Revitalization through Rehabilitation

ABOUT THE HISTORIC TAX CREDIT PROGRAM
Virginia’s program established by General Assembly in 1996.
Modeled on Federal Historic Rehabilitation Tax Credit Program, created in 1977.
Established to spur economic development and revitalization.
Economic Impact Study of Virginia’s Program:

- Over 3,275 projects certified.
- $3.9 Billion in economic impact.
- 31,000 full- and part-time jobs.
- $1.53 Billion in labor income.
- 82% of survey respondents said tax credits were “very important” in their decision to do project.
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 money.
  - 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

- **State 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

Beacon Theater – Hopewell
How to Qualify

- Must be a **certified** historic structure:
  - Individually listed on the National and Virginia Landmarks Registers - or -
  - Certified as contributing in a listed historic district
- Must follow *Standards for Rehabilitation* and other program guidance.
- Must structure **ownership** appropriately.
- Must meet required **spending thresholds** within measuring period.
Flexibility and Versatility

- All historic building types are brought to life:

John Handley H.S. – Winchester
James E. Mallonee School – Hopewell

Richmond Locomotive Works  Barker Jennings Hardware Corp. - Lynchburg
3 Part Application

- Part 1 – Eligibility
- Part 2 – Description of Work
- Part 3 – Certification of Completed Work
Part 1 – Certification of Significance

- Certified Historic Structures
  - Individually listed on the National and State registers.
  - Certified as contributing in a listed historic district.
  - State Credit-only: certified as eligible for individual listing.
# Part 1 – The Form

**Is the Building Historic?**

- **Where is the property?**
  - **Address of property:**
    - Street: College Court
    - City: Suffolk
    - County: 
    - State: VA
    - Zip: 23434
    - Name of historic district: Downtown Suffolk Historic District

- **How is it historic?**
  - **Check nature of request:**
    - Certification that the building contributes to the significance of the above-named historic district for the purpose of rehabilitation
  - Preliminary determination for individual listing in the Virginia Landmarks Register
  - Preliminary determination that a building outside the period or area of significance contributes to the significance of the district

- **Who is the project contact?**
  - **Name:** Mickey Garcia
  - **Street:** 1058 Colonial Meadows Way
  - **City:** Virginia Beach
  - **State:** VA
  - **Zip:** 23454
  - **Daytime Telephone Number:** (757) 489-1832

- **Who is the owner?**
  - **Name:** Mickey Garcia
  - **Organization:** Garcia Development, LLC
  - **Social Security or Taxpayer Identification Number:** 72-152488
  - **Street:** 1058 Colonial Meadows Way
  - **City:** Virginia Beach
  - **State:** VA
  - **Zip:** 23454
  - **Daytime Telephone Number:** (757) 489-1832
Part 1 – The Form
Is the Building Historic?

What does it look like?
When was it built?
What is its significance?
Don’t forget maps and photos!
A Few General Notes

- Photographs should clearly document all elevations of the building, its setting, and all significant architectural features and spaces, and any outbuildings.
- Clear and well-lit photos are essential.
- As a general rule of thumb, 20 photographs are usually sufficient for the average project for the Part 1.
- There is no such thing as too many photos!
Part 1 – The Photographs
Part 1 – The Photographs
Part 2 – Description of Rehabilitation
Part 2 – Description of Rehabilitation

- Submit Part 2 **before** beginning work.

- All proposed work must meet the *Secretary of the Interior’s Standards for Rehabilitation*.

- Project must meet substantial rehabilitation tests.
Eligible Expenditures

- Includes certain soft costs such as architectural and engineering fees, construction period taxes and interest, reasonable developer fees
- Does not include acquisition costs, expenditures attributable to enlargement or additions, landscaping or site work
- CPA verification of expenses
Substantial Rehabilitation Test

- **Federal:**
  - Eligible expenditures must exceed the owner’s adjusted basis or $5,000, whichever is greater.

- **State:**
  - Non owner-occupied buildings: eligible expenditures must be at least 50% of assessed value.
  - Owner-occupied buildings: eligible expenditures must be at least 25% of assessed value.

- Must meet spending thresholds during relevant measuring period.
Substantial Rehabilitation Test
Measuring Periods

- For most projects, the measuring period is 24 months.
- For phased projects, the measuring period is 60 months.

- **Federal:**
  - Phasing plan must be in place prior to start of construction.
  - Adjusted basis is determined as of start of measuring period.

- **State:**
  - Phasing plan must be submitted with Part 2.
  - Assessed value is determined as of year prior to start of project.

- Measuring period must end the same year the project is completed.
**Substantial Rehabilitation Test**

**Measuring Periods – Example**

- **Start of project:** February 2015
- **Completion date:** November 2017

**Measuring period:** August 2015 – August 2017: Substantial rehabilitation test must be met during this period.
Part 2 – The Form

What is the architectural feature?

When was it constructed?

What does it look like?

Match it up with the photos and drawings

Now tell us how it will be treated in the rehabilitation: Repaired? Replaced? Left Alone?

This is the most important part of the application!

<table>
<thead>
<tr>
<th>Number</th>
<th>Architectural feature</th>
<th>Description of existing feature and its condition</th>
<th>Description of existing feature and its condition</th>
<th>Draw no.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Roof</td>
<td>Existing roof is in poor condition, requiring replacement.</td>
<td>New construction with architectural shingles.</td>
<td>1, 2</td>
</tr>
<tr>
<td>2</td>
<td>Gutter &amp; Downspouts</td>
<td>Evidence of previous repairs.</td>
<td>Will install new gutter and downspout system.</td>
<td>N/A</td>
</tr>
<tr>
<td>3</td>
<td>Front Porch</td>
<td>Porch in poor condition, requiring complete replacement.</td>
<td>Replace porch with new materials.</td>
<td>1, 2</td>
</tr>
<tr>
<td>4</td>
<td>Windows</td>
<td>Existing windows in fair condition.</td>
<td>No new windows to be created.</td>
<td>1, 2</td>
</tr>
</tbody>
</table>

Property Name: Broke Cottage
Property Address: 84 College Court, Suffolk, VA
Project Number: 

5. DETAILED DESCRIPTION OF REHABILITATION/RESTORATION WORK - Includes site work, new construction, alterations, etc. Complete below.

Number 1.
Architectural feature: Roof
Approximate date of feature: 1915
Explain existing feature and its condition: Roof is in poor condition, requiring replacement. Existing asphalt shingles removed. New construction with architectural shingles installed.
Description of work to be done: New construction with architectural shingles. Impact will be securing the roof of the building, ensuring adequate protection from the elements.
Photo no. 1, 2

Number 2.
Architectural feature: Gutter & Downspouts
Approximate date of feature: N/A
Explain existing feature and its condition: Evidence of previous repairs. New gutter and downspout system will be installed to improve appearance and provide better drainage.
Description of work to be done: New gutter and downspout system will be installed. Impact will be improvement to appearance and drainage.
Photo no. N/A

Number 3.
Architectural feature: Front Porch
Approximate date of feature: 1915
Explain existing feature and its condition: Porch in poor condition, requiring complete replacement. New construction with materials to match original.
Description of work to be done: New construction with materials to match original. Impact will be improvement to appearance.
Photo no. 1, 2

Number 4.
Architectural feature: Windows
Approximate date of feature: 1915
Explain existing feature and its condition: Windows in fair condition. No new windows to be created.
Description of work to be done: No new windows to be created. Impact will be improvement to appearance.
Photo no. N/A

This is the most important part of the application!
Part 2 – The Photos

- **Photo Key**
  - Submit a plan of the existing building that is tied to the photographs

- **Subject Matter**
  - All areas of proposed work
  - Interior and Exterior
  - Detail and Overall Photos
Part 2 – The Photos

- Photos should show the existing conditions, even if the work has already started.
Part 2 – The Floor Plans

Existing Condition

Proposed Changes
Part 2 – Essentials

- The forms
- Photographs
- Plans
- Specification sheets for replacements
- The fee
Amendments – Change Happens!

- All changes to the project scope MUST be reviewed and approved.

- Changed items can be grouped into a single Amendment submission.

- If a response letter asks a question or requests additional information, send it as an Amendment.
  
  - Don’t forget! There was a reason we asked!
Part 3 – Certification of Completed Work

- Credits are claimed in the year the project is completed
- For State credit, must include CPA verification of expenditures incurred
Part 3 – The Form

The Final Step!!!!

Starting and completion dates, expenditures, assessed value, and the use of the property.
Part 3 – The Photos

- Try and match the Part 3 photos with where you took the Part 2 photos.
- Include a Photo Key!
Part 3 – The Photos
Part 3 – The Photos

[Images of a room and a kitchen]
Ownership & Syndication

- Credits are granted to property owner
- Non-taxpaying entity may own property
  - Non-profits
  - Local governments
- Partner with taxpayers
- Carefully structure ownership to capture credits
- Ownership scenarios:
  - Taxpayer takes tax credits
  - Pass-through entity credits disbursed among partners
  - Lease credits claimed by lessee
Secretary of Interior’s Standards for Rehabilitation

USING THE STANDARDS TO GUIDE HISTORIC TAX CREDIT PROJECTS
Four Treatment Standards

- Preservation
- REHABILITATION
- Restoration
- Reconstruction
Rehabilitation Standards

“...making possible a compatible use for a property through repair, alterations, and additions while preserving those portions or features which convey its historical...values.”
The Standards – 4 General Tips

1. Retain and repair rather than replace.

Row House – Richmond, VA
4. Identify the character-defining features early in the project planning.
The *Standards* – 4 General Tips

2. Retain historic character, even if the use of the building changes.

Anna Bolling Jr. High School – Petersburg, VA
3. New additions or related new construction must be compatible with the historic building.

Properly-scaled addition at rear of property that is not highly visible
A property shall be used for its intended purpose or be placed in a new use that requires minimal changes to the defining characteristics of the building and its site and environment.
Standard #1
Inappropriate New Use

Former cold storage building, which has no windows.

Conversion to a residential use is incompatible because it requires too many changes.
A creative new use that still preserves the character of the space.

Milwaukee Depot – Minneapolis, MN
Minneapolis Brewery Co. Brew House – Minneapolis, MN

Standard #1
Completely New Use with Retained Character

Former brewery, converted to office space.
The historic character of a property shall be retained and preserved. The removal of historic materials or alterations of features and spaces that characterize a property shall be avoided.
Standard #2
Retention of Historic Character
Standard #2
Retention of Historic Character

**BEFORE**

“Raw,” industrial-type space

**AFTER**

No “industrial” character remains.
Standard #2
Retention of Historic Plan

BEFORE

AFTER
Standard #2
Retention of Historic Spaces

BEFORE

NO: Primary public space fully divided.

AFTER

Keep important public spaces open.
Standard #2
Retention of Historic Spaces

- Avoid lowering ceilings in primary spaces.
- New mechanical systems should be sensitively placed.
- Never intersect or cover windows.
- Avoid the destruction of historic materials; use existing penetrations if possible.
Standard #2
Retention of Historic Fabric

Plan shape is retained, but most of the walls have been removed.

Hallway plan and features retained.
Standard #2
Retention of Historic Fabric

Removing plaster from chimney creates an appearance that is not historically appropriate.
Each property shall be recognized as a physical record of its time, place, and use. Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings shall not be undertaken.
Standard #3
The Bad Twin / Good Twin

Nay! | Yeah!
Most properties change over time; these changes that have acquired significance in their own right shall be retained and preserved.
Standard #4
Acquired Significance
Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a historic property shall be preserved.
Standard #5
Distinctive Features and Finishes
Standard #5
Protecting Features and Finishes

SAW CUTS ON STONE

SANDBLASTED BRICK

INCORRECT REPOINTING
Deteriorated historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.
Standard #6
Protect, Retain, Repair, and Rarely Replace
Standard #6
Replace Only What Is Absolutely Necessary
Standard #6
Historic Documentation Is Important

BEFORE

AFTER
Standard #6
Retain and Repair Historic Windows
Standard #6
Replacing In-Kind Is Important
Standard #6
Storm Windows Are NOT A New Concept!
Chemical or physical treatments, such as sandblasting, that cause damage to historic materials, shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest possible means.
Standard #7
The Gentlest Technique Is Best
Standard #8

Significant archeological resources affected by a project shall be protected and preserved. If such resources must be disturbed, mitigation shall be undertaken.
Standard #8
Protect Archeological Resources
New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize a property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.
Standard #9
Additions Must Be Compatible In Height

Proposed hotel tower is highly visible, and does not meet the Standards

Original building is a single, grand structure
Standard #9
Additions Must Be Compatible In Height

New proposal is for office use, with a revised addition.

This proposal cannot easily be seen, and now meets the Standards.
Standard #9
Additions Must Be Compatible In Size
Standard #9
Alterations Must Retain Character
Standard #9
Rooftop Additions Should Not Be Seen
Standard #9
Rooftop Additions Should Not Be Seen
New additions and adjacent new construction shall be undertaken in a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.
Standard #10
New Additions Should Be Reversible

This addition is likely not easily reversible
Standard #10
New Additions Should Be Reversible

BETORE

Vacant Lot

AFTER

Hyphen between old and new is easily reversible.
For More Information

Federal Program
www.NPS.gov/TPS

State Program
www.dhr.virginia.gov/tax_credits/tax_credit.htm
Elizabeth Tune – Program Manager
Elizabeth.Tune@dhr.virginia.gov
804-482-6093

Chris Novelli – Tax Credit Specialist
Chris.Novelli@dhr.virginia.gov
804-482-6097

Jessica Ugarte – Tax Credit Reviewer
jessica.ugarte@dhr.virginia.gov
804-482-6452
Projects That Likely Would NOT Meet the Standards
Projects That Likely Would NOT Meet the Standards
Projects That Likely Would NOT Meet the Standards
Projects That Likely Would NOT Meet the Standards