Preservation Alliance of Minnesota
Testimony presented to the Minnesota House of Representatives Taxes Committee, April 24, 2018

Chair Davids and Members of the Committee, my name is Erin Hanafin Berg, and I am with the Preservation Alliance of Minnesota. The Preservation Alliance is a non-profit organization with a mission to connect people to historic places, promoting community vitality. I am joined by our board member Chris Sherman, and we are here to express concern about the effects of conforming to the federal changes to the historic tax credit.

When Minnesota enacted a historic tax credit in 2010, we joined thirty other states in adopting this incentive, which allows an income tax credit equal to 20% of the rehabilitation expenses for an income-producing building that is listed in the National Register of Historic Places. Several of you authored or coauthored the bill in 2013 that extended the initial sunset date – and we thank you for making this possible. Mr. Chair, we especially appreciate your strong support for the historic tax credit over the years. I hope that you have been as pleased as we have been to see the impacts of this credit – in terms of jobs, in generated economic activity, and in reclaimed and reused historic buildings all across the state.

Over 100 historic tax credit projects have been undertaken since 2011, resulting in $2.2 billion dollars of economic activity. Typically more than $9 is generated for every dollar allowed in tax credits. In Fiscal Year 2017, 7 historic rehab projects were approved totaling $6.7 million in state income tax credit allocations.

The problem is that the Federal credit, which must be claimed against tax liability, now is required to be taken ratably over a five year period, beginning with the year that the completed project is placed in service. Most historic tax credit projects are incredibly complex, both in terms of the physical work that must be done to make a deteriorated building usable again, and also in terms of the project financing. Developers partner with investors who buy the tax credits and contribute the capital that is needed to undertake the construction work. I'll allow Mr. Sherman to explain the effects that the changes at the Federal level have had on historic tax credit projects.

[Chris Sherman provided information about the impact of the credit in the Twin Cities and Duluth in particular. A transcript of his testimony will be included here after the audio file is made available to the public.]

[Only two minutes of testimony was allowed per person. Our time had expired.]

Thank you.

PAM testimony before the Minnesota Senate Taxes Committee
May 2, 2018

Chair Chamberlain and Members of the Committee, my name is Erin Hanafin Berg, and I am with the Preservation Alliance of Minnesota. Thank you for the opportunity to address the proposed conformity changes to the Minnesota Historic Tax Credit contained in this bill.

Our view is that the best way to retain the momentum of the historic tax credit would be to NOT conform with the Federal changes, and to keep the credit as a single refund received during the year that a completed project is placed in service. However, there is another concern in the bill as presented – that projects that are currently underway would be subject to two different sets of rules at the Federal and state levels. When the Federal changes were enacted, they included transition rules that allowed projects to be grandfathered in if a building was owned by the developer before the end of 2017, and if rehabilitation work started before June 20 of this year. We believe more information and clarification of the state's transition rules is needed before this change is adopted.

The five-year credit allocation period presents other issues as well. At present, the state historic tax credit is due to sunset in 2021, just three years from now. Conforming to the Federal changes would mean that a tax credit allocation received in 2018 would be paid in installments for five years, through 2023. We note that the Federal historic tax credit has no sunset date to require developers and investors to anticipate how sunset and phase-out rules would be enacted and affect their projects. We request that the sunset date is eliminated or substantially extended to accommodate this new ratable credit structure.

We are also concerned that unforeseen business or investment changes that occur during the five-year credit period could jeopardize and unnecessarily complicate the investments made by historic tax credit developers and their partners. Luckily, there is a straightforward fix - allowing Minnesota's historic tax credit certificate to be transferred multiple times would prevent undue complications for the investors and business entities that undertake these important and financially complex projects.

We would like to work with you to keep our state historic tax credit as strong and viable as possible under the circumstances. I hope that we can work out a solution to these technical issues in the coming days. Thank you for the opportunity to speak to these issues.