credit certificates from IEDA from January 1, 2018 to June 30, 2019

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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