

HISTORIC PRESERVATION TAX CREDIT PROGRAM
2022 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 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 July 1, 2021, through June 30, 2022. Information in this report includes a compilation of data from IEDA and the Iowa Department of Cultural Affairs (DCA).

PROGRAM DESCRIPTION

Iowa's Historic Preservation and Cultural and Entertainment District Tax Credit program, known since the 2017 Legislative Session as the Historic Preservation Tax Credit program, was created by the Legislature in 2000. Created to encourage the redevelopment and reuse of historic structures across Iowa, the program provides state tax credits for the sensitive rehabilitation of these structures.

Since program 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 their historic character.

IEDA and DCA work in partnership 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 within the program. The role of each agency is described in more detail under the Application Process section of this report.

To be eligible, the building that is the subject of the application for the Historic Preservation Tax Credit must meet one of the following criteria:

- Listed on the National Register of Historic Places or determined by the staff of the State Historic Preservation Office to be eligible for listing.
- Contribute to the significance of a historic district that is 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 261 IAC 49.3, "qualified rehabilitation expenditures" are expenditures that meet the definition of "qualified rehabilitation expenditures" in Section 47 of the Internal Revenue Code. 261 IAC 49.4(4) clarifies that "qualified rehabilitation expenditures" do not include expenditures financed by federal, state or local grants or forgivable loans, unless allowed in Section 47.

The project must be completed within three years of the Commencement Date, which is a date set forth in the agreement between IEDA and the applicant. It shall not be later than the end of the fiscal year in which the agreement is entered into. 261 IAC 49.3

Work completed on the project must meet the federal Secretary of Interior Standards for Rehabilitation to ensure that 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 section 404A stipulates that only an eligible taxpayer may apply for the state tax credit. An eligible taxpayer is defined in Code as “the owner of the property that is the subject of a qualified rehabilitation project, or another person who will qualify for the federal rehabilitation credit allowed under section 47 of the Internal Revenue Code with respect to the property that is the subject of a qualified rehabilitation project.” Iowa Code section 404A.1.4. The administrative rules further clarify that an “eligible taxpayer” is “the fee simple owner of the property or another person who will qualify for the federal rehabilitation credit allowed under section 47 of the Internal Revenue Code with respect to the property that is the subject of a qualified rehabilitation project.” 261 IAC 49.3 The applicant may be a nonprofit entity but may not be a governmental body. 261 IAC 49.3

Tax credits may 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. 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 can be allocated to applicants. The program was allocated \$2.4 million for its first year of awards, FY 2001. The cap has been \$45 million per year since FY 2013.

A minimum of five percent, \$2,250,000, of the available credits each year are to be set aside for small projects. “‘Small project’ means a qualified rehabilitation project with estimated final qualified rehabilitation expenditures of \$750,000 or less.” 261 IAC 49.3.

Originally, credits under the 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.

House File 2317 enacted in the 2022 legislative session provides that only a percentage of tax credits in excess of the taxpayer’s tax liability for the tax year may be refunded or credited to the taxpayer’s tax liability for the following five years or until depleted. The remaining amount may still be transferred, but it is not refundable. The percentage is reduced each year starting in Calendar Year 2023:

- For Calendar Year 2023, 95% of the tax credit is refundable
- For Calendar Year 2024, 90% of the tax credit is refundable
- For Calendar Year 2025, 85% of the tax credit is refundable
- For Calendar Year 2026, 80% of the tax credit is refundable
- For tax years beginning on or after January 1, 2027, 75% of the tax credit is refundable.

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 involve the following 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 reviews property ownership to determine if the applicant is an eligible taxpayer/ applicant.

Part 1.5 Meeting: Once the property is determined to be eligible under the program requirements, 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 that will assist in developing rehabilitation plans. IEDA staff provides guidance on ownership and project financing.



Part 2: The applicant submits proposed work to DCA for review and evaluation. DCA staff determines if the proposed rehabilitation work meets The Secretary of the Interior's Standards for Rehabilitation. During this application phase the applicant and DCA may negotiate how to complete work to ensure that it meet the standards. The applicant may revise the scope of work based on this review.

Part 2B: The applicant may apply to be registered for the Historic Preservation Tax Credit. IEDA reviews the application 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 Large projects twice per year, typically spring and fall. Applications are scored competitively.
- IEDA accepts Part 2B applications for Small projects on an on-going, noncompetitive basis.

Upon Part 2B application approval, the project is registered for tax credits. IEDA and the applicant enter a contract that establishes the Commencement Date and the terms and conditions that must be met to receive the tax credit. The contract also sets out the maximum amount of the tax credit.

Part 3: The applicant submits the 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 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 the amount of final expenditures, IEDA issues a tax credit certificate to the applicant.

CURRENT PROGRAM STATUS

The charts included in 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 July 1, 2021, through June 30, 2022:

- IEDA registered 22 projects for tax credits. Tax credits allocated in FY 2022 totaled totaling \$42,397,445 million.
- IEDA issued tax credits for 41 projects totaling \$54,146,225 million.

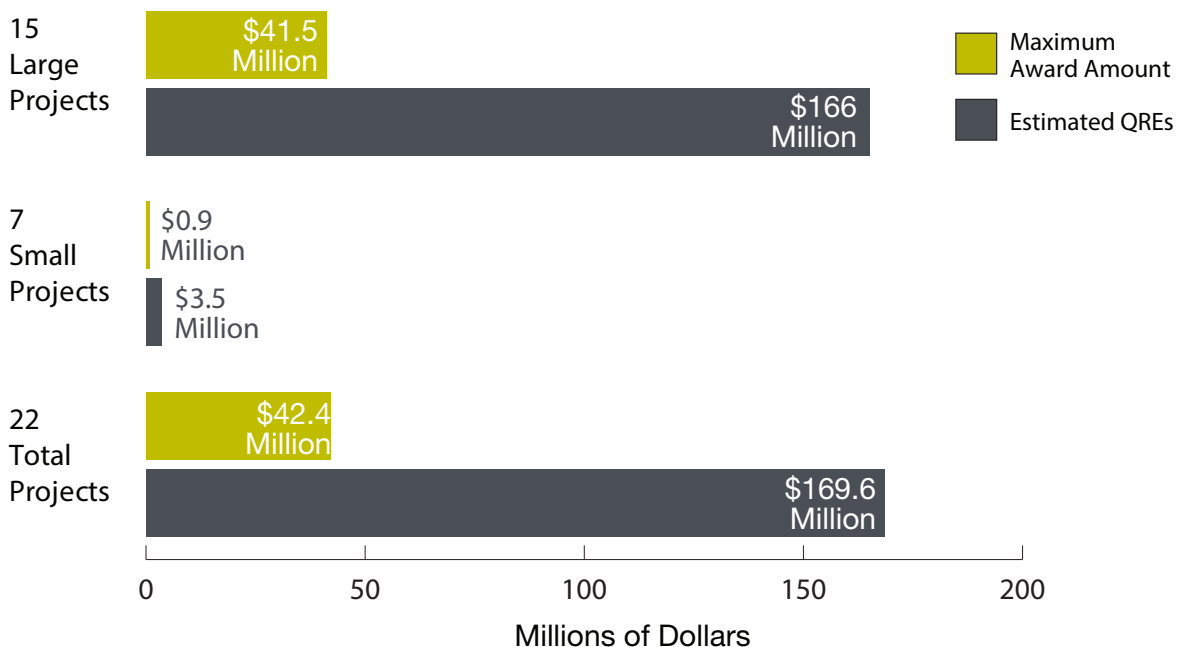
As of November 10, 2022, IEDA had 52 open projects totaling \$95,455,841 million in credits but not issued. This figure includes all projects that are currently “under way” and within the contract period.

Prior to the legislative changes made in 2014, tax credits were reserved for approved projects. The program allowed applicants to receive a tax credit on project cost overages. Because cost overages were allowed, the final amount of tax credits for which the applicant was eligible often exceeded the reserved amount. Since 2016, IEDA has been required to pay those overage allowances out of current year allocations, restricting amounts for active applications until contracts were closed.

In FY 2020, DCA issued the final remaining tax credit certificates for projects for which tax credits had been reserved. The full annual allocation of tax credits was available to IEDA to register new projects applying for tax credits beginning in FY 2021.

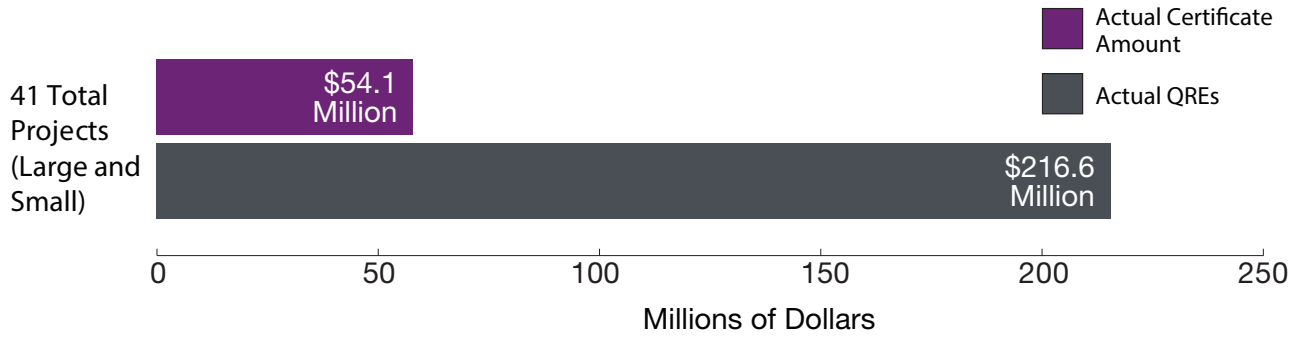
The Historic Preservation Tax Credit program continues to experience high demand. IEDA received \$83.3 million in requests for credits during the two Part 2B large project application rounds in FY 2022. Based on feedback and interest from communities and developers, we anticipate this demand will continue in FY 2023.

Historic Tax Credits Projects Registered from July 1, 2021 - June 30, 2022



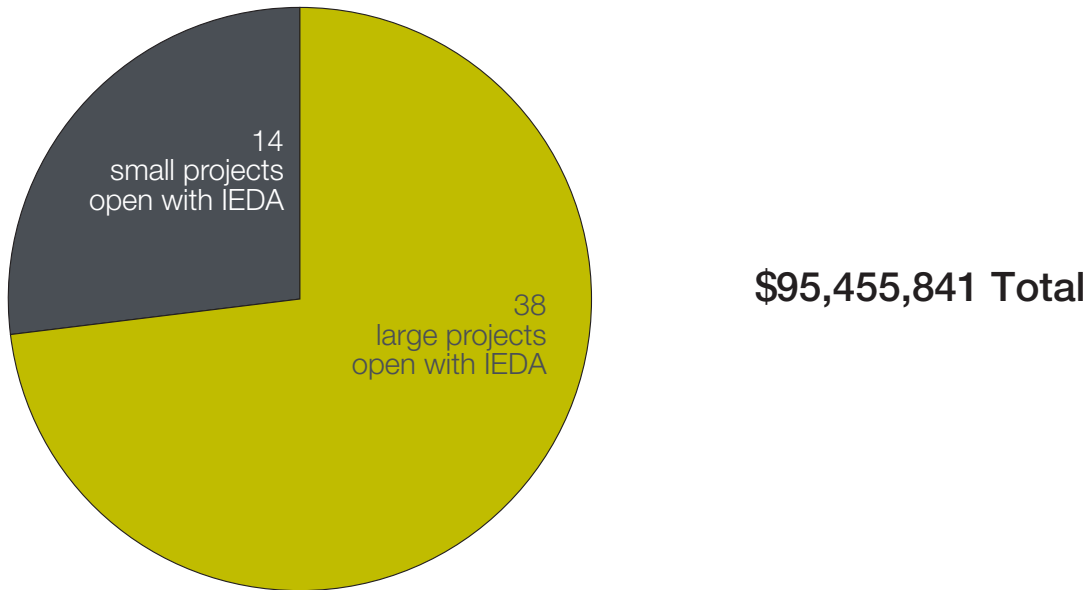
* Credits awarded in FY 2022: \$42,397,445

Tax Credit Certificates Issued by IEDA between July 1, 2021 – June 30, 2022



*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.

Open Historic Tax Credit Projects - Credits Awarded, But Not Issued as of November 16, 2022 Outstanding Award Amounts





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