Noelle Mackay, Commissioner
Department of Housing and Community Development
January 28th, 2014

VERMONT
AGENCY OF COMMERCE & COMMUNITY DEVELOPMENT
DEPARTMENT OF HOUSING & COMMUNITY DEVELOPMENT

Downtown Historic Tax Credits

Overview

Background

Vermonters and visitors alike value our landscape of compact villages surrounded by working landscape. Governors, legislative leaders and advocates agree that this landscape is linked to economy, community spirit and brand, and have set a goal of maintaining and enhancing it through legislation. One of the core strategies for implementing this goal is the State's Downtown Program which provides training and incentives that help maintain Vermont's historic development pattern by targeting state resources to promote the efficient use of land, infrastructure, and resources.

The State's historic tax credit program is one of the primary benefits of Downtown and Village Center designation, and supports the revitalization seen in community centers across the state. The program is popular and to date there are 24 Designated Downtowns and 111 Village Centers. Annually, these designated areas submit well over 30 rehabilitation and renovation projects requesting $4.3 - 4.5 million in tax credits. Competition is often intense for the $1.7 million in credits currently available.

In FY14, the program supported 31 projects in 20 different communities and leveraged nearly $18 million worth of construction activity. Since 2007, the program has supported 150 projects and leveraged over $180 million in outside investment. Most of the funding supports state-mandated code retrofits like elevators and sprinklers systems that are cost prohibitive to most building owners (often the appraised value of a building is less than the cost of an elevator or sprinklers system which is why many upper floors go unused).

"I was able to grow my businesses from one to four ... [and] went from leasing a space with five employees, to owning a building and employing 26 Vermonters. Between payroll taxes and retail sales taxes, I have more than doubled the state's investment in my business."

Valerie Beaudet, Barre

For More Information Contact:
Caitlin Corkins at (802) 828.3047 or caitlin.corkins@state.vt.us

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Downtown Historic Tax Credits — Program Benefits

The Downtown and Village Center Tax Credit Program Stimulates Private Investment

Every dollar of tax credits awarded leverages $14 in additional investment and Department of Taxes analysis of Grand List values from the program's project portfolio show significant gains in property values as a result of projects funded through the program. What's more, across the state rehabilitation of a single prominent building is in some cases sufficient to stimulate the revitalization of an entire area. In other cases, a series of smaller rehabilitations can ultimately result in a critical mass necessary to return a community center or neighborhood back to prosperity, as is demonstrated by our case study of Hardwick.

Tax Credit Projects Create More Jobs

In Vermont every million dollars in tax credits resulted in 109 jobs. Excluding new elevator installations (cars are built out of state) – 60% of the total project costs was labor. This result is consistent with an economic impact study done for the State of Michigan (and many other states), that found rehabilitation projects devote 60-70% of total project cost to labor, compared to 50 percent in new construction. Our survey data also supports other state studies that found building rehabilitation creates more jobs than the construction of new buildings – not because rehabilitation is more expensive, but because it's more labor intensive.

The Program Increase Business For Local Suppliers and Generates Tax Revenue

Again, excluding elevator cars – 89% of materials were purchased locally. Given that tax credits are not paid out until the project is complete; the project starts to pay back the state's investment immediately with revenues generated from taxes on wages and the purchase of local materials. A Maryland study found that for every $1 paid out by the State, $0.34 was returned prior to any credit being paid out, $1.02 was returned in the first year, and $3.31 in the fifth year after the project's completion. This study showed that the balance of forgone revenue is returned within a year of project completion; thereafter, the increased property taxes become a revenue generator.

After a fire just before Christmas 2012, the Landry Block (1879) on Railroad Street in St. Johnsbury was saved and rehabilitated with the aid of tax credits in 2013. Not only was the historic character of the building preserved, code improvements mean the two commercial units and four apartments are now fully accessible.

Conclusion

Vermont's downtowns and village centers are an essential part of the State's brand. It's increasingly clear that to maintain Vermont's quality of life and economy we must make investments to make them strong and vital (and discourage consumptive development patterns increasingly seen across the state). Current development trends if left unchecked, not only threaten what we all cherish about Vermont, but also come with enormous social, environmental and economic costs – the burden of which has largely been hidden, ignored, or quietly borne by Vermonters. We ignore these costs at our peril. The state is at a unique and unprecedented point in its history with an opportunity to work collaboratively across state agencies and with our partners. Strategies and programs that invest in smart, sustainable growth today will pay dividends in the long-term fiscal, economic, and environmental viability of the state.

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Hardwick's Revival

Overview

Several years ago Hardwick's Main Street was in a state of decline like many communities throughout Vermont. Buildings were run down, underused or even condemned. Adding to these issues, in 2006, a tragic fire gutted the Bemis Block, a prominent building in the heart of downtown. Rather than tearing it down to create a parking lot, the community chose restoration and created new business and housing within the historic building. This key decision not only sparked a new direction for Hardwick, it also showed other small towns how saving one historic building can spur redevelopment of an entire community.

Challenge

The expense to repair and bring historic downtown buildings up to code (especially costly items like sprinklers and elevators) often exceeds the value of the building. Rents in many of Vermont's smaller downtowns and village centers are often low and may not generate significant capital to finance a major rehabilitation. With insufficient funding to fill the gap, banks are reluctant to make loans to upgrade buildings. As a result, buildings are not maintained and Main Street slowly closes down. Over time, property values decline along with the local economy.

Solution

Downtown and Village Center tax credits help close this financial gap, make projects economically viable, spark community revitalization, cement a sense of place, and bring buildings back onto the tax rolls.

"The amount of new activity, life and excitement on Main Street is unprecedented. It's clear to me that strong communities need vital urban cores -- and with the help of the tax credits, we've made a great start in Hardwick."

Michael Gohl
Hardwick Architect

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Downtown Historic Tax Credits | Hardwick's Revival

The Result

In Hardwick, seven buildings have been rehabilitated with the help of tax credit-financing and another five are in progress, or near completion. Approximately $820,000 in state tax credits have leveraged over $5 million in outside investments to date, jumpstarting new businesses and creating jobs, developing quality housing, and bringing new vitality to the commercial district. An analysis of Hardwick's downtown property values (Grand List) is evidence that public investment to improve these buildings results in increased property tax revenue. By promoting reinvestment and encouraging projects that put dollars back into the local economy, tax credits are a critical factor in promoting economic vitality for communities that take advantage.

Bemis Block - 73 South Main Street

Grand List Before
$257,800

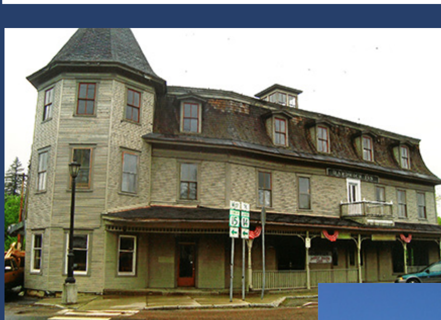
Grand List After
$797,400

Hill Block [1874] - 35 South Main Street

Grand List Before
$55,400

Grand List After
$314,500

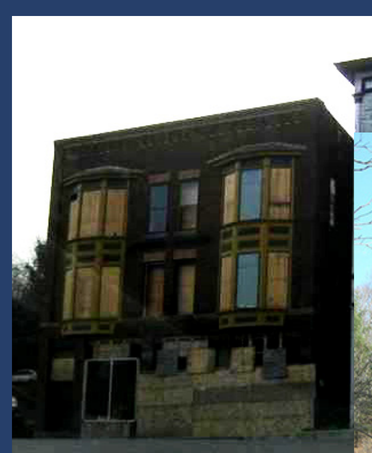
Hardwick Inn - 1 North Main Street



Grand List Before
$147,800

Grand List After
$583,300

Marshall Block - 87 South Main Street



Grand List Before
$145,500

Grand List After
$297,200

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