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HISTORIC PRESERVATION AND COMMUNITY DEVELOPMENT: WHY CITIES AND TOWNS SHOULD LOOK TO THE PAST AS A KEY TO THEIR FUTURE

HEARING

BEFORE THE

SUBCOMMITTEE ON FEDERALISM
AND THE CENSUS

OF THE

COMMITTEE ON
GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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HISTORIC PRESERVATION AND COMMUNITY DEVELOPMENT: WHY CITIES AND TOWNS SHOULD LOOK TO THE PAST AS A KEY TO THEIR FUTURE

WEDNESDAY, SEPTEMBER 20, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FEDERALISM AND THE CENSUS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Michael Turner (chairman of the subcommittee) presiding.

Present: Representatives Turner, Bilbray, and Foxx.

Staff present: John Cuaderes, staff director; Ursula Wojciechowski, professional staff member; and Juliana French, clerk.

Mr. TURNER. Good morning. A quorum being present, this hearing of the Subcommittee on Federalism and the Census will come to order.

Welcome to the Subcommittee on Federalism and Census hearing entitled, "Historic Preservation and Community Development: Why Cities and Towns Should Look to the Past as a Key to Their Future." This is the subcommittee's second hearing on historic preservation. Last November, the subcommittee held its first hearing on this subject. That hearing sought to examine the impact Hurricane Katrina had on historically significant structures in Alabama, Mississippi, and Louisiana.

Today, we will review how the Federal, State, and local governments are supporting historic preservation's efforts across the country. This subcommittee will examine what resources are available to preservation organizations and how they are used.

Evidence suggests that preservation programs including tax credits and revolving funds have done more than restore dilapidated structures and prevent demolition of old buildings. Historic preservation has been increasingly recognized as a powerful tool for neighborhood revitalization and economic development. Preservation projects are catalysts for restoring life to old neighborhoods and factories, for creating new affordable and upscale housing, and for providing the amenities and living space that encourage new residents to return to older communities.

My own experience in Dayton is just one example of how historic buildings coupled with the right Federal tools can provide an economic development resource. For example, while I served as mayor

of Dayton, we started a successful neighborhood revitalization project called Rehabarama. This private-public partnership targeted one of Dayton's historic districts to acquire, via a non-profit, abandoned or severely dilapidated historic homes. These structures were completely rehabilitated using national historic preservation standards and the local design ordinance, and then these refurbished homes were decorated and opened for the public to see and eventually sold on the open market.

The Rehabarama concept brought many benefits to Dayton. It changed neighborhoods for the better as it took dilapidated and undesirable housing into ones that were sought after by the buying public. Existing residents appreciated the elimination of old and abandoned properties which depress neighborhood housing values. In fact, the advent of the Rehabarama program has proven to be an impetus for existing homeowners to improve their own properties in anticipation of visitors. Rehabarama and the surrounding activity provided much needed work for the constructive and remodeling industry. Everyone benefits: the long term residents, new homeowners, and area businesses.

Besides the physical improvements, positive promotion for the city of Dayton, and economic spinoff, Rehabarama provided an opportunity to form important partnerships which have gone on to spur other successful housing ventures. One Rehabarama sponsor was the Homebuilders Association. Rehabarama allowed the Homebuilders Association members to become familiar with the city of Dayton as a site for doing business. This new relationship led to the Citirama Program, an offshoot of Rehabarama. Citirama combines the restoration of historic homes with historically sensitive new construction on nearby vacant lots. Our first Citirama project was located in the Wright-Dunbar Village, an area rich in history but poor in investment. Like Rehabarama, we were able to change neighborhoods but this time with new construction alongside of historic homes that had been purchased by the city and rehabilitated.

I would like to emphasize that both Rehabarama and Citirama used a number of Federal programs including CDBG and Federal Historic Tax Credits.

Historic preservation is about much more than saving a building. It is about revitalizing cities and towns.

I am eager to hear from our panelists what approaches have worked, which have not, and where there are opportunities for improvement.

On our first panel, we welcome remarks from John Fowler, executive director of the President's Advisory Council on Historic Preservation, and Ms. Janet Snyder Matthews, associate director for cultural resources at the National Park Service. We will then hear from Mr. Richard Moe, president of the National Trust for Historic Preservation, and Mr. John Leith-Tetrault, president of the National Trust Community Investment Corp.

On our second panel, we will hear from Ms. Idotha Bootsie Neal, executive director at Wright Dunbar, Inc., and Ms. Kathleen Crowther, executive director of the Cleveland Restoration Society and chairman of the Statewide and Local Partner Program of the National Trust. Then, Mr. Myrick Howard, president of Preservation North Carolina, and Mr. Edward "Ted" Sanderson, director of

the Rhode Island Historic Preservation and Heritage Commission, will provide their testimonies. Last, the subcommittee will hear from Mr. Ken Baumgartner, president of the Corky McMillin Companies.

This committee has as its policy that each of the witnesses are sworn in. So, before we begin, we will ask each of the witnesses to stand and be part of the oath.

[Witnesses sworn.]

Mr. TURNER. Please let the record show that all of the witnesses have responded in the affirmative.

Now each of the witnesses has kindly prepared written testimony which will be included in the record of this hearing.

The witnesses will notice that there is a timer with a light on the witness table. The green light indicates that you should begin your prepared remarks, and the red light indicates that your time has expired.

With that, I would like to recognize Mr. Fowler.

STATEMENTS OF JOHN FOWLER, EXECUTIVE DIRECTOR, ADVISORY COUNCIL ON HISTORIC PRESERVATION; JANET SNYDER MATTHEWS, ASSOCIATE DIRECTOR FOR CULTURAL RESOURCES, NATIONAL PARK SERVICE; RICHARD MOE, PRESIDENT, NATIONAL TRUST FOR HISTORIC PRESERVATION; AND JOHN LEITH-TETRAULT, PRESIDENT, NATIONAL TRUST COMMUNITY INVESTMENT CORP.

STATEMENT OF JOHN FOWLER

Mr. FOWLER. Thank you, Mr. Chairman.

Chairman Nau sends his sincere regrets that he was unable to come to D.C. for this hearing today. He certainly appreciates the interest of the subcommittee in this subject, and he is particularly grateful for your personal commitment as the leader of the House Historic Preservation Caucus.

Chairman Nau's statement makes a persuasive case for the value of historic preservation for strengthening America's communities. He cites the economic impact of historic property rehab through job production and support of local business. He notes rehabilitation encourages neighborhood investment, and he notes the establishment of historic districts stabilizes neighborhoods and leads to higher property values.

His statement also stresses the importance of heritage tourism. Heritage tourism is a $200 billion industry nationwide. Heritage tourists spend more and stay longer, and they comprise the most rapidly growing sector of the tourism industry. As a result, heritage tourism makes a substantial contribution to sustainable historic preservation.

The Advisory Council on Historic Preservation has two responsibilities relevant to our topic today. As manager of the Federal Historic Preservation Planning Process, Section 106, it affects many of the decisions that are made at the community level. As advisor to the President and Congress, it has initiated a preservation program that is having substantial impact across the country. Under Section 106, annually, over 100,000 Federal and federally assisted projects potentially affecting historic properties are re-

viewed by State Historic Preservation Officers under procedures set up by the ACHP. Many of these shape the fabric of our Nation's communities: HUD-funded housing rehab, economic development grants from the Commerce Department, Department of Agricultural Rural Development Loans and Grants, and so on. Through careful consideration of historic preservation impacts under Section 106, Federal assistance becomes a catalyst for enhancing, rather than destroying, community fabric.

Our second role as Presidential Advisor has produced the Preserve America Initiative, the first governmentwide historic preservation initiative which is led by the First Lady Laura Bush. Details of the Preserve America Initiative are in Mr. Nau's statement. What I would like to do is highlight some particularly relevant aspects of the initiative as they relate to the subject of this hearing.

First is the concept of Preserve America Communities. This process provides recognition of communities that preserve and use their heritage assets to promote community vitality and economic development through heritage tourism. There are currently 400 Preserve America Communities in 48 States across the country. They range from Charleston, SC, and Dayton, OH, to Chinatown in Honolulu and Rabbit Hash, KY, with a population of 14.

The second component that I think is relevant to the topic today is the Preserve America Grants. This is a new grants program that was authorized by the Congress in fiscal year 2006 and is administered by the National Park Service in consultation with the ACHP. $5 million were available this year and were handed out to a total of 68 recipients in 32 States. These grants are designed to promote innovative strategies for advancing heritage tourism in local communities. The round two grant winners were just announced yesterday, I am pleased to report.

The third aspect of the program that I would like to mention is our work with Federal Agencies to make Federal assistance more readily available to support Preserve America goals and Preserve America Communities. We have done this by working with agencies to get special consideration and preference points for Preserve America Communities. An example is the Department of Agriculture Rural Development Administration Community Facilities Loan and Grants Program which gives points for Preserve America Communities.

Preserve America focuses on encouraging and supporting historic preservation at the local level, and it continues to be a growing program that we are very excited about.

In closing, I would like to note that this year marks the 40th Anniversary of the National Historic Preservation Act. On October 18th through 20th, the First Lady will host the Preserve America Summit in New Orleans. 400 preservation leaders and stakeholders will celebrate the achievements of the National Historic Preservation Act and consider ways to make the National program even more successful in the future.

We appreciate the support of you, Mr. Chairman, and the Subcommittee for the Preserve America Initiative and for furthering historic preservation as a key community revitalization strategy.

Thank you.

[The prepared statement of Mr. Nau follows:]

STATEMENT FOR THE RECORD

SUBMITTED BY JOHN L. NAU, III
CHAIRMAN, ADVISORY COUNCIL ON HISTORIC PRESERVATION

TO THE SUBCOMMITTEE ON FEDERALISM AND THE CENSUS,
HOUSE COMMITTEE ON GOVERNMENT REFORM,
THE HONORABLE MICHAEL R. TURNER, CHAIRMAN

"HISTORIC PRESERVATION AND COMMUNITY DEVELOPMENT: WHY CITIES AND TOWNS SHOULD LOOK TO THE PAST AS A KEY TO THEIR FUTURE"

SEPTEMBER 20, 2006

SUMMARY STATEMENT

Within the past 50 years historic preservation has developed into a major movement for rethinking the look and feel of communities throughout America. Its presence, with an emphasis on learning from our past and placing a premium on human scale and visual diversity, has been widely embraced. Its design ethic of reuse and rehabilitation has shaped countless downtowns, neighborhoods, and rural communities. Notably, this success has now spawned renewed investment and economic growth as these renovated assets have become raw material for a growing new industry—heritage tourism.

Our country should be justly proud of its historic preservation accomplishments. While private investment has fueled this success, enlightened policies at the national, state and local levels have fostered this trend and helped make its success possible. The National Historic Preservation Act (NHPA), passed by Congress in 1966, has provided a firm foundation for historic preservation today. And most recently *Preserve America*, a program begun by the current Administration, has helped give new purpose to the critical role the federal government can play in utilizing our extraordinary inventory of heritage assets to foster the economic benefits of preservation at the local level. The *Preserve America* Executive Order directs improved federal accountability for the care and productive use of federal heritage assets, including encouragement for improved partnerships with local communities and private entities to support their related efforts. This is bolstered by an active *Preserve America* initiative to identify and promote both public and private achievement through community recognition, a Presidential Awards program, and targeted grants in support of heritage tourism.

Under the leadership of Governor-appointed State Historic Preservation Officers and their professional staffs, the states have advanced innovative programs and tax incentives. These efforts are resulting in numerous success stories that help underscore the value of preservation to each state's economy and future. Indian tribes and Native Hawaiian Organizations have become co-partners in the national program, bringing an affinity for the past and how the American landscape can be viewed as an expression of cultural change and sustainability. Local governments, with use of design ordinances and other local planning mechanisms, have given voice to their citizens who have supported preservation as a way of improving livability and economic opportunity.

An important feature of the national historic preservation program as conceived in 1966 is the protection afforded historic properties under Section 106 of the NHPA. In that portion of the law Congress directed all federal agencies to take into account how their actions affect historic properties (properties included in or eligible for inclusion in the National Register of Historic Places) and to afford the ACHP a reasonable opportunity to comment with regard to such undertakings. This process has evolved into an effective tool for encouraging public dialogue and dispute resolution over these issues.

For nearly 40 years the Section 106 review process has been the primary way in which citizens express their concern for how a federal action may jeopardize historic properties of importance to them. Through its regulations, "Protection of Historic Properties" (36 CFR Part 800), the ACHP administers and oversees the Section 106 process. This includes such issues as how best to approach affordable housing goals in older neighborhoods, adapting to the sweeping changes under the latest round of military base closures and realignments, or federal assistance for critical infrastructure improvements. Section 106, through encouraging good faith consultation among involved stakeholders, can help the project sponsors and local citizens seek solutions that balance preservation values and project needs, resulting in economic development.

Three general and interrelated examples from our own experience may assist the Committee in its work, and these are discussed in more detail below. They include (1) administration of the Section 106 review process, and our related work with federal agencies to improve their historic preservation programs; (2) the *Preserve America* initiative and what we are learning about how we can encourage community efforts and strengthen public-private partnerships to advance these goals; and (3) initial success in improving federal efforts through the related *Preserve America* Executive Order.

While much has been accomplished much remains to be done, and the 40th anniversary of the national historic preservation program provides us an ideal opportunity to take stock at the national level. First Lady Laura Bush announced in May of this year that she, in cooperation with the ACHP, will lead a national *Preserve America* Summit to mark the 40th anniversary of the passage of the NHPA. Summit participants will review the major components of the national historic preservation program and propose a series of ideas for advancing historic preservation programs and policy. In addition, Summit participants will have opportunities to suggest unique and innovative approaches for assisting communities throughout the United States in developing the tools and processes necessary for advancing historic preservation on a local scale. The Summit should provide a dynamic framework for how the national historic preservation program needs to evolve and modernize to meet the needs of future Americans.

OVERVIEW OF THE ROLE OF THE ACHP

Title II of the NHPA established the ACHP, which is an independent federal agency. NHPA charges the ACHP with advising the President *and* the Congress on historic preservation matters and entrusts the ACHP with the unique mission of advancing historic preservation within the federal government and the national historic preservation program. The ACHP's authority and responsibilities are principally derived from NHPA. General duties of the ACHP are detailed in Section 202 *(16 U.S.C. 470j)* and include:

- Advising the President and Congress on matters relating to historic preservation;
- Encouraging public interest and participation in historic preservation;
- Recommending policy and tax studies as they affect historic preservation;
- Advising state and local governments on historic preservation legislation;

- Encouraging training and education in historic preservation;
- Reviewing federal policies and programs and recommending improvements; and
- Informing and educating others about the ACHP's activities.

Under Section 106 of NHPA (*16 U.S.C. 470f*), the ACHP reviews federal actions affecting historic properties to ensure that historic preservation needs are considered and balanced with federal project requirements. It achieves this balance through the "Section 106 review process," which applies whenever a federal action has the potential to impact historic properties. As administered by the ACHP, the process guarantees that state and local governments, Indian tribes, businesses, and private citizens will have an effective opportunity to participate in federal project planning affecting historic properties. Through its administration of Section 106, the ACHP works with federal agencies, states, tribes, local governments, applicants for federal assistance, and other affected parties to ensure that their interests are considered in the process. It helps parties reach agreement on measures to avoid or resolve conflicts that may arise between development needs and preservation objectives, including mitigation of harmful impacts. Section 106 is also a primary means for individuals, local organizations, the private sector, and local, community, tribal, state, and regional entities to ensure that their historic preservation concerns regarding federal undertakings are given proper consideration.

Through its appointed members and staff the ACHP is also actively working to administer the *Preserve America* initiative in partnership with other agencies, and on behalf of the White House. It oversees implementation of Executive Order 13287, "Preserve America," and is taking the lead to develop and execute the *Preserve America* Summit.

CAPITALIZING ON HISTORIC PRESERVATION'S BENEFITS

The NHPA established a national policy to promote the preservation and use of historic properties to meet the needs of contemporary society, such as stable communities, affordable housing, and economic development. Congress also directed the federal government, acting in partnership with state, tribal, and local governments and the private sector, to take a leadership role in carrying out this national policy.

Today, the long-term health of historic preservation in the United States depends in large part on the adoption of government policies favorable to the effective use of our historic resources. We advocate federal policies that stimulate the private sector reuse of historic buildings, and encourage specific federal agencies to reinforce local preservation initiatives. The ACHP also actively promotes the federal government's leadership role in historic preservation by practice and example.

We believe it is important to note that sustainable historic preservation is not a cost for protecting the past. Rather, it is a wise investment in a better future. Preservation strategies such as heritage tourism bring very significant economic, educational, and cultural benefits to the nation. For example, sustainable historic preservation is the basis for the Administration's *Preserve America* initiative, which continues and expands the Congressional mandates established in the NHPA.

At the community level, historic preservation has an extraordinarily positive economic impact. For example:

- Historic building rehabilitation, which is labor intensive and requires specialization and high skill levels, creates more jobs and local business than new construction.

- Historic rehabilitation encourages neighborhood investment and produces a high return for municipal dollar invested.
- Creation of local historic districts stabilizes, and usually increases, residential and commercial property values.

Property values typically increase in historic districts at a rate faster than in other comparable areas of a community. However, the most significant economic activity that leverages heritage preservation is the rapidly expanding area of heritage tourism. Heritage tourists account for $200 billion in national spending every year; and because they seek authentic heritage experiences, they are far more likely to be interested in community and grass roots resources than other types of tourists.

According to the Travel Industry Association of America, which promotes all types of travel and tourism, heritage tourists are a particularly desirable segment of the traveling public. For example:

- Tourists drawn by the historic character of a community or region on average stay longer and spend more during their visit than other tourists. Heritage tourists spend an average of $623 per trip compared to an overall tourist average of $457 per trip.

- Heritage tourism is the most rapidly growing tourism category. Historic/cultural travel volume was up 13 percent from 1996 to 2002, which is an increase from 194 million person-trips to 216 million person-trips.

- Heritage tourists are much more likely to extend their visit than other types of travelers when they become interested in local historic places. On average, 4 in 10 heritage tourism trips are extended in this manner.

Economic studies by various states all come to the same general conclusion: For each $1 invested in heritage tourism efforts, $19 is returned.

Overall, the conclusion is that preservation is good for communities and good for the economy.

COMMUNITY REVITALIZATION AND SECTION 106

To complement and support these benefits, the use of the Section 106 review process can serve as an effective tool to ensure that the past helps guide future development of our towns and cities. We would like to share with the Subcommittee three areas where Section 106 is helping communities to work through difficult issues to make this happen.

Community Development Block Grants and Affordable Housing

Communities throughout the country rely upon a wide array of federal assistance programs, particularly from HUD and USDA, to revitalize downtowns as well as surrounding neighborhoods and develop affordable housing. Historic buildings provide affordable housing to many American families. Affordable housing rehabilitation can contribute to the ongoing vitality of historic neighborhoods as well as the businesses and institutions that serve them. It is an important historic preservation strategy in communities across the country. The ACHP will shortly complete a review and update of its "Policy Statement on Affordable Housing and Historic Preservation" to serve as a guide for federal agencies and State Historic Preservation Officers (SHPOs) when making decisions about affordable housing projects during review of federal undertakings under Section 106 of the National Historic Preservation Act. This policy, and our steps to promote its use by housing providers, cities and State Historic Preservation Officers, should serve to make revitalization of historic housing to meet affordable housing needs

an even more appealing option for local communities. The Policy Statement will help level the playing field for housing providers and historic preservation supporters so revitalization of existing historic neighborhoods can be more easily achieved.

Base Realignment and Closure

In 2005, the fifth round of Base Realignment and Closure (BRAC) of military installations for the Department of Defense (DoD) began. Many of the installations affected by BRAC contain historic buildings, landscapes, structures and archeological sites, representing some of the most significant historic properties of our nation's military history. Many communities are concerned with the loss of jobs associated with closing installations and may not realize the potential of historic preservation to be a catalyst for development. The consultation process of Section 106 review brings together local authorities with historic preservation professionals and DoD to identify, plan and productively use the historic assets in ways that benefit the future of the affected communities. Our experiences at such closed installations as Fort Sheridan and Fort Douglas, both National Historic Landmarks, show that the dedication of local communities and other parties as they plan and work through the Section 106 process can help communities transform former military installations into vibrant elements of their infrastructure and community heritage.

Responding to the Destruction Caused by Hurricanes Katrina and Rita

Never before has our country experienced natural disasters that had such a profound impact on heritage resources. Beyond the loss of life and human tragedy on a massive scale in the Gulf Coast region, these hurricanes, and the flooding that followed, destroyed thousands of historic structures and placed in danger thousands more as recovery and reconstruction efforts came to terms with the scope of destruction. What remains of the rich and storied heritage of the Gulf Coast region as reflected in its historic communities and lifeways is still at risk.

As we have experienced with other natural disasters, often the historic resources of an injured community must play an integral role in the healing process. Their stabilization and protection from further loss as a result of recovery efforts are needed to safeguard a shared sense of identity. In New Orleans, FEMA utilized the Section 106 process to develop a process for how historic preservation would be considered in demolition of privately owned buildings. This agreement, and the dialogue that preceded its development among involved stakeholders was instrumental in reducing the loss of historic structures within the many historic districts affected by the storms and subsequent flooding. A similar agreement is now underway with and for the State of Mississippi.

THE *PRESERVE AMERICA* INITIATIVE

The ACHP, in coordination with the White House, has also developed an initiative to stimulate creative partnerships among all levels of government and the private sector to preserve and actively use historic resources and thereby foster a better appreciation of America's history and diversity.

This initiative, called *Preserve America,* provides a focal point for the Administration's support for preserving America's cultural and natural heritage assets and recognizing their economic potential. *Preserve America* includes recognition, assistance, and a promotional element focused on supporting the vibrant role of our nation's historic and cultural heritage in modern American life. Related federal programs can use historic preservation tools to help support local efforts in economic development, heritage tourism, and heritage education. Federal agencies that have been

participating with the ACHP in this program include the U.S. Departments of Defense, Interior, Agriculture, Commerce, Housing and Urban Development, Transportation, and Education; the National Endowment for the Humanities; the President's Committee on the Arts and Humanities; and the President's Council on Environmental Quality.

Preserve America is about preservation with multiple purposes, but all based on the foundation of economic development and vitality. Improvements in civic pride, economic and physical revival of communities, increased tax revenues, and other similar benefits are demonstrable effects of preservation. These benefits are most significant at the community level. Therefore, *Preserve America* depends on strategies that are initiated, designed, and driven at the local level and assisted by regional, state, and federal efforts.

Major components of the *Preserve America* program include:

***Preserve America* Presidential Awards**
Four awards are given annually to organizations, businesses, government entities, and individuals for exemplary accomplishments in the sustainable use and preservation of cultural or natural heritage assets; demonstrated commitment to the protection and interpretation of America's cultural or natural heritage assets; and integration of these assets into contemporary community life in ways that combine innovative, creative, and responsible approaches to showcasing historic local resources. Presidential Award winners offer wonderful models for emulation by others throughout the country.

***Preserve America* Communities**
This program recognizes and designates communities that protect and celebrate their heritage, use their historic assets for economic development and community revitalization, and encourage people to experience and appreciate local historic resources through education and heritage tourism programs. The ACHP administers this program, with assistance from DOI and USDA. The ACHP provides information to communities as they prepare their applications, reviews submissions, and coordinates follow-through, notifications, and promotion of designations. Since the program began, 400 communities in 48 states have been designated. The program was further broadened in 2005 to allow for applications for designation from historic neighborhoods in cities with populations larger than 200,000. Thus, we have a growing collection of over 400 success stories from which to draw that can help demonstrate the importance of historic preservation at the community level.

***Preserve America* Grants**
This part of the program provides grants to support community efforts that demonstrate sustainable uses of their historic and cultural sites and the economic and educational opportunities related to heritage tourism. The program does not fund bricks-and-mortar projects, but rather helps local communities develop sustainable resource management strategies and sound business practices for the continued preservation and use of heritage assets. State Historic Preservation Officers, Tribal Historic Preservation Officers, designated *Preserve America* Communities, and Certified Local Governments that have applied for *Preserve America* Community designation are eligible to apply for *Preserve America* grants. The grants program is administered by the National Park Service (NPS), in consultation with and assisted by the ACHP and other agency partners. The ACHP worked with NPS in the development of the program criteria and evaluation factors and is assisting with application review, evaluation, and selection. Congress made available $5 million in funding for *Preserve America* grants in FY 2006. The President proposed $10 million for FY 2007, and to date the Senate has supported that figure while the House has recommended $3 million.

THE *PRESERVE AMERICA* EXECUTIVE ORDER

Signed by President Bush March 3, 2003, Executive Order 13287 complements the *Preserve America* initiative. The order establishes federal policy to provide leadership in preserving America's heritage by actively advancing the protection, enhancement, and contemporary use of the historic properties owned by the federal government.

Section 3 of the Executive Order calls for federal real property managers to assess on an ongoing basis and for the ACHP to report to the President on the status of their inventory of historic properties; their condition and management needs; and how their historic properties might be suitable for supporting community economic development. Agencies must also examine their management policies, regulations, and operating practices to improve compatibility with the requirements of the NHPA and ultimately preserve and maintain historic properties.

On February 15, 2006, the ACHP submitted to the President a report on the status of federal historic property management in accordance with the Preserve America Executive Order. This report, which was based upon background information provided by Executive Branch agencies that own and control real property provided significant information on how the federal government impacts local governments. The agencies acknowledged the importance of federally-owned historic properties within their inventory to the economic viability of tribal, state, and local communities. When agencies have been able to transfer underutilized and excess federal properties and develop partnerships with other public agencies or the private sector, properties have been reused or redeveloped in a manner that has brought significant economic benefits to communities.

The principal federal agencies that typically transfer or sell historic properties are the Department of Veterans Affairs, the General Services Administration, the Department of Defense and the Department of Agriculture. In the context of major property disposal programs developed by each of these agencies, the ACHP and State Historic Preservation Officers assisted agencies in taking inventory of their historic assets and developing covenants and preservation easements. As a result of the protections placed on these federal assets, the vast majority of redevelopment activities have used historic preservation as a tool to foster additional investments in or adjacent to the historic properties. In addition, as a result of Section 111 of the NHPA and the Enhanced Use Leasing Authority approved by Congress for certain programs and activities, agencies have been able to develop cooperative-use agreements and leases that allow the federal government to fund historic preservation activities with the proceeds generated from these public-private arrangements.

While the focus has often been on historic buildings, federal historic properties that lend themselves to redevelopment include structures, objects, historic districts, and cultural landscapes. Examples of public-private partnerships involving federal property that has been transferred or leased include the Presidio in San Francisco, California; the Naval Home in Philadelphia, Pennsylvania; Fort Sheridan in Lake County, Illinois; Dexter Cabin at the Interlaken Resort near Leadville, Colorado; the Federal Courthouse in Salt Lake City, Utah; the K-25 plant at Oak Ridge, Tennessee; portions of Cape Hatteras National Seashore in North Carolina; and segments of the Lewis and Clark National Historic Trail in Montana. It should be noted that each of these projects served as catalysts for community development activities, heritage tourism, and heritage education, thereby leveraging the federal investment in historic properties.

THE *PRESERVE AMERICA* SUMMIT

As previously stated, in cooperation with the ACHP and other federal and non-federal partners, First Lady Laura Bush, is leading a national *Preserve America* Summit to mark the 40th anniversary of the passage of the NHPA. The national *Preserve America* Summit will explore opportunities to build on the past achievements of the national historic preservation program and suggest ways to modernize the program for the future.

On October 18-20, 2006, Summit participants will gather in New Orleans to review the major components of the national historic preservation program and propose a series of ideas to advance historic preservation programs and policy. We expect that many of these ideas will help local communities throughout the United States take full advantage of existing preservation tools, as well as identify innovative concepts for future success.

Planning groups comprised of various federal agencies and other public and private partners have identified 11 critical issue areas. Each area has been assigned to one or more federal and non-federal co-chairs, who have recommended and organized an expert panel of 10-15 experts.

The 11 issue areas are:

Building a Preservation Ethic and Public Appreciation for History
How can public understanding of America's history and the importance of our historic and cultural patrimony be enhanced?

Coordinating the Stewardship and Use of Our Cultural Patrimony
How can communities benefit from an integrated program for preserving and using historic properties and conservation of documents, artifacts, collections, artistic works, and other cultural expressions?

Determining What's Important
What needs to be done to identify and recognize America's historic places?

Protecting Places That Matter
How can historic preservation be better integrated into public planning and the effectiveness of federal protective mechanisms for historic properties improved?

Improving the Preservation Program Infrastructure
What should be done to clarify the roles of key preservation entities and build their capacity to promote preservation?

Dealing With the Unexpected
How can the national program more effectively promote the preservation of historic properties after natural and man-made disasters, and ensure that reuse of historic properties contributes to recovery efforts?

Addressing Security
How can we more effectively balance security concerns with the preservation and interpretation of historic properties?

Using Historic Properties as Economic Assets
How can communities be encouraged to use their historic properties as economic development assets?

Involving All Cultures
How can the capacity of all cultures, notably Indian tribes and Native Hawaiians, to understand, protect and enjoy historic properties of concern to them be improved?

Fostering Innovation
How can the potential of technology be harnessed and nontraditional solutions to preservation challenges be encouraged?

Participating in the Global Preservation Community
How can America share its preservation successes with the world and learn from the efforts of other nations?

These panels have been conferring and meeting prior to the Summit to determine the best way for their panel to proceed in developing concepts for their issue. Each of the 11 issue areas has been tasked with identifying up to five ideas for consideration. As of the date of this hearing, all but one of these panels has met and is working to formulate its proposed ideas.

The ACHP is very excited about the work of the panels and about what comprehensive advice will emerge on how the national historic preservation program should evolve to meet the needs of the future. As appropriate, the ACHP looks forward to sharing the results of the Summit with this Subcommittee.

CONCLUSION

While economic development is the most immediate benefit of historic preservation, there are many other important returns on this investment. Local communities can build on civic pride and reinforce their identity as unique and valuable parts of the American landscape, while improving the livability of these places. Programs like the *Preserve America* initiative strengthen civic engagement while highlighting ways to blend our nation's past with its future. *Preserve America* and the NHPA also serve to promote the educational and cultural benefits of heritage preservation, while the need to share American values both at home and abroad remains obvious and urgent.

Nationally and internationally, America's diverse history is the story of increasing human liberty. Direct, authentic experience of the places where our history occurred is among the best ways of communicating American values, and of explaining how this young nation created and continues to lead the centuries-long struggle for greater freedom and liberty for all people. Both citizens and international visitors better understand America's past, present, and potential for the future through personal contact with the special places of heritage associated with this nation of immigrants. At a time when it is extremely important to make people aware of the nation's values, our historic sites are essential to human understanding and closing the gaps that divide us.

We appreciate the Subcommittee's interest in these issues, and thank you for your consideration and the opportunity to present our views.

Mr. TURNER. Dr. Matthews.

STATEMENT OF JANET SNYDER MATTHEWS

Ms. MATTHEWS. Thank you, Mr. Chairman. Thank you for the opportunity to present information on tax incentives and grants administered by the National Park Service; Historic Preservation and Community Development: Why Cities and Towns Should Look to the Past as a Key to Their Future.

Forty years ago, Congress, through the National Historic Preservation Act, provided historic preservation grants. They recommended legislation and legislated it to authorize grants to State and local governments to carry out inventory and survey programs in coordination with the Park Service. They established the Historic Preservation Fund, a matching grant program. In 2005 and 2006, Congress appropriated over $70 million. Requiring a non-Federal cost share for each grant, HPF grants serve as catalysts, seed money. At least 10 percent of each State allocation is subgranted to certified local governments.

In 1999, Congress and the executive branch created the Save America's Treasures Grant Program. Historic properties and museum collection grants are awarded using funds appropriated by Congress. Private partners including the National Trust work to raise non-Federal funds to match the Federal grants. Projects are diverse. They include the city bus on which Rosa Parks refused to give up her seat as well as the World Heritage Site of Pueblo ruins in Mesa Verde, Colorado.

The Preserve America Grants component, begun in 2006, ends off a White House 2003 initiative championed by First Lady Laura Bush. Designations and awards in support of communities recognize, designate, and protect local cultural resources. This reflects decades of local ordinances, listings, and grassroots work to revitalize community for economic revitalization.

In 2006, Congress appropriated $4.9 million for the HPF for Preserve America. Dayton, OH is going to complete an economic analysis of historical tourism and develop and implement a heritage tourism marketing strategy under one of those grants.

This Spring, Congress appropriated $43 million for the HPF to Alabama, Louisiana, and Mississippi for the stabilization, rehab, and repair of properties listed in or eligible for the National Register. The subject of that disaster relief was your 2½ hour hearing last November for which I think every single panelist and every person in this room is extremely grateful, Mr. Chairman. In New Orleans, grant funds under that relief for the first time will be appropriated for owners of at least 200 historic personal residences, rebuilding a city that encompasses 20 National Register historic districts.

NAGPRA, the Native American Graves Protection and Repatriation Grants to museums, Indian tribes, Alaska Native Villages and corporations, Native Hawaiian organizations assist in the reburial of the Native Americans and the cultural items that were buried with them.

The American Battlefield Protection Grants that Congress appropriates protect and preserve battlefield lands by means other than direct Federal intervention and acquisition. Since 1998, Congress

appropriated $28.9 million from the LWCF to assist State and local governments in acquiring Civil War battlefields outside the legislative boundaries of National Park units.

Ten years after the National Historic Preservation Act, the Tax Reform Act of 1976 provided tax incentives, creating our very first Federal income tax incentives for preservation. For the first time, owners of historic buildings were allowed to claim accelerated depreciation rehab of historic buildings. In partnership with the Internal Revenue Service, the National Park Service administers this important and growing program.

Through the Revenue Act of 1978, Congress provided the first income tax credit for rehab. The Economic Recovery Tax Act of 1981 increased the tax credit from 10 to 25 percent. The Tax Reform Act of 1986 lowered the credit from 25 to 20. Last year, over 1,100 projects were approved. One of those will be here today. Since 1977, over 33,000 projects represent more than $36 billion in private investment to revitalize communities.

Dozens of States have created State incentives including State income tax credits.

In our Nation's Capital, Congress passed the Union Station Redevelopment Act, creating a public-private partnership to preserve the building. Private developers used new tax incentives to rehab the building for mixed use. It still is a train station today.

Mr. Chairman, we brought copies of a review of the tax incentive program that was approved last Friday by the National Park System Advisory Board which recommends to the Secretary of the Interior and the National Park Service Director their findings on looking at what the National Trust, the National Conference of State Historic Preservation Officers, and the Historic Preservation Development Council recommended in 2002 and 2003. We undertook, in 2005, a review of this and have come up with recommendations and an implementation schedule, and we have copies of this here for you today, brand new, hot off the press.

Thank you, sir.

[The prepared statement of Ms. Matthews follows:]

STATEMENT OF JANET SNYDER MATTHEWS, ASSOCIATE DIRECTOR FOR CULTURAL RESOURCES, NATIONAL PARK SERVICE, DEPARTMENT OF THE INTERIOR, BEFORE THE SUBCOMMITTEE ON FEDERALISM AND THE CENSUS, HOUSE COMMITTEE ON GOVERNMENT REFORM ON "HISTORIC PRESERVATION AND COMMUNITY DEVELOPMENT: WHY CITIES AND TOWNS SHOULD LOOK TO THE PAST AS A KEY TO THEIR FUTURE."

September 20, 2006

Mr. Chairman and members of the subcommittee, thank you for the opportunity to present information on the Federal Historic Preservation Tax Incentives Program and Historic Preservation Grants administered by the National Park Service.

Not too many years ago the concept of linking historic preservation and community development would have been seen as an oxymoron. Before passage of the National Historic Preservation Act in 1966, historic buildings were typically saved only as isolated house museums or local "monuments" rescued through the efforts of dedicated volunteers. To practical business people, preservation made little *financial* sense. Few accepted the idea that reusing historic buildings could be profitable. Today, few question it. That is an amazing turnaround, one with profound consequences for historic properties and for the communities that surround them.

A number of factors have caused that turnaround. I would like to talk about two of them: the grants programs of the National Park Service and the Historic Preservation Tax Incentives Program.

Historic Preservation Grants

In 1966, the Special Committee on Historic Preservation of the U.S. Conference of Mayors developed far-reaching recommendations regarding the need for a national historic preservation program. Among the committee's recommendations was the need for legislation "to authorize grants to State and local governments to carry out... inventory and survey programs in coordination with the National Park Service." The National Historic Preservation Act implemented this recommendation with the establishment of the Historic Preservation Fund (HPF) as a matching grant program. Through subsequent amendments to the 1966 Act, the HPF benefited Tribal governments and other cultural groups as well. Since the first appropriations in 1970, the HPF, which is administered by the National Park Service, has acted as the catalyst for America's efforts to preserve its past for future generations, by awarding more than $1 billion to State and local governments, Native American Tribes, nonprofit organizations, and educational institutions for preservation projects in all 50 states and the U.S. Territories.

In Fiscal Years 2005 and 2006, Congress appropriated $71.7 million and $72.2 million, respectively, for HPF matching grants to assist State, local governments, and Indian Tribes with expanding and accelerating their historic preservation activities. Requiring a

non-federal cost share for each grant, HPF grants serve as catalysts and "seed money" to encourage private investment in our nation's irreplaceable heritage for this and future generations.

The National Historic Preservation Act requires that at least 10 percent of each State's allocation from the HPF be subgranted to assist Certified Local Governments with participating in the national historic preservation program. As of FY 2006, more than 1,550 local governments have elected to participate in the national historic preservation program by becoming Certified Local Governments.

HPF grants in FY 2005 assisted States and local governments in generating more than 1,500 new listings in the National Register of Historic Places, and in approving more than 1,100 Federal Historic Preservation Tax Credit projects. Approximately 17.6 million acres were surveyed through the activities of State Historic Preservation Offices funded through the HPF, resulting in the addition of more than 129,000 properties to State Historic Preservation Office inventories.

To spotlight the rich and varied material culture of the nation in need of preservation assistance, and to commemorate the start of the new millennium, in 1999 Congress and the White House created the Save America's Treasures grant program. The program helps preserve nationally significant historic properties and museum collections that convey our nation's rich heritage to future generations of Americans. The grants are administered by the National Park Service in partnership with the National Endowment for the Arts, the National Endowment for the Humanities, the Institute of Museum and Library Services, and the President's Committee on the Arts and the Humanities. The National Park Service and its partners have awarded more than 900 grants to date, totaling approximately $250 million, using funds appropriated, and frequently earmarked, by Congress. Private partners, including the National Trust for Historic Preservation, help to raise non-federal funds to match the federal grants.

Successful projects include historic properties and museum collections that are both nationally significant and at the same time integral components of their local communities. The preservation of these properties and collections benefits the country as a whole, and increases tourism and economic vitality at the local level. Successful projects are varied and include the Old North Church in Boston, the Susan B. Anthony House in New York, the city bus on which Rosa Parks refused to give up her seat, and the ancient pueblo ruins in Mesa Verde, Colorado.

Complementing the Save America's Treasures grant program is the Preserve America program, a White House initiative championed by First Lady Laura Bush. The program, which began in FY 2006, provides both recognition and grants to local communities to assist in finding self-sustaining ways to promote their cultural resources through heritage tourism. Preserve America grants, designations, and awards offer a new type of encouragement from the Federal Government in support of communities that have demonstrated a commitment to recognizing, designating, and protecting local cultural resources. Preserve America is administered by the National Park Service and developed

in cooperation with the Advisory Council on Historic Preservation and other federal agencies.

In FY 2006, Congress appropriated $4.9 million from the HPF for the Preserve America grant program. The National Park Service awarded 65 grants to benefit local communities across the country. Successful applications in the first year of the program included: a grant for $90,000 to the city of Dayton, Ohio to complete an economic analysis of Dayton's cultural/historical tourism industry and to develop and begin implementing a heritage tourism marketing strategy for the city, and a $43,000 grant to the city of Rock Island, Illinois to conduct the planning necessary to open and operate a satellite visitor center of the Quad Cities Convention & Visitors Bureau in a designated landmark building in Rock Island that is currently threatened with demolition.

This spring, to assist in the recovery and preservation of historic resources impacted by Hurricanes Katrina and Rita, Congress appropriated $43 million from the HPF to the State Historic Preservation Offices in Alabama, Louisiana, and Mississippi. The majority of the funds are to be used for the preservation, stabilization, rehabilitation, and repair of historic properties listed in or eligible for the National Register of Historic Places. Some examples of projects that will benefit from this much needed funding include Royal Oaks, a historic colonial revival house built in 1906 along the southern coast of Mobile County, Alabama, and the Charnley House and Guest Cottage, designed by Louis Sullivan and Frank Lloyd Wright, located in Ocean Springs, Mississippi. The availability of restoration funds from the supplemental appropriation for hurricane damage will likely determine the difference between the survival or destruction of these important pieces of America's architectural heritage.

In New Orleans, grant funds will be distributed to the owners of at least 200 historic homes to restore the architectural fabric of the city that weaves together stately mansions on St. Charles Avenue and modest Creole cottages dating back two centuries. The restoration of these homes will add to the increasing momentum to rebuild New Orleans, a city that contains twenty National Register Historic Districts.

In addition to grants made from the HPF appropriations, the National Park Service administers several other historic preservation grant programs. Native American Graves Protection and Repatriation Act (NAGPRA) grants are made to museums, Indian tribes, Alaska Native villages and corporations, and Native Hawaiian organizations, for the purposes of assisting in the inventory, documentation, and repatriation of Native American human remains and cultural items. From 1994 through 2006, more than 500 grants totaling over $27 million were awarded. The American Battlefield Protection Act of 1996 authorizes the National Park Service to provide grants to governmental, educational, and nonprofit organizations to promote the protection and preservation of battlefield lands by means other than direct federal intervention and acquisition. In FY 2006, the American Battlefield Protection Program awarded grants totaling $350,000 to 11 projects. Additionally, since FY 1998, Congress has appropriated $28.9 million from the Land & Water Conservation Fund to assist State and local governments in acquiring

Civil War battlefield lands outside of the legislative boundaries of units of the National Park System.

The activities supported through the HPF and other grants programs have been vital to the preservation of America's historic resources.

Historic Preservation Tax Incentives Program

Ten years after passage of the National Historic Preservation Act, another key piece of legislation initiated a program that has had immense benefits for both preservation and community development. The Tax Reform Act of 1976 created the Historic Preservation Tax Incentives Program.

In the summer of 1976, when Congress was considering a bill to reform the Internal Revenue Code, the late Senator J. Glenn Beall of Maryland introduced amendments that would create the first federal income tax incentives for the rehabilitation of historic buildings. Noting the appropriateness of saving historic buildings during the celebration of the nation's Bicentennial, he said that the "first objective" of the incentives was to "encourage the preservation of historic buildings and structures certified by the Secretary of the Interior." He noted also that the program would have other benefits, including encouraging private investment in older and distressed urban areas.

The Tax Reform Act passed in the summer of 1976 created the first federal income tax incentives for preservation and called upon the Secretary of the Interior to review rehabilitations of historic structures and to approve those rehabilitations that preserve a building's historic character.

The Historic Preservation Tax Incentives Program corrected a long-standing imbalance in the federal tax code. Before 1976, the Internal Revenue Code gave preferential treatment to the construction of new buildings over the preservation of historic ones. Thus, the Government of the United States, acting through the tax code, actually encouraged property owners to demolish historic buildings and build new ones on their sites, but not to keep historic ones. That situation changed dramatically with the creation of the Historic Preservation Tax Incentives Program. The law helped old buildings attract major private investment for the first time.

The incentives contained in the Tax Reform Act of 1976 were modest. For the first time, owners of historic buildings were allowed to claim accelerated depreciation for expenses incurred in rehabilitating their historic buildings. The 1976 law also contained financial disincentives for the demolition of historic structures, and for the construction of new buildings on the site of demolished historic buildings. These measures were indeed modest, but together, they put the rehabilitation of historic buildings on a competitive footing with new construction.

Following passage of the bill, the Secretary of the Interior promptly called upon the National Park Service to establish the new program, which it did in 1977, in partnership with the Internal Revenue Service and the nationwide network of State Historic

Preservation Officers. By the end of 1978, over 500 projects had been approved, representing over $140 million in private investment.

The tax incentives were enhanced when Congress passed the Revenue Act of 1978, which created the first income tax *credit* for rehabilitating historic buildings; the credit was set at 10% of the costs incurred in a rehabilitation certified by the Secretary of the Interior. In the first year following enactment of the credit, approved rehabilitation projects rose to $300 million.

The Economic Recovery Tax Act of 1981 increased the tax credit to 25% for certified rehabilitations, and rehabilitation activity increased to over 3,000 projects a year. The effect of this legislation was immense; indeed, the number of projects approved in 1984 is still a record for the program.

The dramatic rise in rehabilitation activity spurred by the 1981 law was dampened five years later by the Tax Reform Act of 1986. That law lowered the credit from 25% to 20% for historic buildings, and contained provisions relating to passive losses and other matters that limited use of the credit by individual taxpayers. These measures dramatically reduced program usage for a while, but in the past decade, the numbers have climbed steadily. Indeed, last year, over 1,100 projects were approved. This is the highest such plateau reached since the investment tax credit was set at 20% in 1986. In dollar amounts, the program is at an all-time high. In FY 2005, the last complete year for which figures are available, approved rehabilitation projects totaled $3.1 billion. This is the fifth year in a row in which the total exceeded $3 billion, and these dollar figures are the highest in the program's 30-year history. We expect the amount of rehabilitation undertaken using the tax incentives program to continue to be high, based in part on the passage of the Gulf Opportunity Zone Act of 2005, which raised the credit from 20% to 26% for the years 2006 – 2008 for the rehabilitation of buildings in the Hurricane Katrina disaster area that includes portions of Louisiana, Mississippi, Alabama and Florida.

In total, since 1977, over 33,000 projects representing more than $36 billion in private investment have benefited historic buildings throughout the country. For 30 years, the Historic Preservation Tax Incentives Program has been preserving historic buildings, stimulating private investment, and revitalizing communities. One of the most successful revitalization programs ever created, it has had enormous impacts on the nation's historic buildings, on the people who live and work in them, and on their neighborhoods and communities. The program has served the American people well—so well that dozens of States have created State incentives for preservation, including State income tax credits and property tax freezes. The program has been copied in Australia, and Canada is also modeling a program on it.

Here in Washington, D.C., tax incentives have been a powerful tool for economic growth and revitalization. When it opened in 1907, Union Station was the largest train station in the world, but with the decline of railroading after World War II, the building began its own rapid descent. When repair estimates hit the $100 million mark in 1978, the building was closed entirely. After Congress passed the Union Station Redevelopment

Act, creating a public-private partnership to preserve the building, private developers used the new tax incentives program to rehabilitate the building for mixed use while still maintaining its function as a train station. Today Union Station is preserved, and provides commercial space for businesses that enhance the local economy.

Because tax incentives rehabilitation projects involve older buildings often located in depressed urban cores, the millions invested in historic buildings have turned whole areas around, including Printers Row in Chicago, Larimer Square in Denver, and the Soulard District in St. Louis. Even the rehabilitation of a single building can energize an entire community, serving as a catalyst for community development. For example, the Enterprise Mill in Augusta, Georgia, constructed in the mid-1800s, stands as a landmark to the cotton economy of the South and to Augusta's role as a late 19th and early 20th century industrial center. After years of decline, the mill closed in 1983. Using the tax incentives program, the mill complex was converted at a cost of $17 million to a mixed use of commercial spaces and 56 market-rate residential units, bringing people back into the area through housing, new businesses, job creation, and tourism. Today, 100 residents live in the mill and over 260 people work there. The return of this vacant building to the tax rolls provides an additional boost to the city of Augusta.

The Federal Historic Preservation Tax Incentives Program generates economic activity in a number of ways. One study of program applicants found that each project creates an average of 48 new jobs. Other studies have shown that historic rehabilitation creates more jobs, and keeps more of the money spent on the project remaining in the local community, than is the case with new construction. That's because a higher percentage of rehabilitation expenses goes to labor than is the case with new construction. Since the people hired for rehabilitation projects tend to be from the local area, the money stays in the community, increasing State income tax revenues ands creating even more opportunities for others in the vicinity. Because rehabilitated buildings are worth more than vacant buildings, the program also increases local property tax revenues. The program even has an impact on affordable housing. The 40% of projects approved under the program involve some form of housing; 15% of these projects also use the Low Income Housing Credit. To date, over 80,000 units of low and moderate income have been rehabilitated or newly created in historic buildings. Approximately 25% of units created serve low and moderate income tenants.

Finally, this program is a model for partnerships and cooperation between levels of government and the private sector. The National Park Service is responsible for project approval and overall program administration. The private sector provides the buildings and the capital. The State Historic Preservation Officers serve as primary contacts for property owners, give applicants professional guidance and technical information, and make on-site visits. The Internal Revenue Service publishes regulations governing qualifying expenses, and answers public inquiries about financial aspects of the program.

The economic, social, and cultural benefits of the Historic Preservation Tax Incentives Program and Historic Preservation Grants administered by the National Park Service are numerous and have enhanced the quality of life for Americans in cities and towns

throughout the country. In every place these programs operate, they make communities more livable while preserving our nation's history for present and future generations.

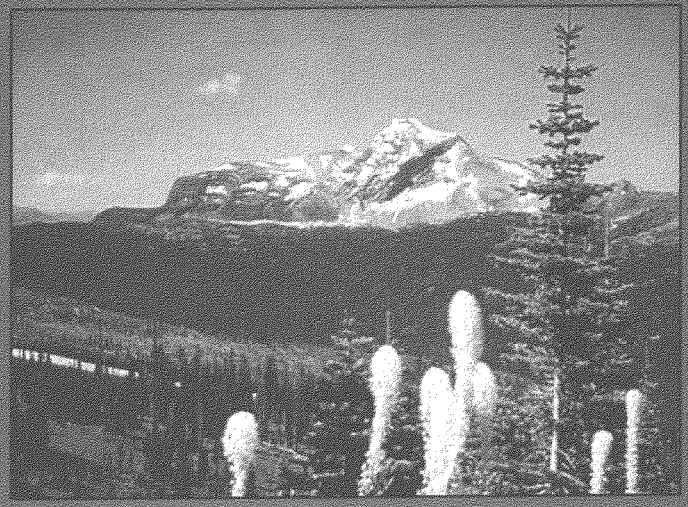
Mr. Chairman, this completes my testimony. I would be glad to respond to any questions you or the committee may have.

Historic Preservation and Community Development: Why Cities and Towns Should Look to the Past as a Key to Their Future

Janet Snyder Matthews, PhD
Associate Director
Cultural Resources

National Park Service
US Department of the Interior

National Park Service preserves and protects public parkland….

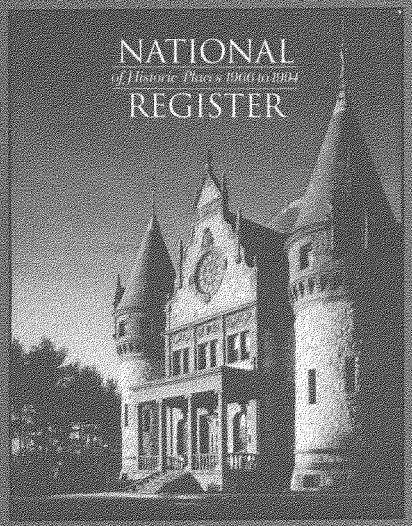


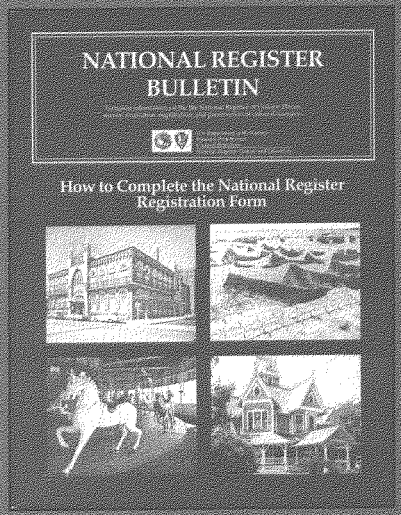
Heaven's Peak, Glacier National Park

National Park Service
US Department of the Interior

National Register of Historic Places

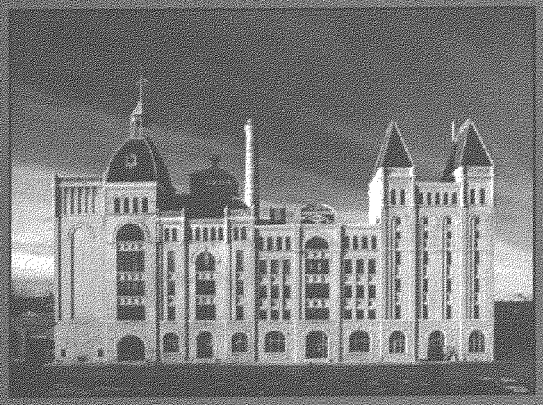
The National Register is the Nation's official list of cultural resources worthy of preservation.





National Park Service
US Department of the Interior

National Park Service programs have tremendous economic impacts nationwide on public and private properties, many of which had been abandoned for years.



Minneapolis Brewing Company, Minneapolis, MN, converted to offices

National Park Service
US Department of the Interior

Tax Credit Highlights

1977-2005

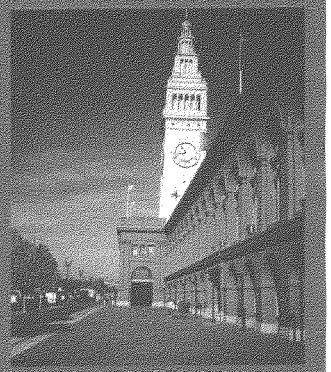
Over $36 Billion has been invested in over 33,000 projects

48 jobs on average are created by each tax credit project

over 350,000 housing units have been rehabbed/created

Approx. one-quarter of the rental units serve low and moderate income tenants

Program stimulates local construction economy



Ferry Building, San Francisco, $ 94 million project

National Park Service
U.S. Department of the Interior

Federal Rehabilitation Tax Credit Program
2005 at a Glance

- $3.1 billion in private investment leveraged
- 52,464 jobs created
- 1,101 projects approved
- From $8,000 to $100 million
- Projects that were "Green"

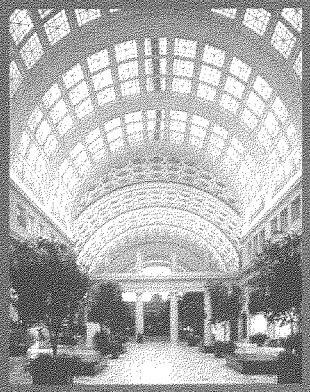
Fuller Paint Building, Salt Lake City a LEED certified "green" project

National Park Service
US Department of the Interior

New Communities are being created at realigned military facilities
San Diego Naval Training Facility
Presidio of San Francisco
Fort McClelland Air Force Base
National Park Service
U.S. Department of the Interior

The Federal Historic Tax Credits

Federal tax incentives for historic properties support the rehabilitation of historic buildings and communities. In Washington, DC, they include Union Station known to thousands of visitors as well as affordable housing for local residents.



Union Station; Washington, DC
utilized the tax credits in 1988

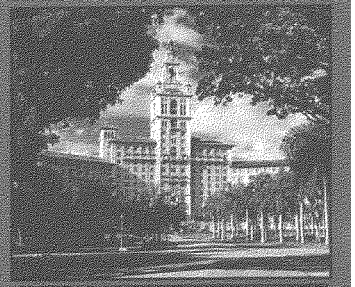
Olympia Apartments, Washington, DC
$15 Million for 80 affordable housing units
completed in 2005

National Park Service
US Department of the Interior

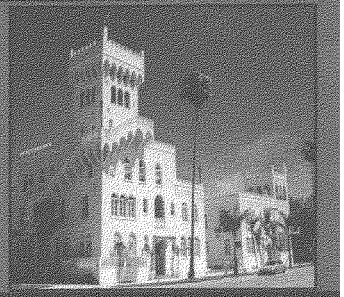
Cities in Florida, like other states, have benefited from Tax Credit Projects; $85 Million in private investment in Florida - 2005

Art Deco District, Miami

Biltmore Hotel, Jacksonville



Palace of Florence, Tampa, converted to 28 housing units

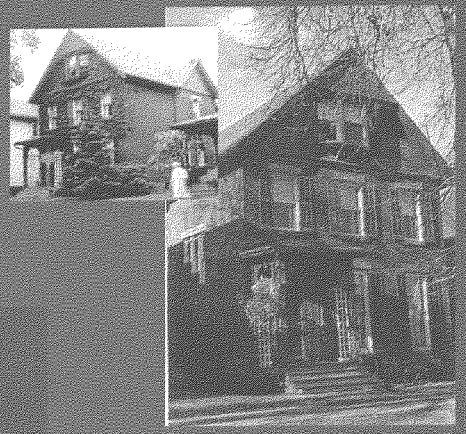


National Park Service
US Department of the Interior

Examples of Recent 20% Historic Rehabilitation Tax Credit Projects in Ohio
Rawson Building, Findlay
The Arcade, Cleveland
Harper-Cosgrave Building, Zanesville
Kirn Building, Lancaster
Roosevelt Apartments, Ironton
Anderson Brothers Department Store, Portsmouth
Barlow Motors Building, Cincinnati
Beaver Power Building, Dayton

SAVE AMERICA'S TREASURES
FEDERAL GRANTS

Acoma Pueblo, New Mexico



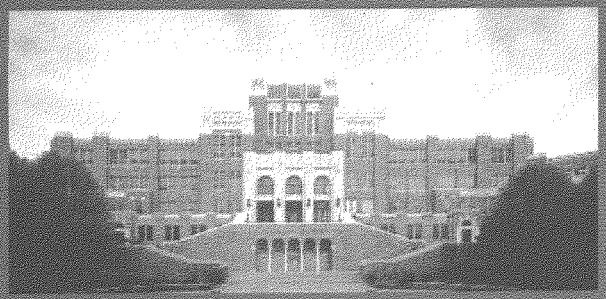
Susan B. Anthony House
New York

1999-2005 Grants
$232 Million to date
$162 Million for properties
$ 70 Million for collections

National Park Service
US Department of the Interior

The Save America's Treasures Grants

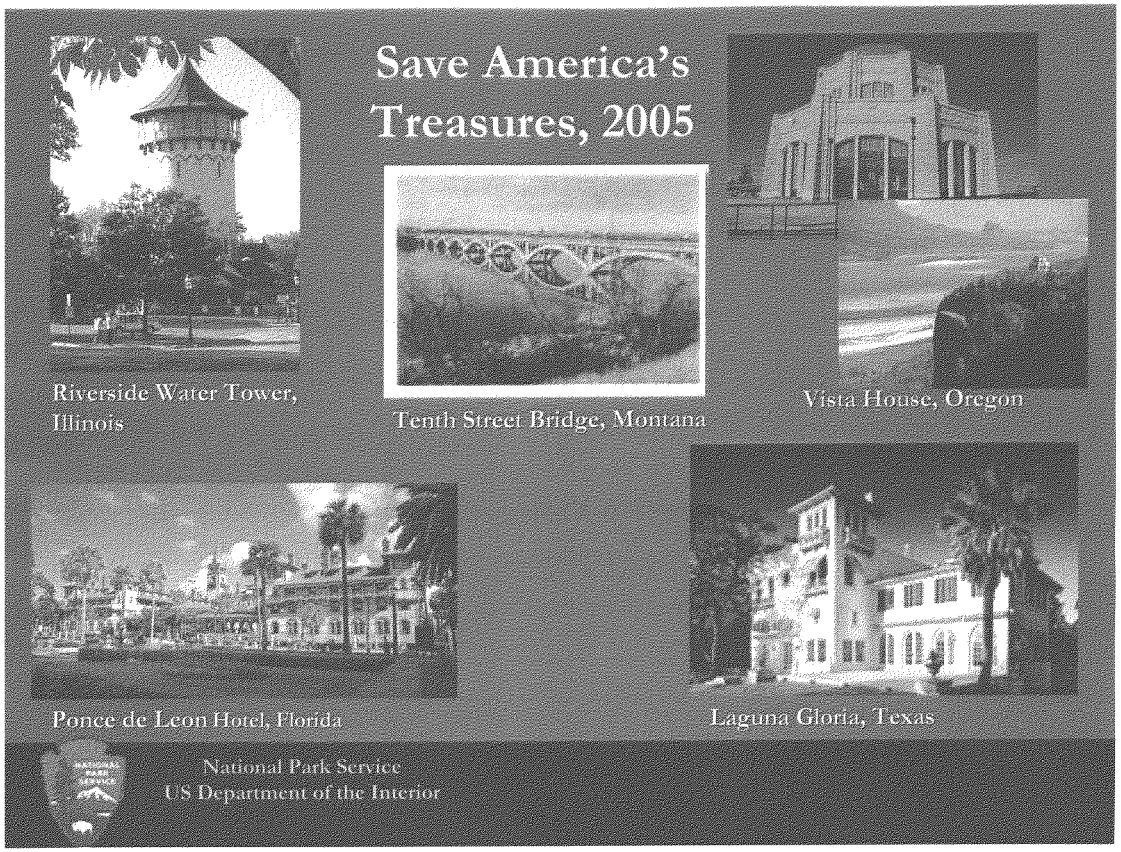
Federal grants are used for the preservation and conservation work on nationally significant intellectual and cultural artifacts and nationally significant historic structures and sites.



Central High School,
Little Rock, Arkansas

Manzanar National Historic Site
Independence, California

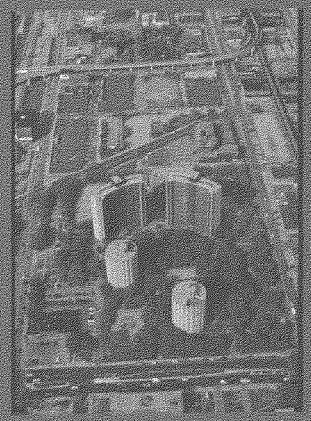
National Park Service
US Department of the Interior


Save America's Treasures, 2005
Riverside Water Tower, Illinois
Tenth Street Bridge, Montana
Vista House, Oregon
Ponce de Leon Hotel, Florida
Laguna Gloria, Texas
National Park Service
US Department of the Interior

National Park Service

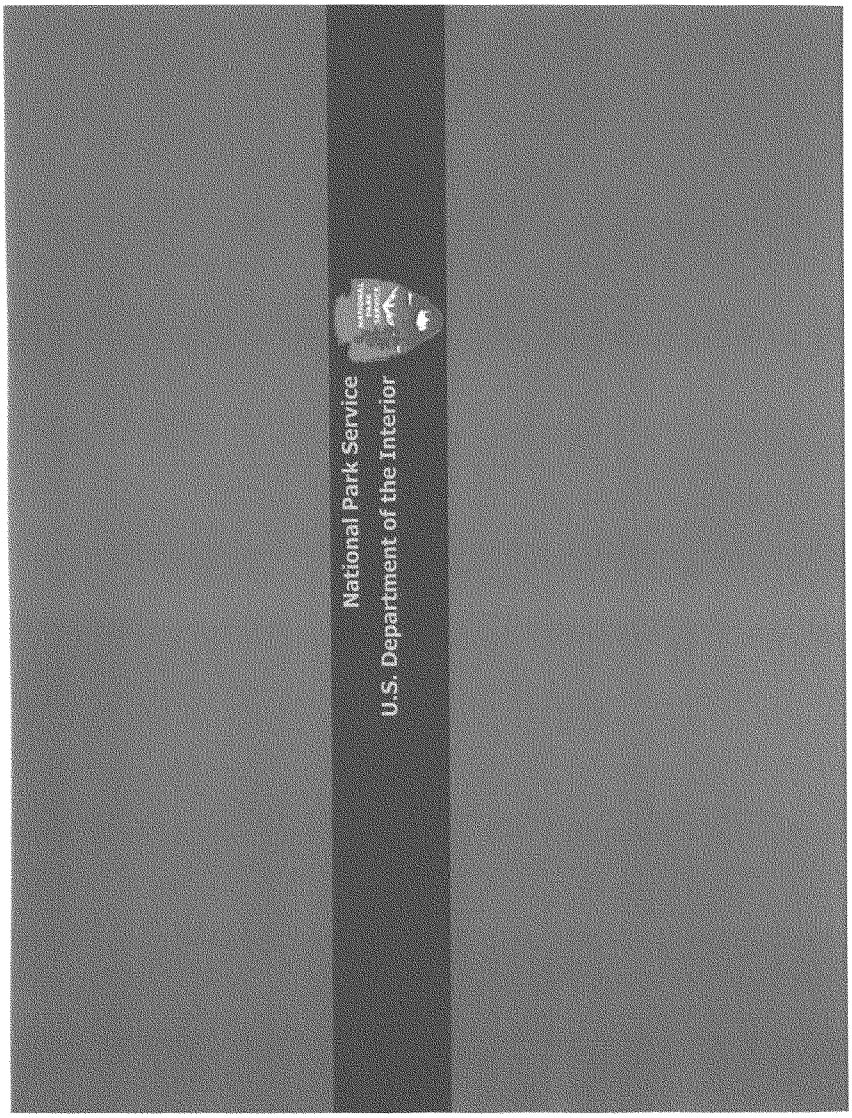
Tax Credit and Grants Programs

- Preserve historic buildings
- Revitalize depressed neighborhoods
- Create jobs
- Create affordable housing
- Increase property values
- Enhance state and local taxes
- Direct private investment to older areas
- Recapture "social capital" invested by past generations



Hilliard Complex Senior Housing
Chicago, Illinois; $100 million phased project

National Park Service
US Department of the Interior


National Park Service
U.S. Department of the Interior

Mr. TURNER. Thank you for this. I look forward to reviewing it and seeing what you found.

STATEMENT OF RICHARD MOE

Mr. MOE. Thank you, Mr. Chairman. As you know, the National Trust was chartered by Congress some 57 years ago, and ever since then, we have been working with the Congress and with our partners around the country to try to save America's heritage.

At the outset, Mr. Chairman, I want to thank you for holding this hearing on a very important issue, and I am so pleased that you mentioned your experience in Dayton because that is precisely the kind of informed experience that will help us to sharpen our public policies. I want to say also that the last hearing you held on historic preservation had a profound impact and was very significant in persuading the Congress to enact legislation enriching the tax credit for the impacted area in the Gulf Coast and for providing $40 million in grant funds to historic resources. So I thank you for your leadership there and in so many ways.

The Trust has long recognized the links between historic preservation, community revitalization, and housing: 32 percent of the households below the poverty line and 34 percent of renters whose household income is less than $20,000 per year live in older and historic homes. That is a very significant statistic. Of the Nation's over 12,000 historic districts which comprise a million contributing structures, 60 percent of those overlap census tracts in which the poverty rate is 20 percent or greater. So there is a tremendous need for incentives to create housing and to stabilize neighborhoods in these areas.

As Jan Matthews has mentioned, one of the principal Federal incentives for rehabbing older and historic buildings is the Historic Rehabilitation Tax Credit. It is the Federal Government's largest historic preservation program and probably its most important. Although it has been widely used as an effective tool for bringing vacant and abandoned buildings back onto the tax rolls and, in some cases, providing safe, decent, and affordable places to live, it must be improved so that it can truly realize its fullest potential. So far, it has been a catalyst for commercial reuse and reinvestment in historic resources. It has helped to build 170,000 housing units; 60,000 of which are affordable.

The rehab credit should be easier to use, especially in projects that twin the incentive with the Low Income Housing Tax Credit or, in other words, for smaller Main Street-oriented projects. Last year, Section 47 produced more than 15,000 units of housing across the country and nearly 40 percent of those fell into the affordable category, but it can do a lot more.

The Trust has worked with several teams of experts and has concluded that certain structural features in the rehab credit are actually impeding their expanded views, especially as tools for affordable housing. It has been almost two decades since Congress has revisited Section 47 of the Code, and we think it is time that it does so again.

Our work has led to the introduction of the Trust's No. 1 legislative priority, H.R. 3159 which is the Community Restoration and Revitalization Act introduced by Congressman Phil English and

William Jefferson. Mr. Chairman, I am very grateful for your original co-sponsorship of this bill. It now has 67 co-sponsors, and we are expecting Senate introduction very shortly. It is endorsed by such organizations as Preservation Action, the National Council of State Historic Preservation Officers, the American Institute of Architects, and the Affordable Housing Tax Credit Coalition. It would make, in short, five substantial changes to the rehab credit so that it can be more effectively used in community revitalization and particularly in housing and in smaller so-called Main Street type deals.

I hope that every Member of this body will co-sponsor this legislation. My colleague, John Leith-Tetrault will very shortly let you know about some of the specifics in the bill.

This bill is just a first step in making the rehab credit work as effectively as possible. I hope that Congress will foster and expand tax incentives like this. Protecting tax credits is particularly important at a time when the rehab credit and other credits that work in conjunction with it to improve neighborhoods, such as the New Markets Tax Credit and the Low Income Housing Tax Credit, may be vulnerable to changes in the tax code and the tight budget climate up here.

It is important to note that the greatest need in America's oldest and historic neighborhoods remains an equivalent to the Section 47 historic rehab credit for owner occupied homes. You are going to be hearing more about this later this morning, I believe, but it would be a very important and logical extension of the existing tax credit.

Let me mention just a few other Federal incentives and programs that are of particular interest. Mention has been made of the State tax credits. In recent years, it has been a high priority of the National Trust to build the capacity of State preservation organizations and through them to increase the number of States that have State tax credits. There are now some 27 or 28 such States, and we think that legislation in the Congress could encourage that number even more.

The National Park Service does a tremendous job at administering the Federal Historic Tax Credit, but there is much more that could be done to expand the universe of projects. Dr. Matthews has mentioned the report that has come out that is very important.

Finally, the Historic Preservation Fund which is the fund that is so critically important to the State Historic Preservation Offices, it is chronically underfunded, and we think that not only should it be increased for the States but also for Save America's Treasures and Preserve America.

I could go on, Mr. Chairman, but my time is up. Thank you very much.

[The prepared statement of Mr. Moe follows:]

Statement of Richard Moe, President
The National Trust for Historic Preservation

"Historic Preservation and Community Development:
Why Cities and Towns Should Look to the Past as a Key to their Future"

U. S. House Government Reform Committee
Subcommittee on Federalism and the Census
The Honorable Michael R. Turner, Chairman

September 20th, 2006
2154 Rayburn House Office Building
10:00 A.M.

Introduction

Mr. Chairman and members of the Subcommittee, good morning. My name is Richard Moe and I am the President of the National Trust for Historic Preservation. For more than 50 years, the National Trust has been helping to protect the nation's historic resources as a Congressionally chartered, private, nonprofit membership organization dedicated to protecting the irreplaceable. Recipient of the National Humanities Medal, the Trust provides leadership, education, and advocacy to save America's diverse historic places and revitalize communities. With over a quarter-million members and thousands of local community groups in all 50 states, the Trust is the leader of a vigorous preservation movement that is saving the best of our past for the future. Its mission has expanded since its founding in 1949 just as the need for historic preservation has grown. When historic buildings and neighborhoods are torn down or allowed to deteriorate, we not only lose a part of our past forever, we also lose a chance to revitalize our communities.

At the outset of this statement, the Trust would like to recognize Chairman Turner for his leadership on this panel, as Co-Chair of the bipartisan Congressional Historic Preservation Caucus and Chair of the Speaker's Saving America's Cities Working Group, in calling attention to the public policies that affect the nation's communities and Congress' role in making our cities and towns the best they can be. I would especially like to thank you and the Subcommittee for highlighting the powerful influence of historic preservation in rebuilding New Orleans and the Gulf Coast communities devastated by last year's hurricanes. You helped the Trust in getting Congress to pass a substantial grant program and increases in the federal historic preservation tax credit to make the region's historic neighborhoods whole again. On behalf of the entire

preservation community, thank you, Mr. Chairman, for your long-standing support for historic preservation and awareness of the value it has to revitalizing the places where we live, work, and play.

Preservation and Community Revitalization

The Trust has long recognized the links between historic preservation, community revitalization, and housing. America's older and historic neighborhoods already house record numbers of low- and moderate-income residents. Thirty-two percent of households below the poverty line and 34 percent of renters whose household income is less than $20,000 per year live in older and historic homes. Of the nation's over 12,000 historic districts comprising over a million contributing structures, 60 percent overlap census tracts in which the poverty rate is 20 percent or greater. In many parts of the country where abandoned buildings are located in some of the nation's most disinvested communities, there is a need for incentives to create housing and stabilize neighborhoods. Lastly, vacant or underutilized historic structures that were not built for housing, but no longer serve their intended purpose – such as warehouses, factories, mills, and department stores – can be adaptively re-used as catalysts for attracting new investment in the neighborhoods that need it most. So many of these historic and older buildings are located near existing infrastructure, transportation hubs, schools, and neighborhood-serving retail.

The Federal Historic Preservation Tax Credit

One of the principal federal incentives for rehabilitating older and historic buildings is the Historic Rehabilitation Tax Credit (rehab credit). Since 1976, the National Park Service has administered the program in partnership with the Internal Revenue Service and the State Historic

Preservation Officers (SHPOs). President Reagan's 1981 Economic Recovery Tax Act refined this in Section 47 of the Internal Revenue Code to include a three-tiered income tax credit that took its present form in 1986 with further amendments. It now has two parts, the first and most widely used is for "qualified rehabilitation expenditures" incurred in connection with the "substantial rehabilitation" of a "certified historic structure." There's also a 10 percent credit for expenditures incurred in the rehabilitation of non-residential, non-historic structures built before 1936. The rehab credit represents the federal government's largest historic preservation program.

Although it has been widely used as an effective tool for bringing vacant and abandoned buildings back onto the tax rolls – and in some cases providing safe, decent, and affordable places to live – it must be improved so that it can truly realize its full potential. So far, it has been a catalyst for commercial re-use and re-investment in historic resources and since its enactment it has also helped build 170,000 housing units – 60,000 of which were affordable. The rehab credit should be easier to use, especially in projects that twin the incentive with the Low-Income Housing Tax Credit (LIHTC) and for smaller, more "main street"-oriented projects. Last year, Section 47 produced more than 15,000 units of housing across the country and nearly 40 percent of those fell into the affordable category. But it can do a lot more.

Unlocking the Tax Credit's Full Potential

The Trust has worked with several teams of experts that have studied the potential for greater housing production and economic development through historic credits, and have concluded that certain structural features of the rehab credit are actually impeding their expanded

use – especially as tools for affordable housing. There was a symposium in 1998 cosponsored by the National Park Service (NPS) and the Historic Preservation Education Foundation called "Affordable Housing, Combining the Tax Credits." The NPS Symposium identified the myriad of minor discrepancies between the Section 47 Credits and the LIHTC, collectively, as a key impediment to increasing the number of historic buildings that are being rehabilitated into low-income housing. Utilizing a "One Set of Rules for Housing" slogan, the Symposium's action plan proposed harmonizing many of these mismatches that drive up transaction costs and often act as traps, even for the wary.

Another event, the "City Building and The Historic Rehabilitation Tax Credit," sponsored by the Urban Land Institute (ULI) Policy Forum in 2001, reached many similar conclusions. Participants in the ULI Forum concluded that even minor structural modifications would allow the rehab credit to achieve even greater results as a community revitalization and economic development tool.

It has been almost two decades since Congress has revisited Section 47 of the Code and the machinery of the federal government's historic preservation tax incentives. Nonetheless, both the ULI Forum and the NPS Symposium concluded that nothing short of Congressional action could effectuate most of the technical corrections and other modifications needed to boost the efficiency of the rehab credit. Largely with this end in mind, in 2001 the Historic Preservation Development Council ("HPDC") was formed as an affiliate of the National Housing & Rehabilitation Association, in partnership with the Trust. This partnership produced an eleven point agenda of needed technical corrections and improvements to the rehab credit.

The Community Restoration and Revitalization Act

During the last Congress, the Trust convened a working group of partnering preservation organizations and other tax credit stakeholders to take a closer look at the 11 recommendations for making the tax credit work better. This led to the introduction of the Trust's number one legislative priority, HR 3159 – the Community Restoration and Revitalization Act, introduced by Representatives Phil English and William Jefferson. Mr. Chairman, I am grateful that you are an original cosponsor of this measure and have urged your colleagues on the Congressional Historic Preservation Caucus to cosponsor it. This bill now has 67 cosponsors and we are expecting the companion measure's introduction in the Senate shortly. It is endorsed by such organizations as Preservation Action, the National Conference of State Historic Preservation Officers, The American Institute of Architects, and the Affordable Housing Tax Credit Coalition. It would make five substantial changes to the rehab credit so that it can more effective in community revitalization, housing, and smaller "main street" type deals. I hope that every member of this body would consider cosponsorship of HR 3159 because of the tremendous value it would have to the nation's cities and towns. My colleague John Leith-Tetrault, President of the National Trust Community Investment Corporation, will let you know about some of the specifics in his remarks today.

Furthering the Tax Credit Agenda

This bill is just a first small step toward making the rehab credit work as effectively as possible for making our historic communities the best they can be. I hope that Congress will foster and expand tax incentives like this as part of any legislation affecting the larger public

policy agenda on America's cities and towns. Protecting tax credits is particularly important at a time when the rehab credit and other credits that work in conjunction with it to improve neighborhoods – such as the New Markets Tax Credit and the Low-Income Housing Tax Credit – may be vulnerable to changes in the tax code and the tight budget climate. The private sector reinvestment alone represented in the historic credit – $31 billion leveraged into the economy since the credit was enacted – should continue to express Congress' vision for saving the places we value and place the costs of rehabilitation on more equal footing with the often cheaper alternative of demolition and new construction.

As I said, this legislative initiative is a first step toward a better, more-effective rehab credit and toward the goal of ensuring that tax incentives work better together in development projects that make a difference in the neighborhoods that need investment the most. It is important to mention, however, that the greatest need in America's historic and older neighborhoods is for an equivalent to the Section 47 historic rehab credit for owner-occupied homes. Some of the greatest erosion and decay in our cities and towns across the nation is the caused by the inability of average homeowners to afford the maintenance, upkeep, and renovation costs associated with older and historic dwellings. I hope that our work may someday lead toward Congress providing to homeowners an incentive that is similar to the one it now provides to commercial properties.

Additional Federal Incentives and Programs for Congress to Consider

1. Encouraging State Tax Credits

As some of today's witnesses have said, state tax credits are very valuable tools for revitalizing disinvested older and historic communities, and can be tailored to fit the particular reinvestment needs of each individual state. They are often most effective, however, when used in conjunction with federal incentives such as the historic preservation tax credit. The Trust has been working with state and local preservation organizations nationwide to support the enactment of these incentives at the state level. We hope that Congress would encourage this by ensuring that the tax code is favorable to the creation of state credits for historic preservation and particularly in establishing a strong linkage between state and federal tax incentives. The Historic Rehabilitation Enhancement Act of 2005 (HR 2488), sponsored by Congressman Russ Carnahan, is one measure that would help our goals. It is designed to promote and enhance the use of state historic rehabilitation tax credits by providing a clear guideline for the federal income tax treatment of dispositions or refunds of state tax credits for historic rehabilitation. The net effect would be an enhancement and greater use of state tax credits by strengthening the historic real estate market.

2. Supporting the National Park Service

The NPS does a tremendous job in administering the federal historic tax credit program, but there is more that could be done to expand the universe of projects eligible for this incentive. Recently, the Trust participated on the National Parks Advisory Board to develop recommendations for streamlining reviews and providing greater flexibility so that more projects may qualify for the rehab credit. These

recommendations should be implemented by the agency and done so in close collaboration with the SHPOs.

3. Providing for the Historic Preservation Fund

Lastly, all of these recommendations to unlock the full potential of the national historic preservation program for community revitalization and economic development hinge upon the annual budget Congress provides for the Historic Preservation Fund (HPF). It is chronically underfunded. The HPF provides needed support for the SHPOs in administering their duties under the National Historic Preservation Act, and inadequate funding undermines their ability to review and facilitate the tax credit applications and National Register applications required for eligible projects to move forward. SHPO's are critically important to an effective federal tax credit program and work locally with developers to provide technical assistance with the application process. In addition, the Park Service is responsible for approving these applications, and without adequate staff and funding for agency personnel the process can be delayed and rendered less effective nationwide.

Another program funded under the HPF warrants particular recognition – Save America's Treasure (SAT). At a time when federal funds for preservation are already scarce, the Trust is extremely concerned that Congress is proposing major cuts that would deal a huge blow to the only major "bricks-and-mortar" preservation program in the nation today. A reduction in funds would jeopardize scores of preservation projects throughout the country and mean that more of America's heritage in cities and towns will almost certainly be lost. At a time when the Administration is

launching its commendable effort on the Preserve America program under Chairman Nau's leadership, it would be an extraordinary missed opportunity not to ensure that both programs are mutually supportive of one another in the context of the larger national historic preservation program. This begins with maintaining SAT funding.

Conclusion

Thank you, Mr. Chairman, for inviting me to speak to the Subcommittee today on behalf of the Trust and participate in this hearing. The Trust stands ready to assist you in any way to advance Congress' historic preservation agenda – especially as it relates to strengthening and revitalizing America's communities.

Mr. TURNER. Thank you.

I want to recognize that we have been joined by Mr. Bilbray from California and then turn to Mr. Leith-Tetrault for his testimony.

STATEMENT OF JOHN LEITH-TETRAULT

Mr. LEITH-TETRAULT. Thank you, Chairman Turner. I appreciate this opportunity to testify today. My testimony will focus on the Federal Rehab Tax Credit or what I will call during this testimony, the RTC, and some of the technical amendments that Mr. Moe has mentioned that would increase the effectiveness of these Federal incentives for historic and older building rehab.

NTCIC or the National Trust Community Investment Corp. is a for-profit subsidiary of the National Trust that furthers the mission of the Trust by investing private capital in historic and older buildings that quality for the RTCs. Any profits earned by NTCIC are upstreamed to the National Trust to support its charitable mission.

NTCIC, over the past 5 years, has invested $158 million to help rehabilitate 37 projects with aggregate development costs of $694 million. NTCIC is also an industry leader in the twinning of the RTCs and the New Markets Tax Credit with its awards of $180 million in new markets allocations since 2003. Bank of America has been our primary investor and a terrific partner with us in this effort from the beginning.

As Jan Matthews mentioned, the RTCs really got started with the Reagan administration's 1981 economic stimulus package. These statutes were amended significantly by the Deficit Reduction Act of 1984 which limited the use of the RTCs by non-profit sponsors. As she had mentioned, the 25 percent credit was amended in 1986 to become a 20 percent historic credit and the two non-historic building credits were collapsed into one 10 percent rehab credit for buildings built before 1936. Finally, the Gulf Opportunity Act increased the Federal rehab credits to 26 percent and 13 percent for the 3-year period after Katrina for the go-zone.

Data for 2005 indicates that $5 billion in Historic Tax Credit activity was spread over 1,100 projects at a cost to the U.S. Treasury of about $740 million in Federal credits, a leverage ratio of 6.67 to 1. The program is growing very quickly, and qualified rehab expenditures have increased over 300 percent since 1999. One of the reasons for that is that, as others have mentioned, States have adopted piggyback status direct tax credits over the past 18 years. Second, what is fueling the increases in the use of the rehab tax credit is the rollout of the New Markets Tax Credit Program. NTCIC research indicates that 68 percent of all rehab tax credit projects are located in low income new markets eligible census tracts. And so, the twinning of these credits has become a very popular tool for adapting historic properties to meet the needs of low income communities.

Utilization of the RTC varies greatly by State. In 2005, Park Service statistics indicate that Ohio and North Carolina, Virginia, Massachusetts, Pennsylvania, and Missouri were the top six users of the Federal credit, and interestingly, four of those top six have very strong State historic tax credits.

NTCIC has led the industry in developing research methodologies for measuring the impact of historic tax credits. Working with

Rutgers University, we have developed the Preservation Economic Impact Model which, in 2005, estimates that the RTCs generated over 46,000 construction jobs, 59,000 permanent jobs, and about $364 million in State and local taxes.

NTCIC and the National Trust conducted a national study in 2001 to look at the barriers to greater use of the Federal rehab tax credits. The study concluded that the keys to broader use were, first, simplify the process and lower transaction costs, increase the tax incentive for smaller projects, provide incentives for low income area targeting, and last, increase credit targeting to downtown growth generators particularly housing, entertainment, and cultural facilities.

With these goals in mind, H.R. 3159 was reintroduced in 2005. The bill promotes the use of the RTCs on smaller projects by providing for a 40 percent credit on the first $1 million in qualified rehab expenditures. The bill also makes the 10 percent rehab credit more broadly accessible to small businesses by indexing the eligibility date for buildings. The bill provides RTC projects with the same 130 percent basis boost currently afforded to low income housing tax credit properties in HUD-designated difficult to develop areas. It promotes downtown affordable and market rate housing. It promotes affordable housing by eliminating the basis adjustment that is currently required when combining the RTCs with the Low Income Housing Tax Credit. H.R. 3159's condo provision allows for early provision of RTC rental projects to condominiums, promoting a deeper home ownership base in cities and small towns.

Last, theaters and other cultural facilities are critical to sustaining 24 hour cities. However, the disqualified lease rules, as enacted by Congress in 1984, make these RTC transactions harder and more expensive, particularly if non-profits are the sponsors. H.R. 3159 would eliminate three of the four disqualified lease rules, making these projects such as downtown theaters much more transaction-efficient and easier to do.

Again, I want to thank you, Congressman Turner, and the subcommittee, for the opportunity to testify, and I welcome your questions.

[The prepared statement of Mr. Leith-Tetrault follows:]

Testimony of John Leith-Tetrault
President, National Trust Community Investment Corporation
Before the House Government Reform Subcommittee on Federalism and the Census
September 20, 2006

Introduction

My name is John Leith-Tetrault and I am President of the National Trust Community Investment Corporation. I appreciate the opportunity to speak to the House Government Reform Subcommittee on Federalism and the Census today. My testimony will focus on the history and economic impact of the federal rehabilitation tax credits and the technical amendments needed to increase the effectiveness of federal incentives for historic and older building rehabilitation.

The National Trust Community Investment Corporation (NTCIC) is a for profit subsidiary of the National Trust for Historic Preservation that furthers the mission of the Trust by investing private capital in historic buildings that qualify for federal and state historic and New Markets tax credits. NTCIC has been a great financial success over its six-years of operations and annually upstreams significant profits to the Trust to support its broader mission of education, advocacy and community revitalization.

In its role as a tax credit syndicator, NTCIC has invested over $158 million in to help rehabilitate a wide variety of properties since the year 2000. Bank of America has been, by far, NTCIC's primary source of capital and an outstanding partner in this enterprise from the beginning.

NTCIC investments have included multi-family loft housing, office buildings, mixed-use properties, museums, theaters and community service facilities. Two-thirds of NTCIC's local development partners have been for profit developers. One-third has been nonprofit sponsors who benefit from NTCIC's willingness to provide training and technical assistance to developers who are not experienced in these complex real estate transactions.

NTCIC is also an industry leader in the twinning of the federal rehabilitation and New Markets tax credits. It has received $180 million in New Markets tax credit allocations since 2003, and has completed more historic rehabs in qualified low-income communities than any other tax credit syndicator. You can learn more about NTCIC at our website at www.ntcicfunds.com.

Background on Federal Rehabilitation Tax Credits (RTC)

Federal tax incentives for property rehabilitation have been on the books in one form or another since 1976 when Congress enacted a federal tax deduction for historic properties. In 1981 President's Reagan's economic stimulus legislation included a 25% historic tax credit, a 20% credit for nonhistoric buildings older than 40 years and a 15% credit for the rehabilitation of properties at least 30 years old. The 25% historic rehab credit was

reduced to 20% as part of the 1986 tax reforms, and the nonhistoric rehab credits were collapsed into one 10% credit for buildings constructed before 1936. Other tax code changes in 1986 that limited the use of "passive losses" by individuals to offset "active" taxable income shifted the market for the federal rehabilitation credits from individuals to corporations. These statutes were further amended in the late 1980s to limit the use of the federal rehabilitation credits by nonprofit project sponsors. The Gulf Opportunity Act increased the federal rehab credits in 2006 to 26% and 13% respectively for a 36-month period for hurricane damaged areas of the Gulf Coast. While Congress has repeatedly recognized that older and historic building rehabilitation is an important component of an economic stimulus package, these incentives have never been reviewed for the need for technical amendments to increase their economic impact, transaction efficiency and compatibility with other federal economic development tax incentives.

The National Park Service reports that since the inception of the Federal historic tax credit, 32,800 rehabilitation projects have been approved generating over $36 billion in historic preservation activity and achieving a 5 to 1 ratio of private investment to federal tax credits. In 2005 the federal historic tax credit renovated 14,354 housing units of which 4,863 were affordable to low and moderate income households.

Comparatively little is known about the impact of the 10% RTC because it is not tracked or promoted by any federal agencies. While we know from US Treasury records that the utilization of the 10% credit is relatively low, it remains an important tool particularly in Main Street settings and on smaller transactions where local property owners often need the subsidy to make improvements, but do not own buildings in designated National Register Districts.

The National Trust Community Investment Corporation maintains a database of 20% federal rehab credit activity. In 2005, 1,101 projects with total development costs of just over $5 billion and Qualified Rehabilitation Expenditures (QREs) of about $3.7 billion were awarded credits by the National Park Service in the estimated aggregate amount of $748 million (20% of QREs). Ironically, despite the fact that the 20% credit has remained one of the few uncapped economic incentives in the federal tax code, its cost to the U.S. Treasury is only a fraction of similar capped social investment credits like the Low-Income Housing Tax Credit and the New Markets Tax Credit.

Utilization of the historic tax credit varies greatly by state. In 2005 the top six states included Missouri, Pennsylvania, Virginia, Massachusetts, North Carolina and Ohio. These top six markets accounted for forty-three percent (43%) of the total development costs of historic tax credit projects last year. Aggressive marketing and processing of applications at the state level, and the added incentive of state historic tax credits have been the most important factors in state rankings in property volume and economic impact. Today 25 states offer some kind of tax credit incentive for historic preservation. Of those, only about 9 of these offer significant subsidies for larger commercial property transactions. Data also show that use of the 20% RTC is highly concentrated in urban areas.

One of the most useful aspects of the 20% credit has been Congress' decision to promote the use of historic buildings to meet the economic development needs of low-income communities. Contrary to popular assumptions, National Trust Community Investment Corporation research shows that since 2002, 68% of all historic RTC approvals have been for projects in census tracts with median household incomes at or below 80% of area or statewide medians. The tax reform legislation of 1986 provided that the federal 20% credit could be combined with the new Low-Income Housing Tax Credit (LIHTC), and in 2002 the IRS ruled that the 20% and 10% RTCs may be combined with the 39% New Markets Tax Credit. Given the location of most commercial and residential historic properties in disinvested center cities and towns, and the high cost of urban property rehabilitation, these policies make good sense.

Economic Impact of the 20% RTC

Over the last three years, NTCIC has worked closely with Rutgers University to develop a methodology to measure the economic impact of the federal historic tax credit called the Preservation Economic Impact Model (PEIM). This model to date, measures the projected direct impacts of dollars spent on historic rehab based on factors of project cost, location and property type as well as federal labor and census data. In testing the accuracy of the model, NTCIC has compared the PEIM output to actual project figures and found a close correlation between actual and projected data. The Preservation Economic Impact Model estimates that in 2005 and the first quarter of 2006 the Federal historic tax credit program created 46,323 construction jobs and 59,265 permanent jobs. In that same time period the federal historic tax credit generated $363.7 million in local and state taxes.

The comparative impact of historic preservation with other economic activity has been studied, particularly in the work of economist Donovan Rypkema. Rypkema has documented that rehabilitating older buildings has a greater economic impact on local communities than new construction. If a community has a choice between spending $1 million on new construction and $1 million on rehabilitation, rehabilitation offers greater advantages: $120,000 more dollars will initially stay in the community; 5 to 9 more construction jobs will be created; 4.7 more permanent jobs will be created; and household incomes will increase by $107 more than household incomes in the vicinity of new construction. Retail sales will increase by an additional $142,000.

Keys to Greater Utilization and Impact

With the help of a grant from the Ford Foundation, NTCIC and the National Trust's Department of Public Policy conducted a national study of barriers to greater utilization of the federal RTCs, particularly with regard to increasing use of the credit by small business owners of commercial properties in urban, town and rural Main Street settings.

The conclusions of the study were that the keys to broader use of the 10% and 20% RTCs are to (1) simplify the process and lower the costs of selling ("syndicating") the credits so that smaller transactions and property owners could more easily understand and afford to

use the credits, (2) increase the credit incentive for smaller projects, (3) provide incentives for targeting RTCs to lower income areas, (4) increase credit targeting to property uses needed in city and town centers, particularly housing, entertainment and cultural facilities.

Summary of H.R. 3159

With these goals in mind, H.R. 3159 was introduced on June 30, 2005 and referred to the Ways and Means Committee. An introduction in the Senate is planned for this fall. The bill deals comprehensively with the themes noted above in an effort to broaden the use of the credits by opening up a marketplace for smaller "Main Street scale" projects, providing deeper targeting to areas in need of economic development, and removing barriers to using the credits for today's drivers of downtown urban and small town development—housing, entertainment and cultural facilities.

Small Deal Incentives. H.R. 3159 ("Bill") promotes greater use of the federal 10% and 20% credits in small town centers and traditional urban neighborhood commercial strips providing for a 40% credit on the first $1 million of Qualified Rehab Expenditures in a project that qualifies for $2.5 million or less in QREs. The additional equity provided to the deal will help offset the fixed transaction costs that tend to be the same for both large and small properties, and allows a higher percentage of the credit benefit to defray the cost of bricks and mortar. The Bill also calls for the indexing of the eligibility date for 10% (nonhistoric property credit) so that any building 50 years and older would qualify. This will provide more uniform benefits to an entire small town center and add eligibility to newer districts, particularly in the west coast, mountain and plains states. By adding housing as an eligible use of the 10% credit, H.R. 3159 helps promote the trend of converting upper floors of small commercial buildings to housing.

Low-Income Area Targeting. As indicated above, historic tax credit projects are self-targeting to low-income areas. But, unlike the Low-Income Housing Tax Credit, there has been no reflection of the additional subsidy needed to make the numbers on RTC projects work in so-called Difficult to Develop Areas (as defined by HUD). The Bill would recognize this oversight and provide to RTC projects the same 130% basis boost currently afforded to LIHTC properties.

Promoting Downtown Housing. A Brookings Institution study documented some years ago what has become obvious to even the casual observer of large and small town center trends—there is significant new downtown housing demand today because the large and aging baby boom generation is down-sizing their housing and joining young urban professionals in the downtown rental and condo market. What was at first a tentative loft rental market has matured in many cities into demand for high end condominiums. This trend has in turn become a driver for job creation and entertainment and cultural facilities.

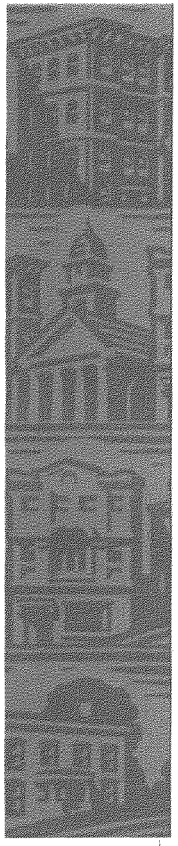
H.R. 3159 addresses and promotes this trend for both market rate and affordable housing. Current regulations require that when combining the use of the LIHTC and RTC credits

on affordable housing projects, the basis of the LIHTC credit must be reduced by 100% of the value of the RTC. Given the high subsidy needs of affordable housing and the high demand for affordable workforce housing in large and small town settings, this requirement is counterproductive. The Bill would eliminate the basis adjustment. The 130% basis boost mentioned above would also spur more downtown affordable housing since most city and town centers are qualified low-income census tracts. H.R. 3159's addition of housing to the list of eligible uses for the 10% credit also furthers the Bill's goal of promoting downtown housing. 3159's condo provision allows for the early (prior to the expiration of the 5-year holding period) conversion of RTC rental units to condominiums so that RTCs can begin to promote a deeper homeownership base in center city business districts and adjacent neighborhoods.

Promoting Downtown Quality of Life. H.R. 3159's provisions promote another ubiquitous trend toward entertainment (restaurants, bars, sports and recreational facilities) and cultural venues that support the larger base of downtown residents. NTCIC's work with the League of Historic American Theaters has documented a high level of interest in rehabilitating historic theaters and the use of those theaters as the lynchpin of diversified downtown revitalization plans. NTCIC is currently syndicating RTCs to support the rehabilitation of theaters in towns as small as Washington, NC and Middlebury, VT medium sized urban areas such as Utica, NY as well larger performing arts centers on Baltimore's Westside and in Knoxville's Gay Street District. These and other cultural facilities are critical to sustaining the economic growth of towns of all sizes. However, the "disqualified lease rules" enacted by Congress on the 1980s make these transactions harder and more expensive to accomplish.

The tax-exempt use rules of Section 168(h) of the Code, as currently applied to RTC projects, penalize not only abusive transactions but also an unacceptably high number of non-abusive, community revitalization-oriented projects. The Bill fine tunes these rules as applied in the RTC context in order to reduce the number of beneficial projects that are adversely impacted, without weakening the anti-abuse function the rules were designed to perform. Under H.R. 3159, the nonprofit leasing threshold that triggers disqualified lease rules would be raised to 50% from 30%. Previous regulations prohibiting the use of tax-exempt bond financing on such projects, leases in excess of 20 years and leases with fixed sale prices would be eliminated. Certain sale/leaseback transactions, which were the genesis of these rules, would be retained.

NTCIC firmly believes that these changes to the current RTC statutes and regulations will have a significant impact on the use and the economic impact of the 10% and 20% rehab tax credits. We appreciate the leadership and support of Congressman Turner on this important legislation as well as the opportunity to testify today. We are ready to do whatever may be requested by this Subcommittee to further the prospects for the enactment of H.R. 3159.



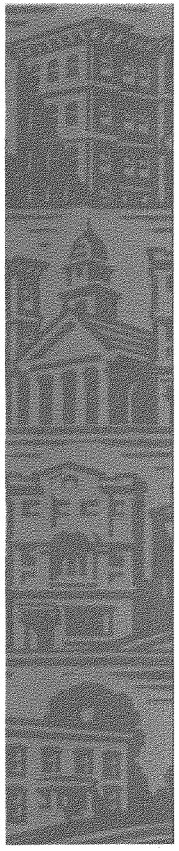
NATIONAL TRUST COMMUNITY
INVESTMENT CORPORATION
a subsidiary of the

NATIONAL TRUST
for HISTORIC PRESERVATION®

Historic Preservation and Community Development: *Why Cities and Towns Need to Look to their Past as a Key to their Futures*

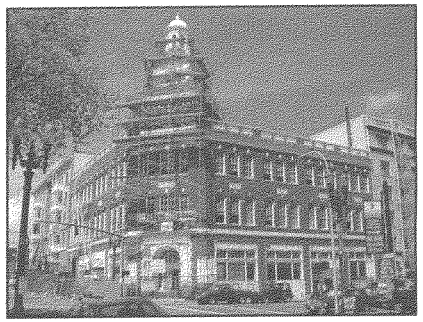
Testimony of John Leith-Tetrault
President, National Trust Community Investment Corporation

House Government Reform Subcommittee on
Federalism and the Census
Washington, D.C.
September 20, 2006

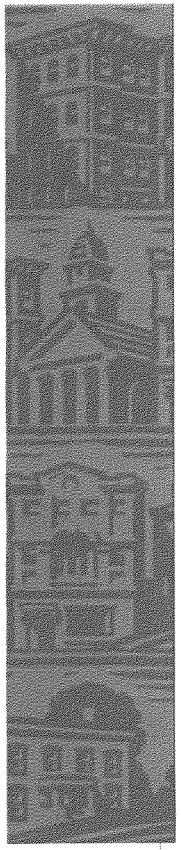


Testimony Outline

- About the National Trust Community Investment Corporation (NTCIC)
- Background on Federal Rehabilitation Tax Credits (RTC)
- RTC Economic Impact
- Keys to Greater RTC Utilization and Impact
- Provisions of H.R. 3159

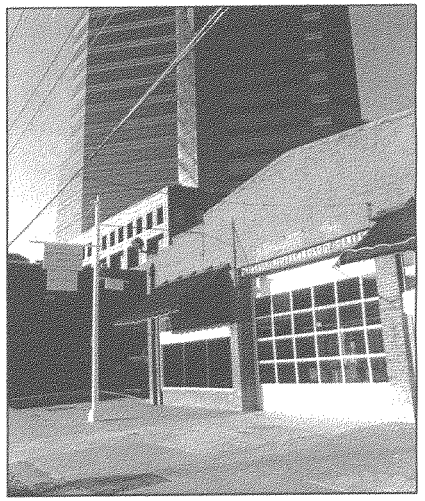


Portland Telegram Bldg - Portland Oregon

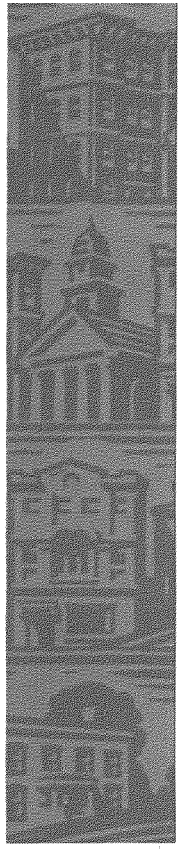


About NTCIC:
History and Purpose

- Organized in 2000 as a wholly owned subsidiary of the National Trust.
- Purpose: Invest private capital in the rehabilitation of historic properties.
- Purpose: Upstream profits to the National Trust to support its education, advocacy and community revitalization activities.



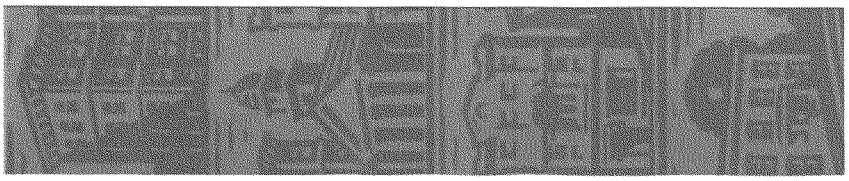
Triangle Biotech Center – Durham, NC

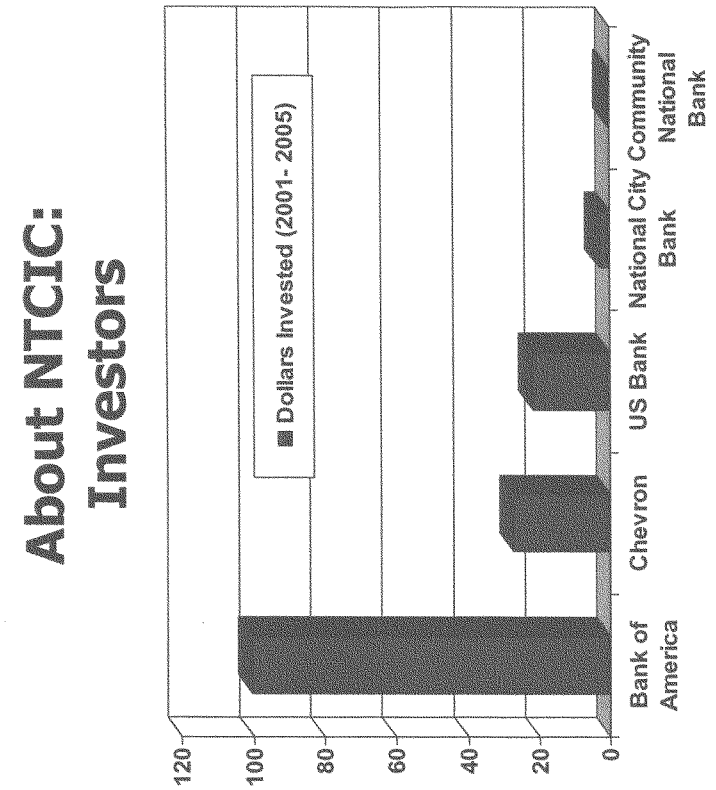


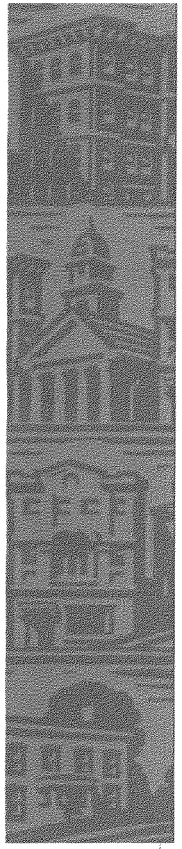
About NTCIC:
Track Record

- 37 projects over six operating years
- $158 million in gross equity invested
- $694.2 million in total development costs

Masonic Grand – Baltimore, MD

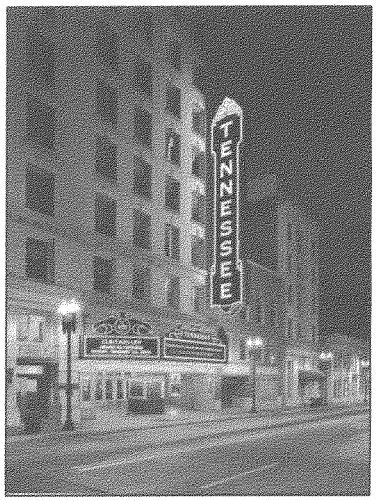



About NTCIC:
Investors
Dollars Invested (2001- 2005)
120
100
80
60
40
20
0
Bank of America
Chevron
US Bank
National City Bank
Community National Bank

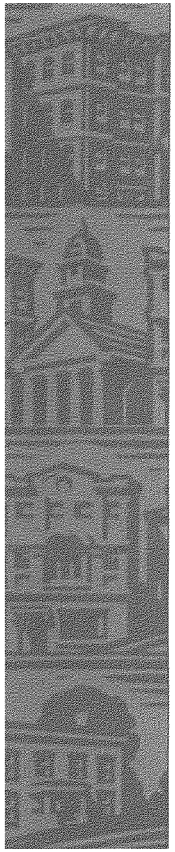


Background:
Federal Rehabilitation Tax Credits

- Reagan 1981 stimulus package transforms 1976 tax deduction to 3-tiered credit.
- Deficit Reduction Act of 1984 – restricts nonprofit use of the RTC
- 1986 tax reform resulted in present 20% and 10% RTCs. Limitation on use of passive losses shifts tax credit market from individuals to corporations.
- Twinning of Low-Income Housing and New Markets Tax Credits allowed in 1986 and 2002 respectively.

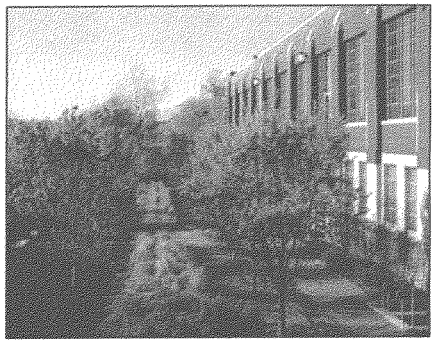


Historic Tennessee Theatre – Knoxville, TN



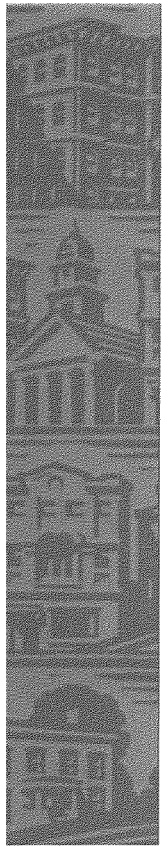
Background: Federal Rehabilitation Tax Credits

- Over 25 years, 32,800 completed projects.
- $36 billion in total development costs.
- About $5 billion in 2005 development activity spread over 1,100 projects generating $740 million in historic RTCs.
- 6.67 leverage ratio
- QREs up over 300% since 1999



Dia Beacon – Beacon, NY

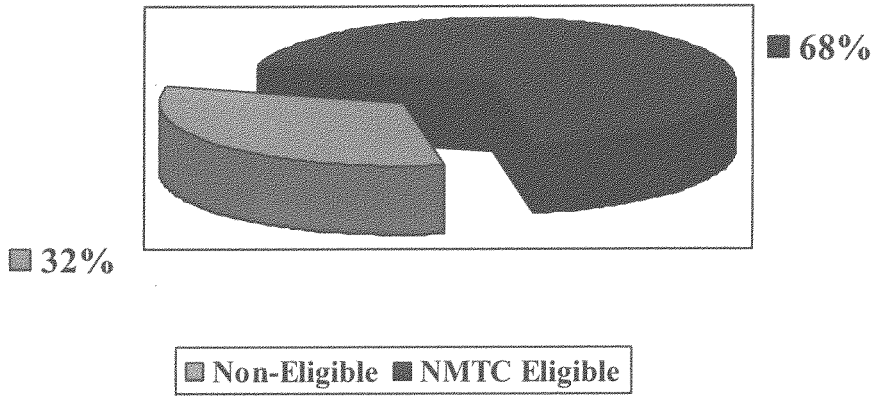
Background:
Federal Rehabilitation Tax Credits
The Growth of State Credits
Number of States with RTC programs
35
30
25
20
15
10
5
0
2
9
32
1988
1995
2006

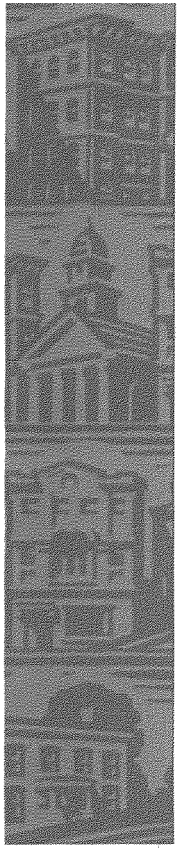


Background: Federal Rehabilitation Tax Credits

Combining the RTCs and the New Markets Tax Credit

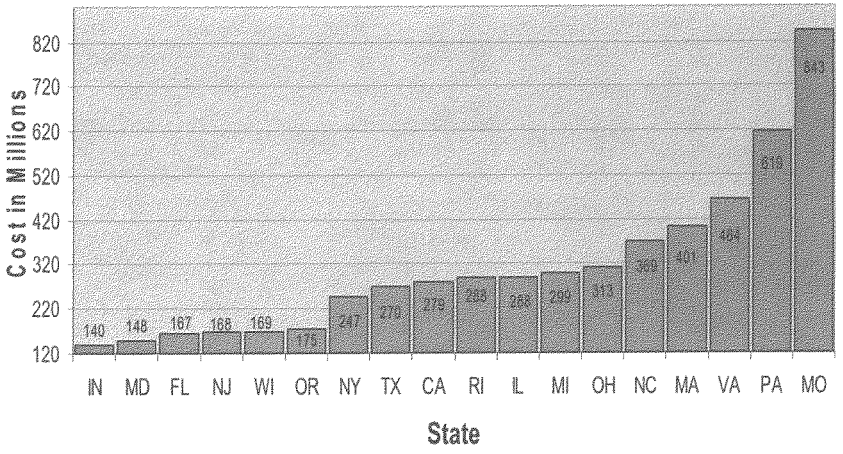
Percentage of Historic Tax Credit Projects Eligible for NMTCs 2002-2005

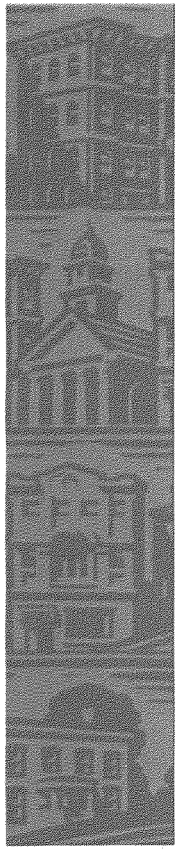




Background:
Federal Rehabilitation Tax Credits

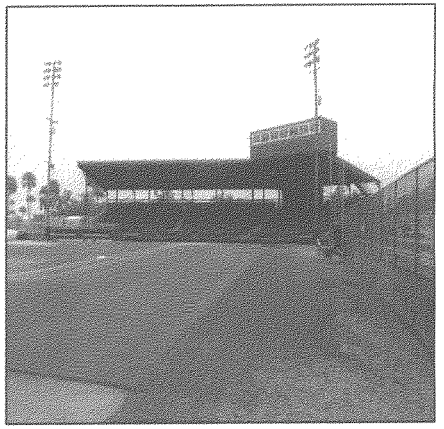
Utilization by State - 6 top states account for 43% of RTC activity in 2005



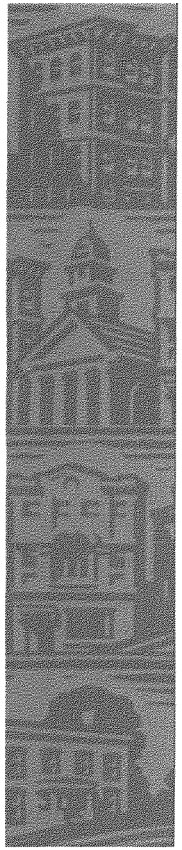


National RTC Economic Impact 2005

- 46,323 construction jobs
- 59,265 permanent jobs
- $363.7 million in state and local taxes

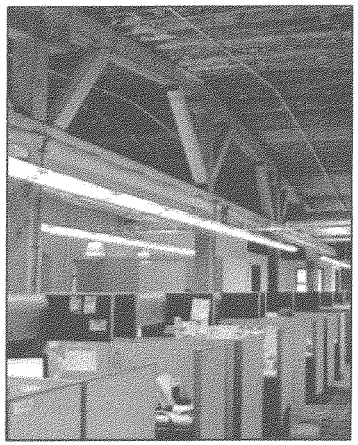


Jackie Robinson Ballpark – Daytona Beach, FL

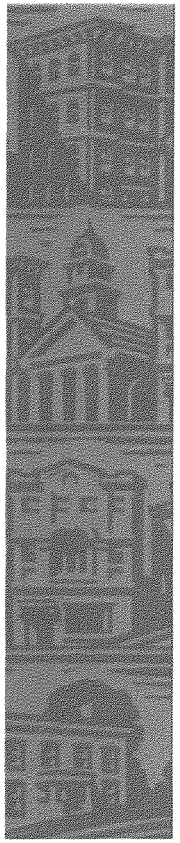


Federal RTCs: The Keys to Greater Utilization and Impact

- Simplify the deal structure and lower the transaction costs.
- Increase the credit incentive for smaller projects.
- Provide deeper subsidy for low-income communities.
- Target property uses that are drivers for downtown development.

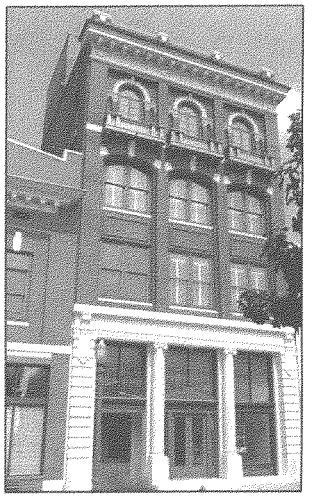


Wheeling Stamping Bldg – Wheeling, WVA

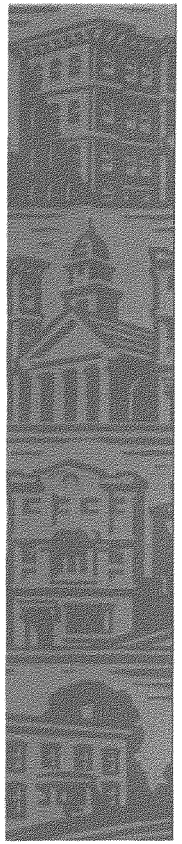


The Provisions of H.R.3159

- **Small deal incentives**
  - 40% RTC for first $1 million in QREs on deals no larger than $2.5 million in total QREs.
  - Use of 10% credit for housing promotes upper floor housing development on traditional Main Streets.

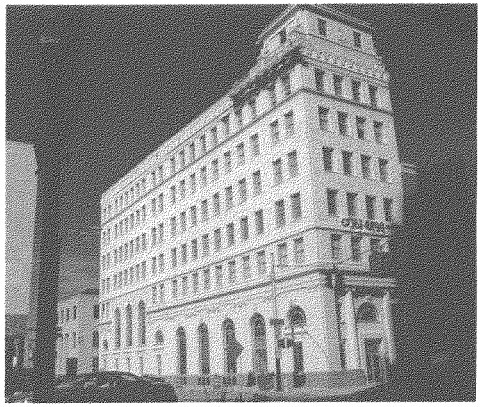


Dalton Bldg – Rockhill, SC

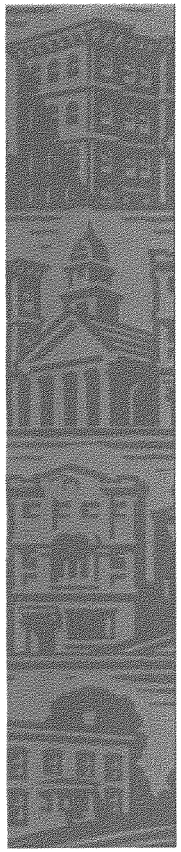


The Provisions of H.R.3159

- **Targeted benefits for low-income communities**
  - 130% basis boost for Difficult to Develop Areas

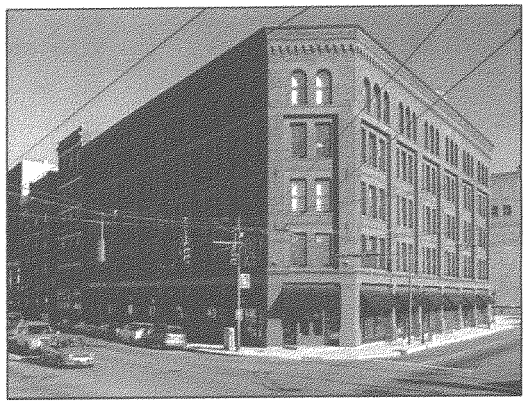


First Street Lofts – Flint, MI

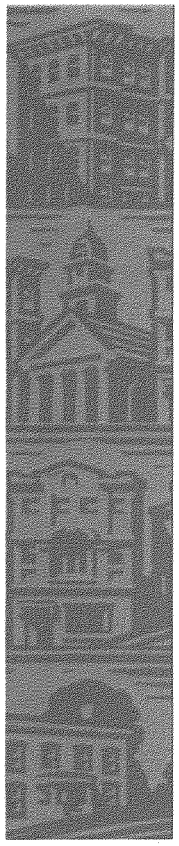


The Provisions of H.R.3159

- **Promoting downtown housing**
  - Elimination of the basis adjustment for twinned historic and low-income housing tax credit projects
  - Early condominium conversion
  - Use of 10% credit for housing



The Cannery – Dayton, OH



The Provisions of H.R.3159

- **Enhancing downtown quality of life**
  - Elimination of most limitations on the use of credits by nonprofit project sponsors and leasing to nonprofit tenants

Tucson Fox Theater – Tucson, AR

Mr. TURNER. Well, I want to thank all of you for your time being here today and also for the time it took to prepare.

One of the things that I think is important in having a hearing like this is to communicate the effectiveness of programs that are out there, instill some enthusiasm in those who are currently not using the programs by allowing them to see some things that have worked in communities and the tools that are available, and then also have a critical look at ways that we can improve what we have so that we can be more effective. All of you in your testimony have done a great job in that.

I am going to give you one softball question first before we get down to the nitty-gritties because I really do think in addition to improving the projects that we have and the programs that we have, one of the tasks that we have is communicating to people the availability of these programs and the effectiveness of these programs so that they can be used. Many times, even if you look at New Market Tax Credits or Historic Tax Credits, the awareness level of the availability of these tools that can be an impetus for new projects or for projects that are underway that could be more successful if these tools were employed, is a factor.

Could we first do a round of each of you telling us what you think needs to be done for us to more effectively communicate out to communities and to developers and those who could utilize these programs so they can make an impact in our communities?

John, we will start with you.

Mr. FOWLER. Well, if that is a softball, I am not sure I am ready for the hardballs then. This is not exactly the ACHP's realm of interest. I mean we use, obviously, the internet as our primary vehicle for getting information about our activities, about the preservation program, out to the communities and to users.

One of the things that has come up in the issue panels that are working on issues going to the Preserve America Summit in October is exactly the question that you pose, though, and that is how can we make the information about programs that are managed by the Federal Government more accessible to users. One of the things that has been suggested to be considered is to improve sort of a national preservation clearinghouse. There is currently the preservation portal that is managed by the National Park Service, which is an excellent resource for accessing information about the Federal program, but I think there is a lot of sentiment that we could build from that and use that vehicle to have one-stop shopping, if you will, for Federal assistance and Federal programs that can be used by stakeholders.

So I think that would be our suggestion, and I would be happy to keep the committee apprised of the development of that idea as the Summit goes forward because that was an important point that came up in our discussions.

Ms. MATTHEWS. Mr. Chairman, I think I will go straight to this National Park System Advisory Board adoption of last Friday, which is hot off the press.

We are looking at four tasks. One is interpretation of the Secretary of the Interior's standards and making more user-friendly the requisites for windows, interior treatments, new additions, related new construction—you alluded to some of that in your Dayton

project—and the modern day requirements, and new environmentally certified technology. The standards are what the standards are, but the Trust, the National Conference for State Historic Preservation Officers, and the Historic Preservation Development Council among our private partners and public partners asked for us to have a look at those, how we can make those requirements under the Secretary of Interior's standards more understandable up front when a project begins. That is one.

Our second one is Web-based guidance on interpreting the standards that consultants can turn to, improving the application process; and then task three, reevaluating and revising our policy concerning functionally related complexes; and then an oversight task force that will see that the things we have been urged by our public and private partners to do will be implemented by the National Park Service by December 2007. It is an ambitious schedule. It has been a lot of hard work on the part of the Advisory Board Committee. We had investors. We had private consultants. We had members of the ACHP. We had a National Park Service rep, a National Conference for State Historic Preservation Officers rep, and professionals in the field. So we tackled a tough task at their request. We moved forward with it. We intend to implement it very seriously. That is one thing we can do.

We also asked about, I think, how programs like the Native American Graves Protection and Repatriation Act work and how we can improve those. I can tell you that those are moving forward. There are sacred ceremonies when humans are repatriated with the agreement of all the tribal descendants involved. Usually, they are not very public. The one that occurred in Mesa Verde, April 20th, had no publicity whatsoever. It required the consent and the involvement of over 11 years of consultation among 23 Pueblos, Apaches, the Navaho and Hopis and others to reach a time at which on a day selected people were buried, 1,500 humans and 4,500 funerary objects that came off the shelves of repositories affected by Federal activity across the country. These are powerful, quiet, sacred things, and they are moving forward.

Last, I would mention that we are working very hard to be directly involved from day one with a private developer such as the McMillin Co. in Mr. Bilbray's district, to work with him from day one, hand in hand with SHPO. So we did not have a moving target. In the case of Mr. Bilbray's district, we are working with an excellent State Historic Preservation Officer, Mr. Donaldson, hand in hand on the Secretary of Interior's standards and how they apply to that several hundred acres Naval Training Center, and that huge project was undertaken. We have sent our own staff people twice for site visits to that very complex undertaking.

The goal is to work well with the private sector so that these projects go forward and revitalize communities and have an economic impact.

Thank you.

Mr. MOE. Mr. Chairman, I have a little different take on this. I am not sure that the primary issue here is not the fact that the tax credit availability is not that well appreciated. I think one of the reasons why we have seen such success in urban revitalization in recent decades is the fact that we do have developers, account-

ants, other practitioners who really do understand how to access the tax credit.

As you recall, even though you weren't here at the time, the 1986 Tax Act largely eviscerated the tax credit as it existed then. A lot of people thought it was really all but dead. But thanks to the ingenuity and creativity of a lot of developers and others, we have learned how to access it. Activity under the credit has soared, and we see the evidence of it in virtually every city in America.

We very actively market the credits. As John Leith-Tetrault will tell you in a moment, we actually syndicate the credits. So we have a special incentive to market them.

I don't think the problem is so much that developers aren't aware of how to access the credit. The problems are the ones that we have already talked about: the lack of clarity sometimes in the application of the Secretary's standards, the ease of access, the issues that have been addressed in this report that Dr. Matthews referenced.

The other problem is trying to make the credit more available for less costly projects. For example, it is very hard to justify the transaction cost in applying the credit for projects under $2 million. Through Congressman English's bill, that will be made much easier by deepening some of the values of the credit and so forth. So I would put the emphasis there.

Obviously, the Park Service and the State Historic Preservation Offices are both underfunded, and they could use greater funding, not only in terms of administering the credit but in terms of making its benefits better known.

Mr. LEITH-TETRAULT. I would echo some of the comments of Jan Matthews and Dick Moe. I think passage of H.R. 3159 is critical. That bill identifies what developers have told us are some of the issues with using Section 47.

I think the overall impression, and you will be hearing from some developers later on another panel. The general impression of the Historic Tax Credit is it is difficult to use, and when you look at it and recognize that it has not had a technical amendment made through advocacy and the historic preservation movement since the 1980's, there is built up a whole list of issues and concerns that take up how they generate a lot of transaction costs. The benefit, too much of the benefit of the credit is going to pay lawyers and accountants to get accounting and legal opinions and not enough going to bricks and mortar. So the technical fixes that are in H.R. 3159 are critical. Once we have that bill passed, we need to then take that bill on the road and help everyone understand what are some of the fixes, what are some of the ways that the credit is now easier to use.

I would applaud the Park Service's efforts on its Advisory Committee on the standards. All of us in preservation have been hearing, for years, complaints from developers about inflexibility. Preservation is what it is, but I think that the conclusions and recommendations of that committee will go a long way to answering some of those concerns.

One of the things we don't do well in preservation, I think, is reach out to other constituencies. We had several testimonies this morning indicating that with the Historic Tax Credit, Congress has always recognized the important of using historic buildings to pro-

mote other causes—affordable housing being one; economic development in low income communities being another—so that the New Markets Tax Credit can be twinned with the Historic Tax Credit. The Low Income Housing Tax Credit can be twinned. But as preservationists, we need to recognize that deep nexus with community development and begin marketing our credit more effectively to affordable housing advocates and community development advocates.

That is the world I come from. I can tell you when I went to community development conferences years ago, you never saw people from the preservation community coming to talk about the rehab tax credit, and likewise at preservation conferences, you rarely see conversations about other credits that can be twinned. So we need to do a better job at that.

One thing we have started doing recently is we are, through NTCIC, trying to mobilize the Trust's State and local partners, State and local preservation organizations. So we are on the ground and know where these projects are being planned, and we are actually offering a referral fee to those, to our constituency to bring us projects in an effort to get the preservation community locally more in touch with the development community so that these projects can be identified and there can be marketing one on one with those developers.

I would say last that one of the things we are beginning to do more effectively is go to the local markets and hold breakfasts and lunches with groups of developers. We have a Web site. We have marketing materials at the national level, but there is nothing that replaces a discussion with a dozen or so developers around the table at breakfast to talk about this credit and show some slides about what its impact has been and then staying over a day and talking with developers individually about what they can do to access the credit, and we are going to begin doing more of that.

Mr. TURNER. Before I get to Mr. Bilbray, I do have one more question, and then we will do a second round of questions.

I want to tell you about an experience that I had yesterday and ask for your anecdotal thoughts on this. Many times when we talk about historic preservation, we talk about the fabric of a community, utilizing the historic nature of either what had occurred at a place in the community or an architecturally significant building and utilizing that to attract capital to turn around the building or a specific community or neighborhood. We talk about the leveraging of dollars that has happened, and we talk about communicating to the next generation of the significance of what occurred. But the shift of pride that happens, that community impact, is something that usually, in the discussion of what we have accomplished, is evident but lost in the discussion.

I want to tell you about an experience that I had yesterday that brought it home to me and that it is something that applies everywhere.

Yesterday, I welcomed Chairman Charles Taylor into my community, subcommittee Chair of Appropriations-Interior, and that includes areas of historic preservation, and we went into two spots in my district. First, we went to the Wright-Dunbar area; and we went to the home of the Wright Brothers, which is Hawthorn Hill, and showed him those historic sites, again, that go to a historic

happening, and we also went to a bridge in Lynchburg, Ohio, in my district which is a very rural area and it is a covered bridge that was originally built in 1870. It spanned two counties which made it significant to two different communities, two counties that are in my district. The communities had come together almost in a barn-raising fashion to restore this bridge. They still have a ways to go on the undercarriage and the foundation of the bridge, but the upper structure, they were able to restore.

As we were walking through the bridge with the county commissioners and the individuals that had, again in a community barn-raising style fashion, restored this covered bridge, they showed us the places where the bridge had been subject to vandalism before its restoration. They talked about fires. This is where the first fire occurred; this is where the second fire occurred. But yet, the bridge survived and was able to be restored.

So, inevitably, the question came: Well, what are your fears about vandalism now that you put forth all this effort and you have this beautiful covered bridge that has been restored?

They said: We really haven't had any. There is this new respect for the bridge and what has been accomplished, and we haven't really had to put a great deal of effort to cause this bridge to be protected. People come here. They have a sense of reverence for what has occurred in the past, and now the bridge has not been subject to vandalism.

Each of you, as you have looked through both communities and projects, you know that sense of pride and change that has occurred.

Dick, why don't we start with you? Then others can chime in with their thoughts of how this doesn't just result in leveraging ratios and bricks and mortars buildings being restored, that there is an impact that occurs on the spirit of the community.

Mr. MOE. Well, you are exactly right, Mr. Chairman. The kind of pride that people have felt in your district over that bridge or over the Wright-Dunbar neighborhood is what people feel everywhere when a preservation project has been undertaken and undertaken right. It is not just bricks and mortar. It is not just the economic benefits, but it is the community pride. What is at the end of this at the end of the day is a sense of community, and that is why I believe a sense of community can be deepened and enriched by an appreciation of the history that occurred there, as represented in the built environment. It doesn't have to be all historic. It can be historic mixed with new construction, and it takes different forms in different places.

But, as John Kenneth Galbraith said some years ago, no one has ever retroactively disliked a preservation project, which I think is accurate because you see a hulk of an old building or a burned out old bridge and you say, how can this be brought back, but once it is brought back through the vision and commitment of people who really care about this, everybody takes pride in it.

I think that one of the under-appreciated facts of historic preservation is that, particularly in inner city older neighborhoods, when preservation works, it instills community pride and respect for the community and respect for your fellow human being.

Mr. TURNER. Would anyone else like to share their comments?

John.

Mr. FOWLER. I would echo what Dick said just very briefly, in that the ACHP's experience in the Section 106 process is that we often see that happening where resources are non-appreciated at the beginning of the process, if you will. When an agency is coming in and planning to do something in a community and through the requirement that there be a consideration of the historic value, there becomes a broader understanding within the community and there becomes a rallying point in support. We just see this repeatedly by simply having a stop, look, and listen kind of process that gives people an opportunity to say this is important to me and to express that more broadly to their community.

Mr. LEITH-TETRAULT. I would agree, and I would also look at it from an investment vantage point and a financial vantage point as well. Historic buildings, because they tend to be large, very visual, the results are beautiful. They tend to occur in low income areas where you have deterioration of other buildings to contrast that rehab. These buildings build confidence in a neighborhood's future. They give banks, individual investors, adjacent property owners the confidence that they too can take that leap and invest.

We recently took a look at the economic spinoff impact of a project we participated in, in the Midwest, and it was one building sort of in the middle of a group of historic properties. We noticed after we had made the investment that a number of other properties were being rehabbed.

So we walked around the neighborhood and spoke to each of the owners of the 10 buildings—10 additional buildings were being renovated—and we said: Why are you doing this?

They said: Well, this building in the middle was so critical. I couldn't have hoped to lease my building if I had to walk my perspective tenants by that eyesore, but now that it is gone, I feel like I can take the risk.

The building, the subject building, was 200,000 square feet. When we tallied up the spinoff impact, we were seeing the additional historic renovation of 2 million square feet. So it's a matter of neighborhood pride, but it is also confidence that further investment can occur and it is a safe thing to do.

Ms. MATTHEWS. I guess I would add to that the shift of pride is also the shift of discovery, and therefore, the shift of ownership because the reconstructors, hands-on, of that bridge took ownership of it. It became theirs. It became the citizens' of both counties absolute pride in something they had done. Therefore, the vandalism stopped. There is this thrill of discovery.

Who would have ever known until we did research that the Wright Brothers published Dunbar's first poems; that they went to high school together; that before they did bicycles, before they did an airplane, they had a printing shop; and that they were best friends with Dunbar who ended up running an elevator here in the Capital because he couldn't sell his poetry? These stories reach out to people.

The most powerful thing about the National Historic Preservation Act and the National Historic Sites Act, the 70 years of one, the 40-year anniversary of the other, is that it reaches clear down to the grassroots of those reconstructors of that bridge that bridges

the gap on the line across the river that is the dividing line of two counties. That is the power between what Congress enacted in the Preservation Act and Historic Sites Act, that it reaches down to the grassroots in a very powerful explosion, shift of pride, shift of ownership through shifting discovery that we require through documentation for eligibility of significance.

Mr. TURNER. Thank you.

Mr. Bilbray.

Mr. BILBRAY. Thank you.

First of all, Doctor, I want to clarify and make sure there is no undue pressure on you coming from my camp, but the Liberty Station project is not in my district.

Ms. MATTHEWS. Oh, sorry.

Mr. BILBRAY. It was in my district for 16 years, but if anybody who tried to sell that is putting undue pressure on you, I want to clarify, though.

Ms. MATTHEWS. No; actually, that was my own mistake in looking up your district.

Mr. BILBRAY. No problem; I do want to let you know that the chapel at that project is the site of the marriage of Congresswoman McMorris just recently, and it was the site of my baptism. So I don't want undue pressure put on you on that level.

Ms. MATTHEWS. Baptism? No pressure?

Mr. BILBRAY. I know a lot of my colleagues will be shocked to find out I am not a heathen, but we will talk about that later.

Let me just say, I guess, after almost 20 years of being in the government management side and the executive branch in local government for a long time, I am very interested in not just the correction that H.R. 3159 does in the statute, but really—it would probably be in a doctor's court—the essential gap between the theory of legislation and the reality of practical application by the people on the front line.

Let me first preface this, Mr. Chairman, by saying I have always found it very disconcerting how much our society focus puts so much value on natural history and really relegates to a back corner, man-made history in a lot of ways. Culturally, we do not, no matter how much we talk about it. In the last 30 years since 1970, 40 years, we have almost made natural history, raised it up to a deity and forgotten that manmade history is essential to us too of who we are as a people and as individuals.

That aside, Doctor, if we passed the best law in the world and we do not have the people on the ground with the right attitude and the right approach, we are going to be back here, saying again how can we do it legislatively. I will give you an example. I have seen the difference between a planning department and a building department and the total different attitude and relationship between the client and a Government Agency. I have seen bureaucrats who will help people get to go, get to success, and those who basically feel their goal is to stop mistakes but not to help to move the ball along or get into it.

How do you see that we can, as a Federal Government and specifically in your Department, be more of the building inspector mentality of actually being part of the team to be successful into it, rather than what we traditionally see so much, especially in the

Federal Government, of the gatekeeper but not necessarily the perpetrator or participant in the process of preservation?

Ms. MATTHEWS. Well, I can't comment on H.R. 3159 because the Department and the Park Service have no position on that currently.

But I can say that this subcommittee's hearing of last November that lasted 2½ hours, actually the language throughout this subcommittee's hearing was apparent in the disaster relief of $43 million, and I can say that in the Park Service, in Interior, we have taken very seriously every suggestion we have had to improve programs, both NAGPRA and this investment tax credit program. We have taken very seriously and actively a role to see that we deliver what you all intend through your legislative authorizations and your appropriations. There is probably no greater responsibility in Government at every level than the people who deliver the services because they are very hard won at your level.

Mr. BILBRAY. Don't get me wrong. The reason why I bring it up is I have been where you are and trying to get the people working for me to get in the right mind set to move that way. I mean I literally had an environmental health department working one side with the business community and I had an air pollution district working with the other side, and the difference in attitudes was just extraordinary to where finally to get the ball rolling, I told the air district if they couldn't figure out how to work with the community in 6 months, they were going to be put under the environmental health department. It was astonishing how quickly they transformed their attitudes. [Laughter.]

So this is all just the challenge that we have in Government. I think that I really want to focus on your Department because all the theory in the world and all the great legislation in the world really relies on your executing the intention and getting to go. That is, by itself, tougher than all the challenges the rest of us have, and I want to hope and pray that you are successful in your efforts.

Ms. MATTHEWS. Well, I read your district wrong, but I read your bio right, and I can tell you that as an Ohio farm girl who ended up a Florida SHPO, that I don't think there is any higher honor than serving the public to administer the programs that you all authorize and appropriate, and we are doing our very, very best.

Mr. BILBRAY. Thank you. Believe me, I know how tough it is to try to remind everybody in the government structure, no matter what level that after all, we are all on the same team and hopefully working toward the same goals.

Thank you very much.

Ms. MATTHEWS. We really appreciate your time and effort to express that, and we are.

Mr. BILBRAY. I appreciate it.

Mr. Chairman, I yield back.

Mr. TURNER. Dick, I want to go next to the topic that you raised of an historic Homeowner Tax Credit and the importance that it might have, and you gave us some great statistics here that I would like to have you embellish some more of the issues and what the impact would be.

You said that 32 percent of households below the poverty line and 34 percent of renters whose household income is less than

$20,000 per year live in older and historic homes. Of the Nation's over 12,000 historic districts, comprising over a million contributing structures, 60 percent overlap census tracts in which the poverty rate is 20 percent or greater.

There are some compelling statistics there of not just that these areas have been declared historic meaning that both the community and on the National level, there is a recognition of the value of their preservation but of the second aspect being one of a need for capital and investment. Many times when people talk about an Historic Homeowner Tax Credit, people are worried of wealthy neighborhoods or wealthy areas where the property values and the individuals living in them both justify the reinvestment and the availability of the capital to make that reinvestment. The statistics that you are providing us show a significant area in which the capital is not there, but the need for preservation is there. Also, if they have such an expression of poverty, you tend to have an expectation that there is also symbols of blight that occur there that perhaps could be eradicated, using historic preservation as a tool.

If you could speak a little bit more about the impact that you would see of having a Homeowner Tax Credit and what we may need to overcome both in policy and in impact to do that.

Mr. MOE. Thank you, Mr. Chairman.

I welcome the chance to talk about this because it is a concept that the National Trust has long championed. We drafted a bill some years ago that Congressman Clay Shaw introduced with broad bipartisan co-sponsorship, a similar bill in the Senate, and it would have provided a significant tax credit for homeowners. We think the need is clearly there for the reason that you mentioned because the overlap between poverty census tracts and historic districts is obvious and is clear, and there is a tremendous need in these historic districts for the kind of incentive that a tax credit would offer.

We think that it probably needs to be carefully targeted to assure everyone that the resources made available through the credit are only going to those people who otherwise wouldn't make this kind of investment, in other words, based on some kind of need. I think that can be done by defining the kinds of census tracts where it could apply, or by putting a cap on the investment or some combination of both, but there are means to do this so it would be carefully targeted.

We did not get traction on this bill, frankly, when it was first introduced largely because of the cost and some of the issues you mentioned. I don't mean to tell either of you how serious the fiscal climate is up here. So we basically didn't put that on the back burner, but we decided to pursue Congressman English's bill instead because it is much lower cost, it is much more carefully targeted. But we are eager to revisit the question of an historic Homeowner Tax Credit.

Many of the States that have tax credits cover homes, historic homes, as well as commercial buildings, and the lessons there have been instructive. For example, in Maryland, it has been quite extensively used and in other places.

We estimate that having an historic Homeowner Tax Credit could draw at least as much investment per year as does the exist-

ing commercial credit which now draws $3 billion in private investment. We think that it could be up to double that amount if homes were included, depending upon how you structured the bill. So this is a very important issue for us, and we hope that we can get back to it in a serious way before too long.

Mr. TURNER. Who else wants to comment on the issue of homeowners tax credit?

Let me just provide my little commercial for it. Having lived in an 1885 Victorian for 11 years, I can tell you that 100-year-old things continue to fall of them, and that the project of restoration and maintenance is never done in homes and in communities like that. That assistance certainly, I think, can be very helpful to individuals who are wishing to maintain a property that has been reclaimed or restored. The home that I lived in had been abandoned for over a decade before an individual had acquired it and had significantly restored it, and my wife and I finished the restoration but still found over the next 11 years that it is quite a caretaker job having an over 100-year-old property.

I want to recognize that we have Ms. Foxx from North Carolina with us, and then I will turn to Mr. Bilbray for additional questions.

If you will excuse me for a moment, I will be returning to the Chair in a few minutes.

Mr. BILBRAY. Mr. Chairman, let me just echo to you the fact that my home was an adobe. My wife said she moved 2,000 miles from New Orleans to live in a mud house which is kind of unique in some certain ways. Thank God, the kids weren't able to burn it down when they were little. The trouble is if one of the teenagers leave a sprinkler on, you may lose a living room wall. But there are different challenges on that, and I sure hope that some of you can come over and persuade my wife that the Victorian she left New Orleans obviously did not have the historical significance as an adobe in San Diego County.

I would like to get back into the issue of these historical uses and the flexibility we can try to find here. It is much like what we are working with in San Diego where you have conflicting preservation and government regulations. We are running into situations in which buildings that historically were basically office or barracks but are in a coastal zone, in which now you have a California Constitution that says that visit-receiving and commercial must take precedence over residential or office, and basically it is called coastal-dependent industries. The question there is how much flexibility can we give within our statutory guidelines to be able to reflect these different conflicting priorities when they come down. Let us face it; the California Coastal Act is a pretty big deal. That is a law that was passed in 1976 or actually 1970 and has stood pretty strong in a small, little, intimate group of 32 million people called the State of California, and it is something we need to consider when we are going into it.

Does anybody have any discussion about how we work our guidelines and how we coordinate those or remain flexible so that they mesh with other guidelines and mandates that our government agencies or some other government agency may be placing a priority on?

Mr. MOE. Well, Congressman, I will jump in if I may.

I am in favor of as much flexibility as possible here because it has been our experience that the most successful revitalization projects in the country have been those that sought and employed multiple uses, and that involved integrated residential with commercial, with retail, and with light industrial. For example, places like lower downtown in Denver and almost every community has experienced this to one degree or another.

There is no silver bullet to revitalizing a downtown or a community or a waterfront area, but in my view, the single most important thing you can do is to encourage people to live there because if you encourage people to live there, first of all, you are fighting sprawl, you are not eating up more countryside, you are using existing structures and existing infrastructure, and you are revitalizing existing communities to realize their potential. So, if this is on point to your question, I would favor as much flexibility as possible to encourage multiple uses.

Mr. BILBRAY. Preserving greenfields is the term we use in environmental community.

Mr. MOE. Yes, right.

Mr. BILBRAY. Any other comments?

Mr. FOWLER. I can't speak to your situation with the California Constitution, but I would draw your attention to Mr. Nau's statement for the record on page four, the paragraph about community development block grants and affordable housing. The ACHP administers the Federal Section 106 process which requires that CDBG funds be reviewed for their impact on historic properties, and this involves a consultation process with the State Historic Preservation Officer and the city, using the CDBG funds.

Over the years, we noticed that there were difficulties that often arose because of the application of the Secretary's standards and the need to meet HUD standards for housing quality and features and so on. So what we have done is worked with both the Department of the Interior who administers the Secretary's Standards and the State Historic Preservation Officers who administer them on the ground and the Department of Housing and Urban Development and housing providers and so on to come up with a policy that clarifies what the expectations are and introduces some flexibility in the application of standards so that you can come up with successful affordable housing projects using historic properties. So I point that out because it is an example of where government agencies that both have preservation responsibilities and the administrative responsibility for providing housing came together with the users on the ground and said how can we make this system work better.

Now all of that had to be done within the context of what statutory constraints there were, and frankly, with the preservation system, the statute is very flexible, but it is an example of how agencies and users working together can solve the problem.

Mr. LEITH-TETRAULT. From the vantage point of investors and developers, I think you put your finger on an issue that gets to the question of how do we encourage greater utilization of these credits. Not being from a government agency, I don't have the answer, but I just want to echo your concern. A developer that has to meet

ADA requirements on an historic property, meet community health requirements such as abating lead paint, achieve energy conservation to lower the operating costs or to lower the costs of individuals renting those spaces, environmental remediation and then trying to meet some of the incentives that are out there for green building approaches, balancing all that with historic preservation is very difficult. Your remarks earlier about one agency versus another and one being proactive and one not, somehow or another, from the investor vantage point and from the developer vantage point, we hope there could be better coordination at the government level so that all these folks who are looking out for these issues are talking to each other and making some reasonable compromises.

Mr. BILBRAY. John, I am glad you said that because when I got here in 1995, I looked around just our complex here and said, my God, if we were operating under a private sector or a local government was operating the way the Federal Government operates here, we would all be in prison. I mean it really was. It was such a culture shock.

But I think the flip side is the fact that it shows to really try to preserve those critical things from a heritage point of view, they did overlook a lot of these things that other people aren't allowed to overlook. Maybe that should be just a sensitivity lesson for those of us in the Federal Government of saying that maybe we need to tighten it up a little bit but also maybe we need to be more flexible in our standards that we are sending around for everybody else because we have a dose of reality, let us just say, on this Hill. You can imagine if we could just get that dose of reality out to the rest of the Nation.

Thank you very much. I yield to the chairman.

Mr. TURNER. As you are all aware, the buzzer has rung indicating that we have a vote that is going to occur. We luckily only have one.

There is about 11 minutes on the clock. So what I would like to accomplish before we take a short recess for me to run to the Capitol and vote, is to one, give each of you on this first panel an opportunity for any closing remarks that you might or a question that we didn't ask that you wanted to make certain that you got onto the record or anything that has caused you to want to respond to another question that has been asked. Second, then we will swear in the second panel, and then we will take a recess and I will return after the vote.

With that, I will open it to see if there is anyone who is on the first panel, who has any comment that they wish to make that they have not had the opportunity for this testimony.

Mr. MOE. I would just like to repeat something I said, Mr. Chairman, and that is we very much appreciate your leadership and your focus on these issues which has been enormously importantly to give visibility and understanding to some complex issues, but this had not existed before you took this interest. So, thank you, on behalf of all of us.

Mr. TURNER. Thank you very much.

Ms. MATTHEWS. I would just like to add that the Historic Preservation Act of 1966 which you all passed has changed in this country and this country alone what is significant historically. We value

neighborhoods, we value your 1885 house that you lived in for 10 years, and we value the adobe house. We look at our neighborhoods and our places and your reference to the pride, the ownership, the grassroots empowerment is exactly what was designed by Congress in the 1966 act.

Thank you for holding this hearing.

Mr. TURNER. Thank you.

Dr. Matthews, I do want to ask you one other thing that was not. We did quickly skim your bio again, and we did not note the reference to Ohio.

Ms. MATTHEWS. I don't think it is there.

Mr. TURNER. You did mention in your testimony, so I have to ask. Where might you be from in Ohio?

Ms. MATTHEWS. A 27-acre trout farm between Akron and Canton.

Mr. TURNER. Great, wonderful.

Ms. MATTHEWS. I have cousins in Dayton.

Mr. TURNER. I had to ask this. In every hearing, there is some connection to Dayton, OH, that is beyond just the ones we have invited. So I am glad to see that you did have some connections to Ohio.

Ms. MATTHEWS. And Dunbar was part of my dissertation.

Mr. TURNER. Oh, wonderful, excellent.

We just recently had the First Lady into the Wright-Dunbar National Park area, and it was interesting in talking to her and in inviting her with John Nau's help. When I was speaking to her about the Wright Brothers and Paul Laurence Dunbar. I first went in to explain to her who Paul Laurence Dunbar was, and she said, I know who Paul Laurence Dunbar was from my educational background.

So it was good to know. She was very interested during the entire tour. You have in the First Lady someone who is also interested in Paul Laurence Dunbar's work.

Ms. MATTHEWS. Great.

Mr. TURNER. I want to thank this panel, and we will turn to the second panel for their being sworn in.

Mr. TURNER. On our second panel, we have Ms. Idotha Bootsie Neal who is President of Wright Dunbar, Inc.; Ms. Kathleen Crowther, executive director, Cleveland Restoration Society, chairman of the Statewide and Local Partner Program of the National Trust for Historic Preservation; Mr. J. Myrick Howard, president, Preservation North Carolina; Mr. Edward Sanderson, executive director, Rhode Island Historical Preservation and Heritage Commission; Mr. Ken Baumgartner, president, the Corky McMillin Companies.

[Witnesses sworn.]

Mr. TURNER. Please let the record show that the witnesses have responded in the affirmative.

With that, I will then be taking a short recess after which I will return then for your testimony. Thank you.

[Recess.]

Mr. TURNER. The subcommittee will reconvene.

We will begin with Ms. Idotha Bootsie Neal.

STATEMENTS OF IDOTHA BOOTSIE NEAL, EXECUTIVE DIRECTOR, WRIGHT DUNBAR, INC.; KATHLEEN CROWTHER, EXECUTIVE DIRECTOR, CLEVELAND RESTORATION SOCIETY AND CHAIRMAN, STATEWIDE AND LOCAL PARTNER PROGRAM, NATIONAL TRUST; J. MYRICK HOWARD, PRESIDENT, PRESERVATION NORTH CAROLINA; EDWARD SANDERSON, DIRECTOR, RHODE ISLAND HISTORICAL PRESERVATION AND HERITAGE COMMISSION; AND KEN BAUMGARTNER, PRESIDENT, THE CORKY MCMILLIN COMPANIES

STATEMENT OF IDOTHA BOOTSIE NEAL

Ms. NEAL. Good morning, Mr. Chairman. It is indeed an honor and a privilege to testify before the subcommittee today. As you know, I have prepared my testimony, but I want to deviate just a little bit.

As I flew in this morning to Reagan Airport and I looked and I saw all the historical structures from the window, I thought, how sad if these buildings have not been preserved. I also had a sense of pride because as the plane was descending, I realized that right within my neighborhood, my community, the Wright Brothers taught the world how to fly.

Then I also had another thought. I had an opportunity to serve with you on the Dayton City Commission, the 8 years that you served as Mayor, and I realized that these issues of historic preservation were important to you then, and it really gives me great honor to know that as our Congressman from the Third Congressional District, that these issues are still important. I understand and recognize that these issues are important to you not because it is a political platform, but it is a strategy and a tool to really rebuild communities where people live. And so, for that, I want to say on behalf of my colleagues, on behalf of the citizens of Dayton, we really do value and appreciate your leadership and all that you do, and that I am really proud that you are my Congressman.

It is important as we talk about historic preservation, there is a neighborhood in Dayton, OH, a Midwestern city, and there were three geniuses who, in fact, helped to change the world, Orville and Wilbur Wright and Paul Laurence Dunbar. Those three individuals, even though they are no longer here, they are continuing to impact the kind of world that we live in today.

Just imagine, a few short years ago, where a lot of the work that took place was threatened, threatened to evaporate forever. Why? Because where they, in fact, did their work was the site of the riots of the sixties. For these past 40 years, we have seen nothing but disinvestment, abandoned and vacant structures.

But because of your leadership and many others, and I started making a list while we were on break. We certainly need to say thank you to the National Park Service. We need to say thank you to the Dayton Aviation Heritage National Park. We need to say thank you to the National Trust for Historic Preservation. We need to say thank you to Heritage Ohio. We need to say thank you to the city of Dayton, and the list goes on. That is another important benefit to historic preservation. It brings together a number of individuals collectively, working on an important initiative in a collaborative way that brings pride back to our community.

So with that, Mr. Chairman, I would like to now go to my written testimony.

The neighborhood where the Wright Brothers invented the airplane and African-American poet Paul Laurence Dunbar began his career. This significant historic legacy is helping to transform, a formerly vacant and blighted urban neighborhood into one that supports families and businesses. Wright Dunbar, Inc. is a community partner with the Dayton Aviation Heritage National Historical Park and the National Aviation Heritage Area.

The National Park is located in the heart of our neighborhood, in the heart of Wright-Dunbar Business Village, and it has become an important catalyst for the redevelopment of the area and positioning this area as a heritage tourism destination. Just 10 years ago, nobody would have considered visiting the Wright-Dunbar area, much less locating their business or their residence there. As the site of the devastating race riots in the mid-1960's, the Wright-Dunbar community suffered significant disinvestment until the 1990's. Vacant buildings and homes and high crime made it difficult for some people to see the vision of a walkable vibrant urban community. However, today, we have experienced a transformation. Those old homes and the perception of high crime have begun to give way to rehabilitative historic buildings, homes, new construction, and the return of businesses and residents.

Wright Dunbar, Inc. and the city of Dayton realized early that the private sector was not going to immediately invest in the redevelopment of this area. This is not unique just to Dayton, OH, but urban cities across the city are faced with the same challenges. However, with the support of many of the historic strategies and tools, we now have a vibrant community. The abatements and incentives to encourage builders to renovate and to rebuild homes that fit within the historic district is a real plus for us. The surrounding neighborhood is doing something that we think is unique as well. It is attracting a diverse mix of families, young professionals, and retirees.

On the commercial side, it is important as well, not just rebuilding the neighborhood and creating a place where people live, work, and play but there is an economic benefit to the investment in a historic district as well. We received $2.9 million of Federal funding for the acquisition and stabilization of non-historic properties. Community development block grant funding and Federal appropriations have been funds that have helped to stabilize, secure, and make sure that these buildings are dry.

However, due to the extreme deterioration of the buildings, a financial gap still exists before the buildings can be ready for tenant occupancy. Wright Dunbar is laying the foundation for a capital campaign that will provide the gap financing needed to build out the properties, and these are all on the National Historic Register.

We have some very important tools that the Federal Government has put in place, and we want to encourage that those tools continue. The use of Historic and New Market Tax Credits will be critical in the next phase of the redevelopment of Wright-Dunbar as we bring together a variety of funding tools and programs to complete each project. Already, CDBG has made a big difference in the work that we are doing in Wright-Dunbar.

Though, urban revitalization does not happen overnight, Wright Dunbar and our partners have already begun to see some positive results. Since our funding in 2002, $3.3 million of private investment in Wright-Dunbar has leveraged over $12.2 million in an area that people would have given you property just to get it off of their tax rolls 5 years ago. Not only has Wright-Dunbar seen an investment but the area, over $76 million, helping to bring back the needed services for the residents that live there, also helping us to attract businesses back to the commercial quarter.

The transportation funding that we received through our Miami Valley Regional Planning Commercial is going to slow down the traffic in our community. People used to drive fast through Wright-Dunbar just to get out of the area because of fear, because of the perception of it being a place that wasn't safe. Now, just this past Friday, we had a special event. When we first held that event 2 years ago, 24 people attended. I am happy to say, Mr. Congressman, on Friday night, we had over 3,000 people to come to an area and have fellowship, fun, and celebrate our legacy and history in Dayton, OH.

We recently received a Preserve America Grant, and we are excited about that strategy, that tool, as well because it is going to help us to be able to collect data and information that we will be able to share the economic benefit of what historic preservation and heritage tourism can mean for the Wright-Dunbar community, for the city of Dayton, and for the State of Ohio.

We are a certified Main Street Project, and we are very proud of that and the technical assistance that we receive from the National Historic Preservation and also Heritage Ohio.

Historic preservation truly is a tool. It is a tool that can be used against blight and vacant buildings in cities across America. Main Street Communities and urban cities contain many of the stories that make America the unique and creative country that it is today. These stories are best told by maintaining and celebrating our built environment. To do this effectively, Congressman Turner, we need to continue to have the strategies like New Market and Historic Tax Credits, Community Development Block Grants, Federal appropriations, Preserve America, and with your creativity, whatever else you come up with, as we protect and preserve historic preservation.

We really appreciate your leadership. Thank you personally for the opportunity to be here. Thank you for championing the cause that we know will save America's cities and make a difference. Under your leadership, we know that the best is yet to come.

[The prepared statement of Ms. Neal follows:]

Written Testimony
House Government Reform Subcommittee on Federalism and the Census
Wednesday, September 20th at 10:00am, Room 2154
Rayburn House Office Building
Idotha Bootsie Neal, President
Wright Dunbar, Inc.
Dayton, Ohio

Good Morning, Mr. Chair and members of the House Government Reform Subcommittee on Federalism and the Census. My name is Idotha Bootsie Neal and I am President of Wright Dunbar, Inc.

Congressman Turner, it is a pleasure to testify before your subcommittee today. I would like to thank you for your interest and expertise in saving America's cities and working to preserve and restore historic buildings in our hometown. The leadership that you provided as Mayor of the City of Dayton helped to generate millions of dollars of investment within the core city. Thank you for your leadership and also for this opportunity to tell how historic preservation is making a huge difference in our community.

A Unique Legacy

There is a very unique neighborhood in the Midwest. The Wright-Dunbar Village in Dayton, Ohio. This is the neighborhood that taught the world how to fly and where through the power of the pen a foundation was laid for the Harlem Renaissance.

This neighborhood is where the Wright brothers invented the airplane and African American poet Paul Laurence Dunbar began his career. And now… this significant historic legacy is helping to transform a formerly vacant and blighted urban neighborhood into one that supports families and businesses.

Wright Dunbar, Inc. is a community partner of the **Dayton Aviation Heritage National Historical Park** and the **National Aviation Heritage Area.** The National Park is located in the heart of the Wright-Dunbar Business Village, thereby becoming an important catalyst for the redevelopment of the area and its positioning as a heritage tourism destination.

Just 10 years ago, nobody would have considered visiting the Wright-Dunbar area, much less locating their business or residence there. As the site of devastating race riots in the mid-1960s, the Wright-Dunbar community suffered significant disinvestment until the 1990s. Vacant buildings and homes and high crime made it difficult for some people to see the vision of a walkable, vibrant urban community. Today, those dilapidated homes and the perception of high crime have begun to give way to rehabilitated historic buildings and homes, new construction, and the return of businesses and residents.

Challenges/ Accomplishments

Wright Dunbar, Inc. and the **City of Dayton** realized early that private sector was not going to immediately invest in the redevelopment of the area. The City offered property tax

abatements and other incentives to encourage builders to renovate and/or rebuild homes that fit with the historic neighborhood. Now the surrounding neighborhoods are attracting a diverse mix of families, young professionals and retirees.

On the commercial side, Wright Dunbar, Inc. invested $2.9 million dollars of federal funding for the acquisition and stabilization of 9 historic properties in the area. **Community Development Block Grant** funding and **Federal Appropriations** have made the buildings stable, secure and dry. However, due to the extreme deterioration of the buildings, a financial gap still exists before the buildings are ready for tenant occupancy.

Wright Dunbar, Inc. is laying the proper foundation for a capital campaign that will provide the gap financing needed for the build out of the properties. The use of **historic and new market tax credits** will be critically important in this next phase of development as Wright Dunbar, Inc. will bring together a variety of funding tools and programs to complete each project. Already, **Community Development Block Grant** funding has enabled our organization to develop a strategic plan and materials that will greatly aid in the marketing of our properties and also our fundraising efforts.

Though urban revitalization does not happen overnight, Wright Dunbar, Inc. and our partners have already begun to see very positive results. Since our founding in 2002, a $3.3 million investment in Wright Dunbar, Inc. has leveraged over $12.2 million in community investment. When we include the investment from our area partners, the amount of generated investment increases dramatically to $76 million. That is over a 6 to 1 return on investment. Pledged **Transportation funding** will transform the Wright-Dunbar Village into a walkable and inviting community, slowing down traffic that was, for many years, encouraged to leave the city as quickly as possible. Wright Dunbar, Inc. and our partners were recently awarded a Preserve America grant, which will help us ascertain the economic benefits of connecting Dayton's heritage sites, particularly those sites connected with Dayton's Aviation legacy.

Wright Dunbar, Inc., is a certified **Main Street Community** in partnership with the **National Trust for Historic Perseveration** and **Heritage Ohio.**

Historic Preservation and its tools form a powerful weapon against blight and vacant buildings in cities across America. Main Street communities and urban cities contain many of the stories that make America the unique and creative country that it is today. These stories are best told by maintaining and celebrating our built environment.

Historic Preservation is also incredibly important in returning once useless buildings to the tax roles, and creating places for businesses to provide new jobs. Additionally, returning to reclaim the urban core stops sprawl into our country's farmland.

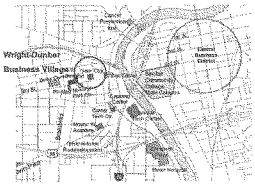
To do this effectively, we need tools like **new market** and **historic tax credits**, **Community Development Block Grants,** and **federal appropriations**. Matching grants like **Preserve America** enable local groups to leverage federal funding for the good of the community. The importance of these tools to the revitalization of American cities cannot be overstated.

Historic Preservation and Community Development

House
Government
Reform
Committee on
Federalism and
the Census

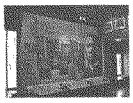
September 20, 2006

Wright-Dunbar Business Village



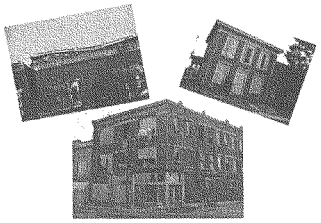
A Significant Legacy

Dayton Aviation Heritage National Historical Park



Living History
'Time Flies'

40 Years of Disinvestment



Return of Families and Businesses

Physicians' office

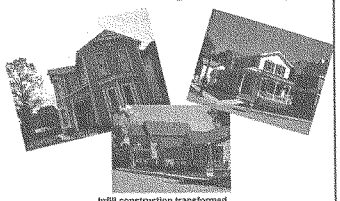
Attorneys' Office

Steel Drum workshop
at Willis 'Bing' Davis
Art Studio

Early Success

251	New or Retained Jobs in the immediate area
232	Number of Families moving back to the area
12	Exterior Renovations of blighted buildings
23	Businesses to occupying formerly vacant buildings
$10M	Attraction of a 'Neighborhood School Center' to Edison School site.

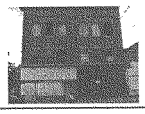
Residential: a Changed Community



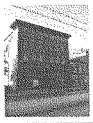
Infill construction transformed vacant lots according to the area's Design Guidelines

Commercial: Stable, Secure and Dry

Before



After



Private Investment of $3.3M generated:

Return on Investment

2002-2006 Total Direct Investment Leverage
$12,295,900.00*
*Represents investment that was directly influenced by Wright Dunbar, Inc.

2002-2006 Total Indirect Investment Leverage
$63,864,860.00*
*Represents investment that was indirectly influenced by Wright Dunbar, Inc.

Total Direct & Indirect Investment Leverage
$76,160,760.00

Invaluable Historic Preservation Tools

- Historic Tax Credits
- New Market Tax Credits
- Community Development Block Grants
- Federal Appropriations
- Preserve America

Mr. TURNER. Thank you, Bootsie.

What everyone should know here is I served as Mayor with Bootsie. She served as City Commissioner and now as the Director for Wright Dunbar, Inc. She is being incredibly gracious with her compliments but without her dedication, expertise, and enthusiasm, the community that she now serves as Director wouldn't be there to serve with the great accomplishments that are there. It is just wonderful to see what has happened.

It was great to take the First Lady there and see what you have done and accomplished. You really are a great national example for what historic preservation is all about and how community transformation can occur. So I greatly appreciate your being here and what you are doing for our community.

Ms. Kathleen Crowther.

STATEMENT OF KATHLEEN CROWTHER

Ms. CROWTHER. Thank you, Mr. Chairman. Ms. Bootsie Neal, you are a hard act to follow. Thank you so much for your leadership in historic preservation. I simply echo the many compliments you have received today.

In Cleveland, Historic Tax Credits and CDBG funding have been critical tools to revitalize our struggling neighborhoods and downtown. Preservation has a catalytic effect resulting in increased property values, and preservation is the wise use of our built environment, also sparing those natural resources that are being gobbled on the urban fringe.

My organization, the Cleveland Restoration Society, provides a wide range of services in Northeastern Ohio from traditional preservation advocacy to technical and financial assistance through our low interest loan program. We are really a hybrid between historic preservation and community development.

Across this country, there are literally thousands of preservation organizations, those that have professional staff are typically members of the Statewide and Local Partners Program of the National Trust. These organizations are your smaller national trusts on the ground, fighting the battle to preserve landmarks and participating in the real estate market by purchasing, loaning funds, restoring and selling historic properties.

In Northeast Ohio, throughout Ohio, and I dare say throughout the United States of America, many areas, in Northeast Ohio in particular, we are grappling with the ill effects of uncontrolled urban sprawl. Developers are building further and further afield. Buildings and housing units with many more years of life are being abandoned in this expensive out migration cycle.

Given this reality, this wasteful reality, we are working in partnership as best we can with local governments committed to maintaining aging but still viable and attractive housing stock. We partner with school districts and religious institutions struggling with monumental school buildings and sacred landmarks. We provide low interest loans to individuals such as Professor Harvey here, who is restoring this Tudor house in Cleveland's tough Hough Neighborhood; and Scott Plate who is an actor, who lives in this double house and rents the other half; and elderly Mrs. Shotwell

who, with her sons, spent $40,000 to polish up their long-time family home.

Often we transform the worst house in the neighborhood into the best house, sending an important signal that this neighborhood is on the rebound. None of these projects would have benefited from the investment tax credits for historical rehabilitation because they are not commercial properties. The source of funds that allow us to make low interest loans and to operate this program is the Community Development Block Grant Program.

The problems of the City have now reached inner ring suburban communities such as Shaker Heights. Even with a nationally recognized school district, Shaker Heights is in a heated competition with newer communities built further out. So we assist them as best we can with loans and technical assistance.

This family worked with us to transform this house in the streetcar suburb of Lakewood.

Our projects have significant impact on property values in the neighborhoods in which they are located. They spur others around them to follow suit, giving tangible evidence of the confidence in the neighborhood, but the out migration cycle is against us. Without a Federal incentive for individual homeowners like these, we are fighting an up-hill battle and we are wasting valuable economic resources by not deploying the full utility of our built environment. The houses constructed by past generations have been built with materials often simply unaffordable in today's construction budgets, and we are wasting a valuable opportunity to better align Federal policies aimed at providing affordable housing.

Another significant concern we have is for the continued use of older neighborhood schools. These monuments are being deaccessioned and demolished in Cleveland and across the County at an alarming rate. This is the result of reduced populations and, in some instances, State policies which favor new construction even if it is more costly. In Cleveland, we have managed to restore one magnificent school, John Hay High School, for about the same cost as new construction. So we have saved the cost of demolition and, thank goodness, the rich materials of this landmark building are not filling up yet another landfill.

Sacred landmarks are also being lost at an alarming rate. With population moving out of central cities, these magnificent cathedrals of America are deteriorating, being closed, sold to the highest bidder, or demolished. We work in cooperation with denominations to get them on the road to good property stewardship.

Preservation and community development needs to be better supported by the Federal Government to unleash its full potential. Passing the English bill will help communities reclaim more buildings that still have economic utility. By developing an incentive that supports the individual homeowner, we would have the potential to turn the cycle of out migration.

I ask our elected leaders to recognize that we are wasting valuable resources by not addressing urban sprawl from the Federal level. This wastefulness is creating untold costs in countless social and economic ways. Congress should create a high National standard of wise and sustainable use of our resources by which all Federal investments, in particular, roads and housing, would be tested.

This single action would address a range of problems as it would reduce State and Federal dollar outlays through the wise use of the investment of previous generations.

Thank you.

[The prepared statement of Ms. Crowther follows:]

Historic Preservation and Community Development:
Why Cities and Towns Should Look to the Past as a Key to Their Future

U. S. House Government Reform Committee
Subcommittee on Federalism and the Census
The Honorable Michael R. Turner, Chairman

Testimony by Kathleen H. Crowther, Executive Director
Cleveland Restoration Society
Chairman, Statewide and Local Partners Program of the
National Trust for Historic Preservation

September 20, 2006

Introduction

Historic preservation is a powerful tool which motivates private sector investment and uses our existing resources wisely. Historic preservation is about avoiding wasteful spending by deploying the full utility of our built environment. And historic preservation creates beautiful environments where people want to live, work and play. The preservation of our heritage informs us and our children about who we are and confirms our responsibilities to each other and to the greater community.

The role of historic preservation in community and economic development needs to be recognized, better understood, and more widely utilized. Historic preservation is a potent and positive force in strengthening local economies. And its underpinnings, economic incentives and wise land use policies, should be strengthened to empower local communities and organizations to improve themselves.

Despite more than $3.1 billion in documented rehabilitation across this country during fiscal year 2005[1], statewide and local preservation organizations, together with the National Trust for Historic Preservation, spend valuable time and money fending off threats to fundamental protections of landmarks, the ill effects of rampant urban sprawl, and the uneven effectiveness of the local and state laws that form the backbone of local preservation activity.

Since the federal Historic Preservation Income Tax Incentives Program began in 1976, over $36 billion in privately funded historic preservation activity has been leveraged at a 5:1 ratio of private dollars to federal funds.[2] And the preservation of these buildings has a powerful benefit – a catalytic impact. In Cleveland's residential neighborhoods, this is seen through increased property values. Studies across the country have consistently shown that recognition of a historic district through landmark designation positively

[1] Federal Tax Incentives for Rehabilitating Historic Buildings, Annual Report for Fiscal Year 2005, National Park Service, U.S. Department of the Interior, Technical Preservation Services
[2] Federal Tax Incentives for Rehabilitating Historic Buildings, Annual Report for Fiscal Year 2005, National Park Service, U.S. Department of the Interior, Technical Preservation Services

affects the value of the district with significantly greater rates of appreciation. The worst-case scenario is that properties within a local historic district have rates of appreciation parallel to the overall market.[3]

Ultimately, however, economic development is about jobs, and dollar for dollar, historic preservation is one of the highest job-generating economic development tools available. In Ohio, for every $1 million spent on rehabilitating an older building, 38.5 jobs are created. New construction, by comparison, creates two jobs less.[4]

As Executive Director of the Cleveland Restoration Society, I have been involved in the reinvestment of countless landmarks. Our organization is really a hybrid between preservation and community development. I also have the privilege of serving as the Chairman of the Statewide and Local Partners affiliation with the National Trust, an association of over 100 professional preservation organizations doing a wide range of work across the country.

Preservation Organizations Rise across the Country

The Cleveland Restoration Society was founded in 1972, during the period of urban renewal in the United States. Across the country, citizens were rising up to counteract the negative effects of highways in particular, which quickly and radically altered the landscapes of American towns and cities. In Cleveland, a beloved downtown building with ties to the Underground Railroad was to be torn down. Without landmark designation protection on the local level, the building was sacrificed and that part of our history erased. The fury this created led to the creation of my organization and the enactment of our local historic preservation ordinance with a governing Cleveland Landmarks Commission.

You have heard this type of story before, as community after community followed a similar pattern of organizing to protect landmarks through the nonprofit and public sector venues. Today, there are thousands of organizations that form the on-the-ground network of nonprofit organizations working to make preservation happen in towns, cities and states across the country. These organizations typically advocate for endangered landmarks, work to improve local and state laws, and conduct educational programs.

Professional Association of Historic Preservation Organizations Nationwide: The strongest local and statewide preservation organizations have a formal affiliation with the National Trust through an association called the Statewide and Local Partners Program. This association has over 100 organizational members whose combined operating budgets are about $55 million.[5] Big cities are represented by organizations such as the New York Landmarks Conservancy, Los Angeles Landmarks Conservancy, and Historic Denver. Midsized cities are represented by organizations such as the Preservation Action

[3] "The Economics of Preservation: Taking a Leadership Role, Donovan Rypkema, Madison, Wisconsin, July 9, 2003
[4] "The Economics of Preservation" Donovan Rypkema, Akron, Ohio, May 2, 1996
[5] National Trust for Historic Preservation, Statewide and Local Partners program, 2006

Council of San Jose (CA) and the New Haven Preservation Trust (CT). Even rural areas are concerned about preservation, proven by the participation of groups such as the Cherokee County Historical Society in Georgia. In addition, 39 states are represented through organizations such as Historic Landmarks Foundation of Indiana, The Georgia Trust, Utah Heritage Foundation and Preservation Oklahoma.

These organizations do miraculous work in their communities through education, advocacy and stewardship of historic properties. Typically Statewide and Local Partners conduct an array of tours, workshops, awards programs and conferences that educate the general public about the value of historic preservation. Through organized advocacy, these organizations work to change local and state laws so that preservation has the legislative foundation it needs to attract private sector investment and to fend off ill-conceived development plans. In the area of historic property stewardship, the Statewide and Local Partners have often made lifelong commitments to treasured local landmarks by rescuing them from neglect, restoring them, and opening them up to the public.

Many of these organizations, like mine, have enlarged their scope of work to direct action in the real estate market. These are the more mature groups typically, with deeper capacity to positively effect the disposition of the landmarks. My colleague today, Myrick Howard, will describe his extraordinary work in purchasing and reselling buildings. In Cleveland, we loan funds to owners of historic homes. Last year, we booked 108 home improvement loans worth $4.2 million dollars. And we provided free technical assistance to 486 individual homeowners worth over $10 million. Our respective activities define the intersect between historic preservation and community development.

Historic Preservation and Community Development in Cleveland, Ohio

Uncontrolled Urban Sprawl Damaging Cities and Suburbs: In Cleveland, because of uncontrolled urban sprawl, the population of the city has declined from 914,808 in 1950 to 478,403 in 2000.[6] While the city's population continues to fall, the larger statistical metropolitan planning area has remained flat at just under 2.9 million.[7] This means that our population has thinned out across the landscape, abandoning perfectly serviceable buildings and infrastructure and building new development on virgin land, either wilderness or farmland. This condition has created a weak real estate market environment which is extremely damaging to the economic viability of our downtown and traditional neighborhoods.

Preservation incentives and Community Development Block Grant (CDBG) Funds Are Critical Tools: The historic preservation incentives, specifically the investment tax credit for rehabilitation, historic preservation easements, the low income housing tax credit and CDBG funds have been "but for" tools to counteract this problem.

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[6] Northern Ohio Data & Information Service,
http://nodisnet1.csuohio.edu/nodis/historic/pop_place19002000.pdf

[7] "Cleveland still losing people," The Plain Dealer, Robert L. Smith, August 15, 2006

For example, "but for" the preservation tools, since 1995, 98 commercial buildings would not have been rehabilitated with over $541 million in private investment.[8] Over 600 smaller-scale storefront buildings sprinkled across Cleveland's older neighborhoods have been rehabilitated with $12 million in CDBG, leveraging $30 million in private investment. And $8.5 million in CDBG funds invested in housing has leveraged well in excess of $50 million in private investment[9]. Often times, the very worst, blighted and vacant structures are dramatically transformed from ugly ducklings into swans through both preservation incentives and CDBG funds.

Cleveland Restoration Society's Low Interest Loan Program: In order to affect positive change in Cleveland's traditional neighborhoods and suburbs, we operate a linked-deposit loan program. We have three sources of linked deposit funds which are deployed to write down market rates for home improvement loans: 1) The City of Cleveland's CDBG funds; 2) Cuyahoga County reserve funds; and 3) Ohio Housing Finance Agency's bond proceeds. We started this activity with seed money from the National Trust for Historic Preservation. To date, we have booked 578 loans worth $23 million. In 2002, we expanded our reach beyond the urban environment to the suburbs where many of the "big city" challenges now exist. Without the City of Cleveland's CDBG funds, we would close our loan program completely. Over the last decade, the City of Cleveland also has provided over $2 million to our operating budget in order to manage this program.

Preserving Homes and Communities: With urban sprawl out of control, millions of sturdy, well-built and even historically significant homes have been abandoned. In this country, we have torn down millions upon millions of homes over the last 30 years, conservatively estimated at over 6 million.[10] Despite a crisis in providing affordable housing for lower income Americans, we ignore these existing resources as though their full utility has been spent. In fact, many of the homes built in Cleveland during its explosive expansion at the turn of the last century remain standing despite neglect because of the quality of materials and construction at that time.

What a waste it is to ignore the economic value of the embodied energy these buildings represent. What a waste it is to load our planet's landfills with the rich material of old growth hardwoods, hewn stone and brick. What an expense we incur to maintain infrastructure that no longer services the load for which it was intended. What an expense we incur to address the multiple levels of problems, economic and social, resulting from the out-migration from our traditional neighborhoods.

Despite the value of the tax credit for preservation of commercial historic buildings, there are no governmental incentives for people who would choose to live in traditional, older neighborhoods. In fact, the tide is against them in many ways. Real estate values are

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[8] Ohio Historic Preservation Office

[9] William Resseger, Executive Assistant to the Director of Community Development, City of Cleveland, September 13, 2006.

[10] Donovan Rypkema, *Economics, Sustainability, and Historic Preservation*, National Preservation Conference, Closing Plenary, Portland, OR, October 1, 2005

weakened or even radically diminished – not an attractive option for Americans who consider their home to be their most important financial investment. In addition, the interest deduction for lower-priced homes directs higher income individuals to stronger residential markets, often on the fringe of urban sprawl.

Places like Shaker Heights, the magnificent "garden" suburb of Cleveland, are fighting to maintain real estate values. Shaker Heights is a community of majestic homes, from modest revival style "starter" homes to regal in-town estates. Even with a nationally recognized public school system, Shaker Heights is battling the out-migration force, the negative results of uncontrolled urban sprawl. A well-run city, its government smartly works every angle possible to retain its homeowners, yet it is not an easy task. Using historic preservation as a tool is part of their arsenal in creating a competitive advantage against sprawl.

Preserving Monumental School Buildings: Schools are often the defining landmark in traditional neighborhoods. Elementary schools in particular were anchors to surrounding streets that allowed younger children to walk to school. In Ohio, as across the country, a re-ordering is underway when populations have dramatically declined, and when state funding policies favor new construction. These factors combine to create grave dangers to countless monumental school buildings which have many more years of service to be extracted.

In Ohio, we are grappling with a state policy that favors new construction of schools over rehabilitation of existing schools. The so-called "two-thirds" policy requires local school districts to demolish or de-accession an existing building if its rehabilitation would cost over two-thirds the cost of a new building. In other words, the Ohio School Facilities Commission requires local districts to spend 34% more than rehabilitation for construction of a new building. The monetary and environmental costs of demolition are not factored in at this decision point.

This is despite the fact that many school buildings remain perfectly serviceable for twenty-first century education, including technology requirements, and are constructed with quality materials often unaffordable in new construction budgets. It is possible to obtain a waiver of this uneconomic policy on a case-by-case basis. However, countless local communities in Ohio have demolished landmark schools replete with the highest architectural integrity and artwork in order to drawdown on the needed state reimbursement for school construction.

From a cost viewpoint, rehabilitation of sturdy, older schools is often the best economic alternative when compared to the cost of demolition and new construction which if often higher. In cities across American, older schools have been beautifully rehabilitated at $25 - $30 per square foot less than new construction, with more local jobs created[11]. In Chicago, where there is a first phase $3 billion campaign to rebuild over 300 schools, the logic is simple – if it costs less to rehab a good old building than to demolish/rebuild, Chicago automatically selects the less expensive option.

[11] www.nationaltrust.org/issues/schools/studies.html

In Cleveland, the school district's first preservation project involving a landmark school ended up costing on par with new construction: $36 million. In the process, a monumental landmark with extraordinary architectural and artistic features was saved to now serve as a history lesson itself for the students, and less valuable building materials, such as brick, stone, and marble were sent to a landfill.

Preserving Sacred Landmarks: In another area of work we focus on the challenging problems that the stewards of sacred landmarks face. Cleveland was a gateway for many immigrant groups during the late nineteenth and early twentieth centuries. As a result, we are left with hundreds of churches and synagogues that once defined our urban neighborhoods. These buildings are typically constructed with quality materials and feature spectacular interiors with lavish decoration simply unaffordable in today's construction budgets. Yet the congregations that built and sustained these magnificent buildings have largely moved out, and those remaining struggle with the financial burdens of deferred maintenance and diminished resources.

By working with congregations, we help them define the work that needs to be done to preserve their building, often helping to stage the work over time to even out the expense and prioritize improvements. Our advice sometimes helps congregations save money, but often the congregation is shocked to understand the reality of the expense of even modest but effective stewardship of these jewels in our midst.

Again, the economic value of these buildings is enormous. America's sacred landmarks in cities like Cleveland rival the cathedrals of Europe. Their social value is just as important. Sacred landmark buildings house countless programs, such as food banks, daycares, and support groups, that provide desperately needed assistance for the real needs of the greater community. With no economic assistance available from governmental sources, we are just beginning to see the wave of deterioration and demolition of these extraordinary and irreplaceable buildings.

Empowering Historic Preservation to be Even More Effective in Rebuilding American Communities

Preservation is truly popular with the American people. It has broad appeal – from sophisticated city dwellers, to suburb families, to small town folk and farmers. Preservation is as American as apple pie. By running with a winning strategy, we can unleash this power across the country. And by doing so, we would save money and conserve resources.

Here are a few steps that can be taken now:

1) Pass House Bill 3159 (English Bill), which allows for better coordination between the investment tax credit for historic commercial buildings and the low income housing tax credit.

2) Protect Community Development Block Grant funds, and strengthen the goals of the program to favor reinvestment in existing resources. Cities like Cleveland have experienced a reduction in this funding which is crippling to its redevelopment efforts.
3) Create a federal incentive for housing rehabilitation that would encourage Americans to stay put in traditional communities thereby turning the expensive cycle of out-migration.

I ask our elected leaders to recognize that we are wasting valuable natural and built environment resources by not addressing urban sprawl from the federal level. Furthermore, this wastefulness is creating untold costs to our states and communities in countless social and economic ways. Congress should create a high national standard of wise and sustainable use of our resources by which all federal investments – in particular roads and housing – would be tested. This single action would address a range of problems as it would reduce state and federal dollar outlays through wise use of the investments of previous generations.

Historic preservation is a powerful tool that uses our resources wisely. With the support of the federal government, local and state organizations that carry out the good work of historic preservation can be even more effective in their efforts to strengthen the American economy and elevate the quality of life for citizens across our country.

Thank you.

Historic Preservation & Community Development:

Why Cities & Towns Should Look to the Past as a Key to Their Future

In Cleveland since 1995:

Historic tax credit: 98 commercial buildings $542 MM private

CDBG: $12 M leveraged $30 M in small storefront

$8.5 M leveraged $50 M in housing

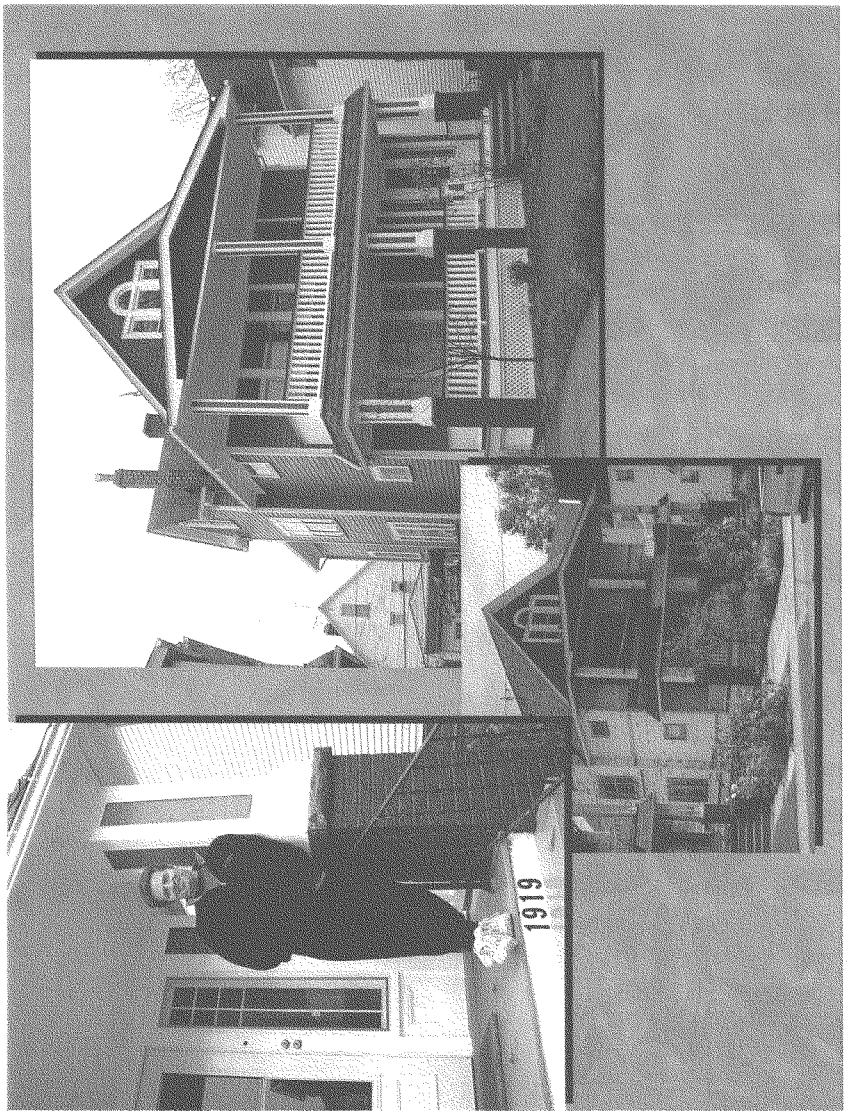
Cleveland Restoration Society
Preservation Resource Center of Northeastern Ohio
CELEBRATION OF PRESERVATION
2005:
108 Heritage Home Loans -- $4.2 million
Technical Assistance -- 486 -- $10 million

STATEWIDE &
LOCAL PARTNERS
NATIONAL TRUST
for HISTORIC PRESERVATION
• 62 Local
• 39 Statewide
101 Partners
Membership: 101,345
Total Operating Budgets: $ 54,990,000

Historic Landmarks Foundation of Indiana
LOUISIANA
DIVISION OF HISTORIC PRESERVATION
Oregon
Preservation
Alliance
THE GEORGIA TRUST
RESTORE • REVITALIZE
MISSOURI PRESERVATION
WASHINGTON TRUST FOR HISTORIC PRESERVATION
preservationoklahoma
HISTORIC DENVER
UTAH HERITAGE FOUNDATION
PRESERVATION TEXAS
COLORADO PRESERVATION, INC.
LPCI
LANDMARKS PRESERVATION COUNCIL OF ILLINOIS

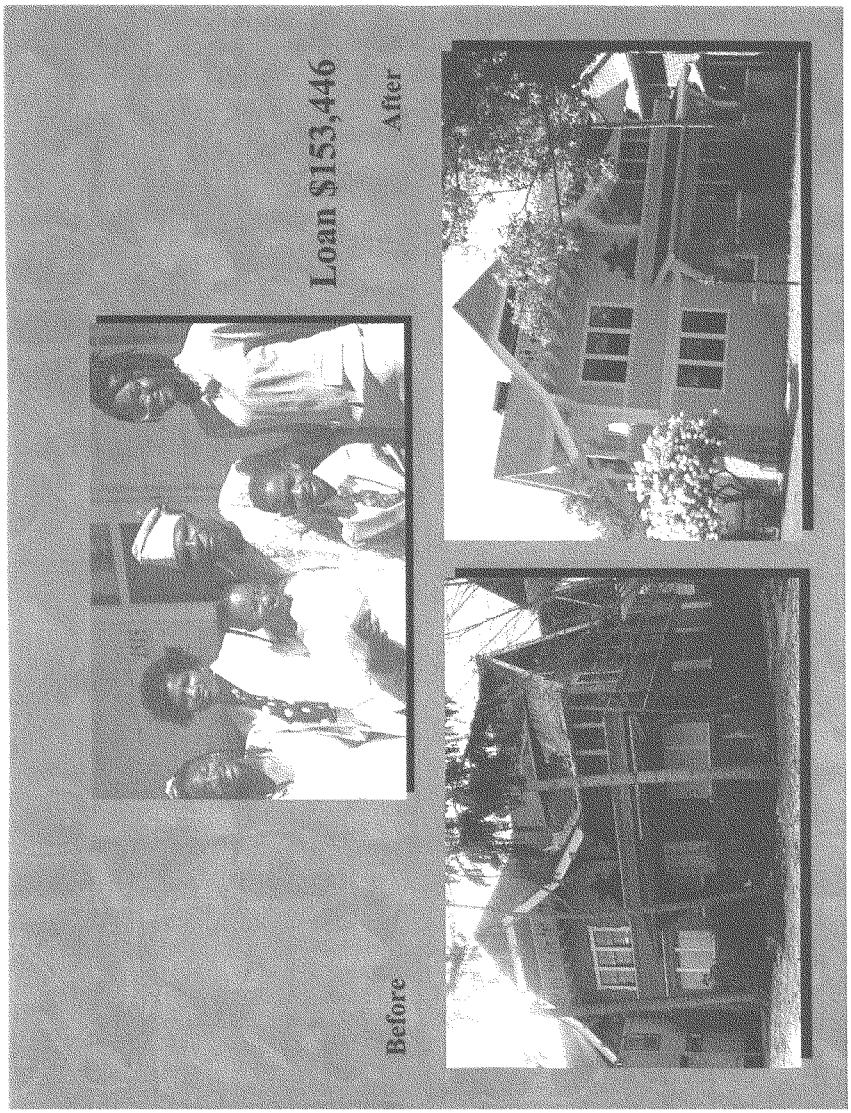
LAKE ERIE
North
Painesville
LAKE
Chardon
GEAUGA
PORTAGE
Ravenna
Cleveland
CUYAHOGA
SUMMIT
Akron
Elyria
LORAIN
Medina
MEDINA

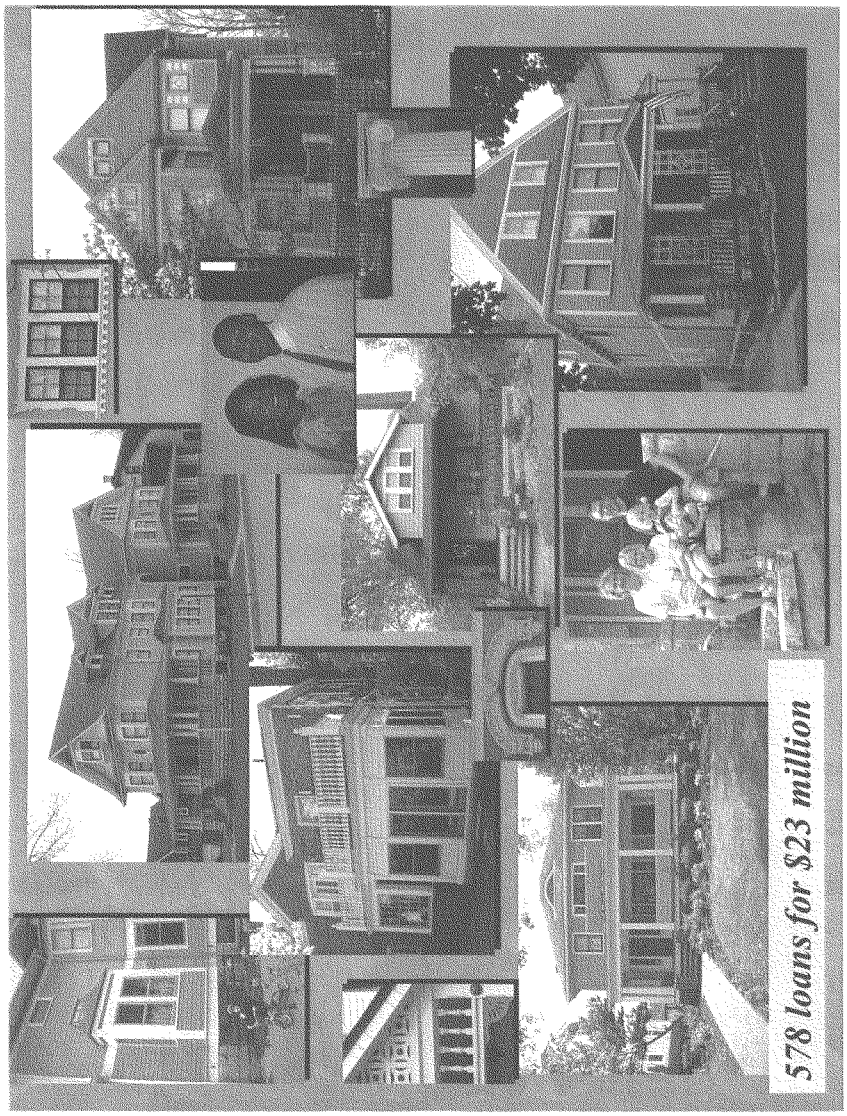
STATEWIDE &
LOCAL PARTNERS
NATIONAL TRUST
for HISTORIC PRESERVATION
HERITAGE
OHIO
Cuyahoga County
Ohio
KeyBank
LAKEWOOD
OHIO
MOVING FORWARD
CLEVELAND
HEIGHTS
Cleveland Municipal
School District
Educating
Cleveland's
Children
The City of
Bay Village
The City of
Westlake
The City of
Maker Heights
The City of
Parma
NOTOS

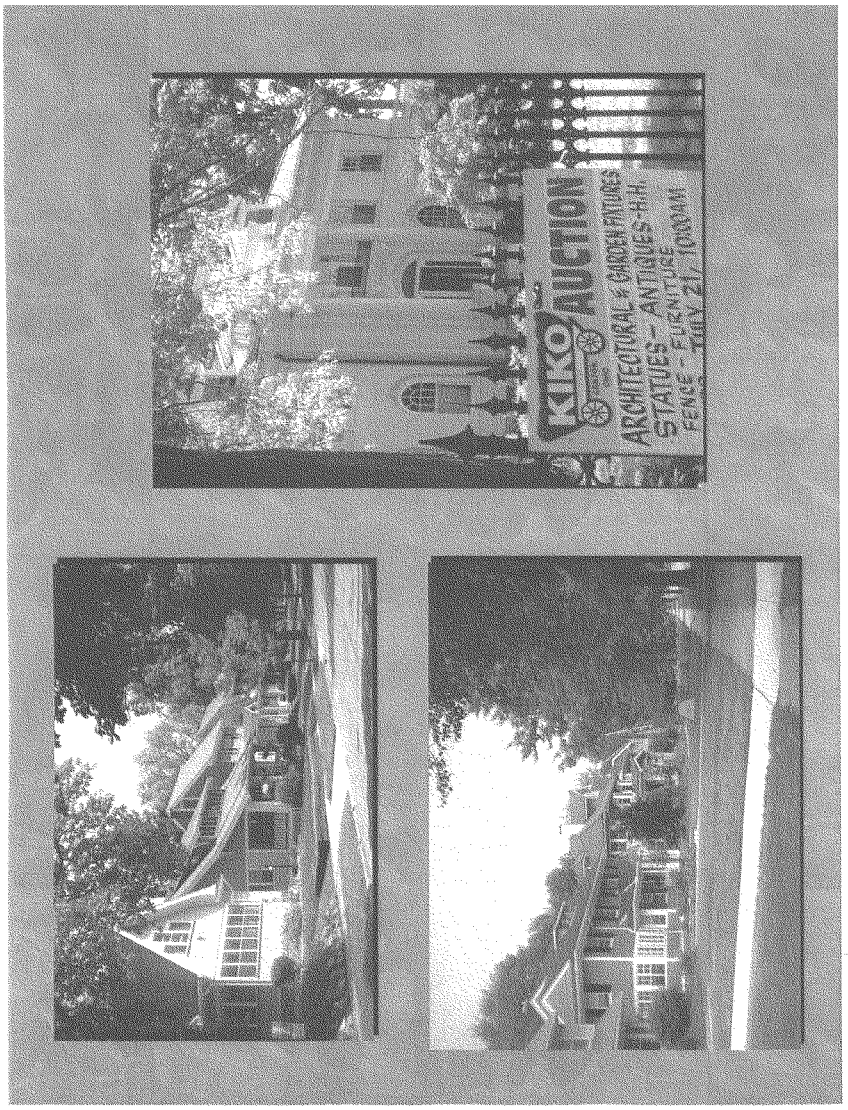

1919

Before
During Rehabilitation
After

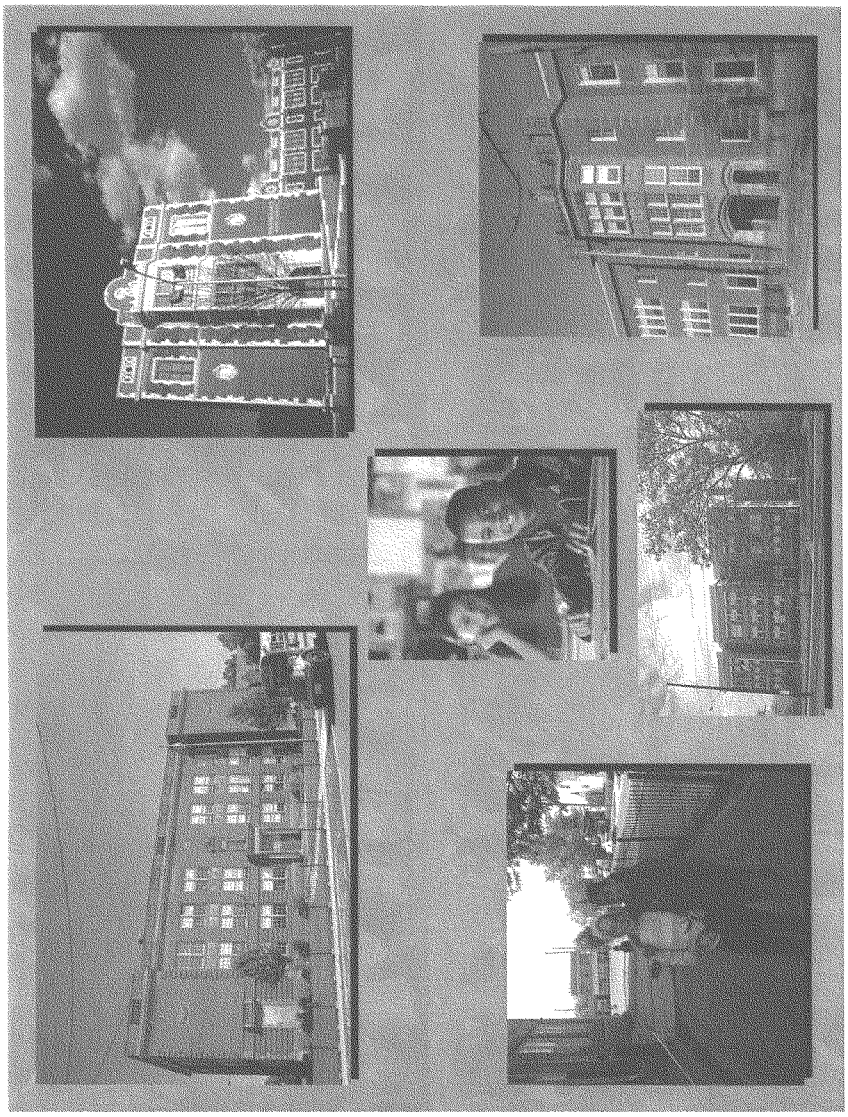
Before
After
$140,000 purchase


Loan $153,446
Before
After


578 loans for $23 million


KIKO AUCTION
ARCHITECTURAL & GARDEN FIXTURES
STATUES – ANTIQUES-H.H.
FENCE - FURNITURE
TUE.Y 21/ 10:00AM

This Affordable
Old House
After Rehabilitation



Cleveland Municipal
School District
Educating
Cleveland's
Children

St. Colman
Roman Catholic Church
2012 West 65th Street
Cleveland, Ohio
St. Ignatius of Antioch
Catholic Church
Holy Name
Catholic Church
9328 Broadway Avenue
Cleveland, Ohio
St. Timothy
Catholic Church
Church of the
Conversion of St. Paul
4100 Euclid Avenue
Cleveland, Ohio
Holy Trinity - St. Edward
Catholic Church
7411 Woodland Avenue
Cleveland, Ohio
St. Aloysius - St. Joseph
Catholic Church
10622 St. Clair Avenue
Cleveland, Ohio
Existing Conditions:
Comprehensive Building Survey
The Church in the City Partnership Project

Mr. TURNER. Mr. Myrick Howard.

STATEMENT OF J. MYRICK HOWARD

Mr. HOWARD. Thank you, Mr. Chairman. I am Myrick Howard from Raleigh, North Carolina, and I live in Representative Brad Miller's District. We appreciate your work with Brad on the caucus.

I am the President of Preservation North Carolina, a non-profit statewide organization that has been actively involved with real estate. We operate a revolving fund and have done so for the last 30 years, trying to find buyers for endangered historic properties, finding folks who will rehab these troubled properties, and we have done this with more than 575 properties around the State. We are a privately funded organization and don't receive State or Federal funds.

What I would like to focus on primarily today is that in North Carolina, we have used a combination of Federal and State tax credits to be an invaluable tool for the revitalization of neighborhoods, downtowns, and rural properties. We built a tax credit program in North Carolina around the Federal tax credit. In 1998, January 1, a new tax credit went into place in North Carolina, a 20 percent income-producing piggyback tax credit, and you see what has happened. The year 1997 was fairly typical coming up to that point, and you see the growth that we have seen in the number of projects in North Carolina. An important part of this is that we have added a tax credit for homeowners as well so that homeowners can renovate their own homes for their own use. The impact has been really powerful. We have seen more than $1.3 billion in rehab since 1998.

In this last session of the North Carolina General Assembly, we were able to add an additional incentive for the renovation of vacant historic industrial and utility buildings. That incentive is projected to add $270 million of additional rehabilitation over the next 5 years. So the chart will go even higher over the next 5 years.

We do have several specific recommendations as outlined in the written testimony. We do support the work that is needed on the existing tax credits through the English bill, H.R. 3159, to do some refinement and repair of the tax credits.

We do need to have additional support for the administration of this program. When we are finding long delays at either the State Historic Preservation Officer or the National Park Service in their review of tax credit projects, that really impedes the effectiveness of the program. The Federal regulations call for a review taking approximately 60 days, but the reality is it is more like 6 months or longer in some cases.

The third I want to mention is we very strongly feel—and we have a North Carolina State incentive for homeowners—that some form of Federal incentive for homeowners to renovate historic houses could be powerful across this country, bringing vast savings and infrastructure, bringing jobs, and making our cities and towns healthier places to live from a tax base standpoint, school standpoint, crime standpoint, and many other ways.

What I would like to conclude with is some photographs because photographs really do tell a lot of the story. Those are photographs from some work that Preservation North Carolina has done in two

locations, two mills and mill villages that we have been involved in where we have acquired the property and resold it with deed restrictions to buyers for renovation.

We have acquired two mill villages that we have resold. As a Southerner, I enjoyed the Southern Living article about a mill village being a wonderful place to live. Mill villages were pretty much the places you didn't want to live when we started this project, and it has been very exciting to see the kind of response that we have had. We were given a mill village that had over 40 vacant and boarded-up structures.

They are now all renovated from little bitty buildings on to the larger houses that the superintendents lived in. The streetscapes are now quite extraordinary for a place that was basically abandoned. We have also had new houses built there under designs that we came up with, and the mill itself is still under renovation, but the first two phases are occupied and exceptional. The peanut mill on the back side of the mill village has also been renovated.

I think the numbers tell the story. The tax value in this neighborhood was $863,000 in 1998. The tax value now is $14.6 million, and that number will probably exceed $20 million by the time the full renovation is complete. Homes have gone from $37,000, basically abandoned, to $224,000 on average.

We have also done this on another mill village near Burlington in the central part of the State, a mill that closed in 1954. You get the sense of the housing that was in that mill village, abandoned for years and years. Now almost all of the houses are sold and renovated now. This was one of my favorites; it fell off the foundation. But a new house wouldn't fall off its foundation, and you couldn't expect to renovate it, but these old houses are built well, just amazing. It sat off that foundation for almost 15 years before we picked it back up.

The renovation has been just wonderful to see, and so many small communities and small mill villages are looking at these projects.

This is a new house that we built, and now we are seeing the new houses being built in the mill village. It has been an extraordinary transformation over the last 8 years. The mill renovation is expected to begin as soon as the brownfields agreement is completed on the mill.

Here are the numbers as they currently stand. It went from $244,000 to $8.7 million. The estimated value of the project completion will be $18 million. These would not have been possible without the tax credits, Federal and State combined, and I want to especially mention the homeowner credit because most of this renovation was done by homeowners for their own homes.

Thank you very much.

[The prepared statement of Mr. Howard follows:]

Preservation North Carolina

The Historic Preservation Foundation of North Carolina, Inc.

Historic Preservation and Community Development: Why Cities and Towns Should Look to the Past as a Key to their Future

House Government Reform Subcommittee on Federalism and the Census

Testimony by J. Myrick Howard, President
Historic Preservation Foundation of North Carolina, Inc.
(aka Preservation North Carolina)

September 20, 2006

North Carolina has extensively leveraged the Federal Rehabilitation Tax Credit to achieve significant community development goals in many cities, towns and rural areas. The preservation community is urging Congress to pass a measure that would make beneficial changes to the existing Federal historic preservation tax credit for commercial properties, and we hope that this will someday lead to the creation of a Federal incentive for the rehabilitation of owner-occupied homes. This would greatly enhance the effectiveness of historic preservation as a force for community revitalization.

Legislative History of North Carolina's Rehabilitation Tax Credits

North Carolina, like many other states, benefited enormously from major tax credit activity from 1981 to 1986 when the Federal historic rehabilitation tax credits were at their prime. A burst of rehabilitation activity occurred in downtowns throughout the state during those years, including some of the state's most ambitious rehabilitation and adaptive use projects. After the reduction of the credits from 25% to 20% by Congress in 1986 and the inclusion of income limitations and passive income rules, the wave of downtown revitalization and adaptive use slowed.

In 1993, the North Carolina General Assembly passed the first North Carolina state credit for rehabilitation. The 5% "piggyback" state credit was enacted in response to Congress' 1986 reduction of the Federal Rehabilitation Tax Credit. The bipartisan legislative action in 1993 was intended to try to stimulate a new wave of rehabilitation, and it resulted in a modest increase in rehabilitation activity.

In 1997, at the recommendation of a Legislative Study Commission on Downtown Revitalization, the North Carolina General Assembly increased the North Carolina state credit from 5% to 20%. The new "piggyback" State credit had to be taken over a period of 5-10 years, so it wasn't as potent as the Federal credit, which could be taken in one year. Two of the most persuasive political arguments for the adoption of the state credit were based on the existence of the Federal program: 1) The State incentive would have minimal administrative costs, since eligibility for the credits relied on an existing Federal/State administrative infrastructure. If you followed the Federal rules and obtained the Federal credit, then the State credit was automatic for

North Carolina taxpayers. 2) The State program would increase the amount of Federal subsidy being used in North Carolina.

Significantly, the 1997 bill also created a new 30% historic rehabilitation tax credit for homeowners. At the time, Congressional passage of the Historic Homeownership Assistance Act seemed unlikely, so the North Carolina legislature created a state incentive that mimicked the rehabilitation guidelines and application process of the Federal program. In testimony, all were in agreement that if Congress ever created a new Federal incentive for homeowners, the State credit would be reduced or eliminated.

The new 1997 State tax credits provisions significantly increased rehabilitation activity in North Carolina. In 2003, it appeared that the increase in rehabilitation activity was going to overwhelm the North Carolina Historic Preservation Office's ability to administer the program effectively. Private sector advocates went to the legislature and won passage of a fee system to support the program. The implementation of fees provides funding for the state office to hire additional staff to review National Register nominations and tax credit applications, so that reviews can take place in a timely manner.

In June 2006, the North Carolina General Assembly (by a margin of 48-1 in the Senate and 116-2 in the House) further leveraged the Federal program by providing an additional incentive for the rehabilitation of vacant industrial, utility and agricultural buildings. The new law provides a 40% "piggyback" state tax credit for the rehabilitation of these buildings in the poorer counties and 30% in the more prosperous counties. It also provides an expanded tax credit for the renovation of these large vacant buildings for owner-occupied residential use (i.e., condos) in poorer counties. To take advantage of this new incentive, projects must exceed $3 million in rehabilitation expenditures. The North Carolina legislature, in passing this bill, clearly understood the value of historic preservation as a producer of jobs and a catalyst for local revitalization. The bill is expected to generate $270 million in additional historic rehabilitation during the next five years.

The Impact of North Carolina's State Tax Credits

Between 1998 (the advent of the enhanced state historic tax credits) and 2005, 1,040 rehabilitation projects representing $1.6 billion of rehabilitation have been applied for in North Carolina. The impact of the state tax credit program has exceeded all expectations.

Since the new credits were made effective in 1998, both the number of rehabilitation projects and the amount of rehabilitation have grown steadily, despite the ensuing recession. In 1997, the last year before the enhanced State credits went into effect, the existing Federal/State tax credits generated $14 million of rehabilitation activity. In 2003, 2004 and 2005, despite an uncertain economy and major loss of manufacturing jobs in North Carolina, rehabilitation expenditures averaged more than $140 million a year – a 1,000+% increase in historic rehabilitation. The number of completed rehabilitation projects grew from 23 in 1997 to 188 in 2005.

Its impact can be seen "on the ground" in historic districts, both commercial and residential, in many North Carolina cities and towns. Downtowns in Asheville, Salisbury, New Bern, Winston-

Salem, Greensboro, Durham, Raleigh, Fayetteville, and Wilmington are just a few that have experienced substantial rehabilitation generated by the tax credits. Vacant textile mills in Edenton, Eden, Mount Airy, and many larger cities have been renovated, helping to revive their surrounding neighborhoods. The renovation of tobacco warehouses has led recovery efforts in downtown Durham.

Two studies by graduate students at the University of North Carolina (one in Public Administration, one in City Planning) have analyzed the North Carolina tax credits. Both concluded that the State of North Carolina is benefiting fiscally from the incentive program. Increases in income and sales taxes generated directly from the rehabilitations exceed the cost of the incentives, not even taking into account the indirect benefits.

Preservation North Carolina (PNC) operates a statewide Endangered Properties Program, through which it works to find buyers for troubled properties. Two of its most ambitious projects have involved the revitalization of vacant textile mills and mill villages. Without the state tax credits, these projects would not have succeeded.

In late1995, Unifi, Inc. donated the shuttered Edenton Cotton Mill and mill village (57 houses, largely vacant and board-up, plus eight vacant lots) to PNC. The first houses were sold within weeks of the passage of the state's tax credits for owner-occupied homes. By 2001, 47 out of the 57 mill houses had been sold for owner-occupied rehabilitation. Since then, every available historic house and every vacant lot in the mill village have been sold. Eight new houses have been built in the village according to our plans. All condos in phase one of the redevelopment of the mill building have been sold, and all condos in phase two have been reserved.

Property tax statistics convey the success of this community revitalization project. The 1998 tax value of Edenton Cotton Mill and mill village was $863,685; the 2006 tax value is $14,625,000. The average tax value for houses increased from $37,606 (mostly vacant) in 1998 to $224,904 in 2005. When the mill rehabilitation is completed, the tax value will approach $20 million. The 1998 tax value of Edenton Peanut Mill (a PNC property adjacent to the mill village) was $45,336; its tax value is now $1,042,939. These tax base increases are substantial for a small town with a population of 5,100 in a depressed rural region, especially since they did not involve substantial municipal expenditures for infrastructure.

In 1998, PNC purchased Glencoe Mill and mill village near Burlington. Sited along the Haw River, Glencoe Mill shut down in 1954, and many of the mill houses had been vacant for decades. Glencoe had only one resident. PNC offered 32 houses for sale for owner-occupied rehabilitation; the mill village also had ten vacant lots. All houses have now sold, and five new houses have been built at Glencoe. The mill is under contract, and rehabilitation will begin as soon as a brownfields agreement with the state is concluded. This fall, Alamance County plans to purchase vacant land along the river at Glencoe for a park. The property, which appraised for $244,000 in 1998, is now valued at more than $8 million. After the rehabilitation of the mill and the last houses, that value will exceed $14 million. In addition to being a substantial boost for the tax base, Glencoe is rapidly becoming a tourist destination, telling the story of the early Southern textile industry.

The revitalization of these mills and mill villages at Edenton and Glencoe would not have succeeded without the North Carolina tax credits program, especially the rehabilitation incentive for owner-occupied homes.

How Congress Could Increase the Effectiveness of the Tax Credits

The Federal historic rehabilitation tax credit program has proven an exceptional tool for rehabilitation nationally. In North Carolina, by adding state tax credits to both enhance and expand the Federal incentive, the rehabilitation tax credits have been instrumental in reviving deteriorated downtown areas, neighborhoods, and landmarks.

It is extremely important that Congress provide funding for the State Historic Preservation Offices through the Historic Preservation Fund at adequate levels for the administration of the national preservation program, including the rehabilitation tax credits. If the review process for the program bogs down for lack of funding, rehabilitation will not happen.

As others will testify, the passage of House Bill 3159 (the English Bill) will aid in refining the existing Federal rehabilitation tax credits and increasing their effectiveness. The entire preservation community is united in its support for this bill that would make the existing historic credit work better for community revitalization, housing production, and smaller, main street-oriented projects.

Once Congress approves changes to make the existing credit work better, it should consider a Federal incentive for housing rehabilitation for homeowners would be a major boost to cities and towns throughout the country. Imagine the impact that hundreds of thousands of private owner-occupied residential rehabilitation projects would have on the health of America's cities and towns. Local tax bases would be enhanced. Neighborhoods would be energized. Skilled jobs would be created. The nation's vast inventory of unused and underused housing would again be made available as homes, creating housing that's affordable for many. Landfills would be less strained from demolition debris. Sprawl would be reduced. The nation's existing public infrastructure of roads, utilities, schools, and fire stations would be put back into better use. Successful downtown revitalization demands the return of residents to downtowns and downtown neighborhoods. In North Carolina, the incentive for owner-occupied housing has proven its value in many communities, and a similar Federal program would have even more impact.

On behalf of Preservation North Carolina, I urge Congress to pass HR 3159 so that we can unlock the full potential of the historic rehabilitation tax credit and ultimately consider the creation of an incentive for the rehabilitation of historic buildings for owner-occupied residential use. Its impact would be powerful.

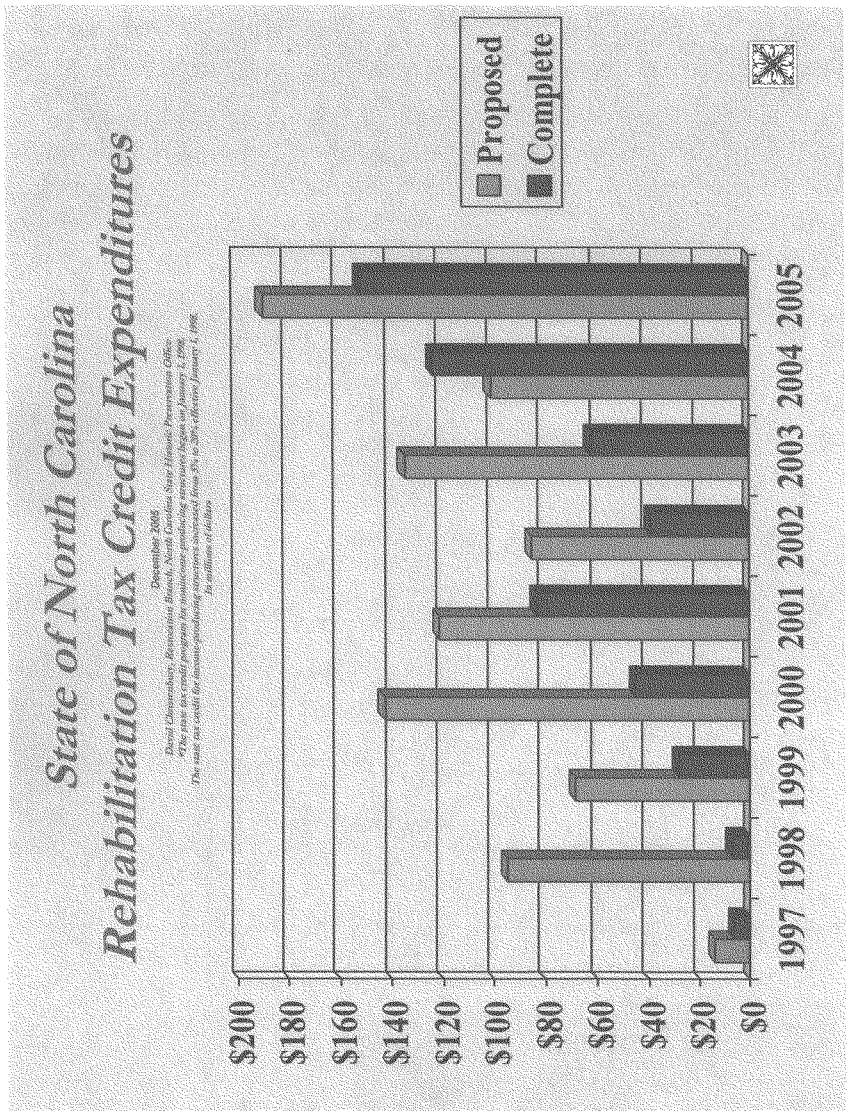
Preservation
North Carolina
Protecting the Irreplaceable™
in North Carolina since 1939
220 Fayetteville Street, Suite 200
P. O. Box 27644, Raleigh, NC 27611-7644
919/832-3652 • fax 919/832-1651 • info@presnc.org
www.PreservationNC.org

Historic Preservation and Community Development: Why Cities and Towns Should Look to the Past as a Key to their Future

House Government Reform Subcommittee
on Federalism and the Census

Testimony by J. Myrick Howard, President
Historic Preservation Foundation of North Carolina, Inc.
(aka Preservation North Carolina)

Number of NC Rehabilitation Tax Credit Projects
December 2005
Proposed
Complete
300
250
200
150
100
50
0
1997 1998 1999 2000 2001 2002 2003 2004 2005


State of North Carolina
Rehabilitation Tax Credit Expenditures
December 2006
Proposed
Complete
$200
$180
$160
$140
$120
$100
$80
$60
$40
$20
$0
1997 1998 1999 2000 2001 2002 2003 2004 2005

Preservation North Carolina

- *Founded in 1939*
- *North Carolina's only private, nonprofit statewide historic preservation organization*
- *Nationally known for its award-winning endangered historic properties program*
- *Nearly 5,000 members*

How PNC's Endangered Properties Program Works
Endangered Historic Property
PNC acquires legal interest in the property in one of three ways: donation; option to purchase; or outright purchase.
PNC markets the property.
PNC finds a buyer and negotiates a contract to purchase.
PNC prepares to close the sale: PNC draws up protective covenants and rehabilitation agreement while buyer secures financing and title search.
PNC closes the sale, conveying title to buyer.
PNC replenishes the properties fund with proceeds from the sale and with additional contributions

Preservation North Carolina
Endangered Properties Program
Number of Properties under
Covenant or Easement: 580+
Estimated Value of those Properties:
In excess of $200 million

"Once again, this quaint historical hamlet hums with new life, not as a museum, but as a revived, lived-in community."
Southern Living Article about Edenton Cotton Mill Village
A Village Gains New Life
PHOTOGRAPH: J. SAVAGE GIBSON

1996
2003
Edenton Cotton Mill Village,
Phillips Street

1996
2003
Edenton Cotton Mill Village,
Aladdin Houses

1996
2005
Edenton Cotton Mill Village,
King Street

Edenton Cotton Mill Village
2006

2006
Edenton Cotton Mill Village,
New Infill Houses

1996
2004
Edenton Cotton Mill
Under Construction

Edenton Cotton Mill

Edenton Peanut Mill
2006
1982

PNC's Property Impact in Edenton

Edenton Cotton Mill and Mill Village

- 1998 Total Tax Value: $863,685
- 2005 Total Tax Value: $14,625,000
- 1997 Average Tax Value of Homes: $37,606
- 2006 Average Tax Value of Homes: $224,904

Edenton Peanut Mill

- 1998 Tax Value: $45,336
- 2005 Tax Value: $1,042,939

Glencoe, Alamance County
HOLT'S
GLENCOE
PLAIDS

Glencoe Mill and Mill Village -- Before

Glencoe Mill Village Houses Before
1998

Glencoe Mill Village
Model House
2006
1998

Glencoe Mill Village Houses under Rehabilitation

Glencoe Mill Village
The "Leaner"
1998
2006

2006 Glencoe Mill Village
Houses – After

2006
Glencoe Mill Village
Houses – After

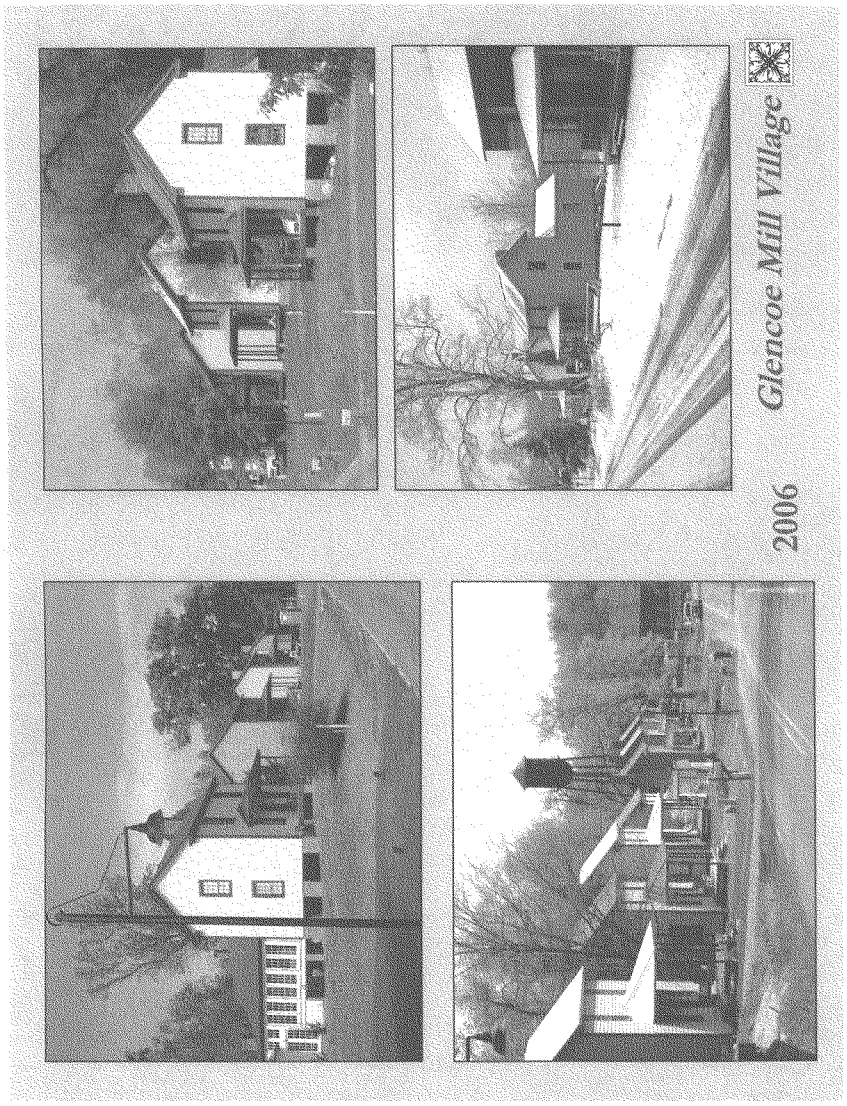
Glencoe Mill Village Houses
2006

OUR HOUSE OF THE YEAR
INSPIRATION
INTERIOR DESIGN
Country Living, February 2002

Glencoe Mill Village
New Infill House
2002

Glencoe Mill Village
New Infill Houses
2006

Glencoe Mill Village
2006
1998


Glencoe Mill Village
2006

RENOVATION AHEAD!
"New ideas need old buildings."
~ Jane Jacobs
GLENCOE MILL
Mill Buildings
About Glencoe
Help Us
Green Project
Glencoe Mill Website

PNC's Property Impact at Glencoe

Glencoe Mill and Mill Village

- *1998 Appraised Value: $244,000*
- *2006 Estimated Value: $8,700,000*
- *Estimated Value upon Project Completion: $18,000,000*

PNC Headquarters:
The Briggs Building in Raleigh
2006
1998

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www.PreservationNC.org

STATEMENT OF EDWARD SANDERSON

Mr. SANDERSON. Mr. Chairman, Rhode Island has used the Federal Historic Preservation Tax Credits for a number of decades, but in 2001, we found that the Federal tax credits simply did not offer enough incentive for developers to take on deteriorated old buildings in inner city neighborhoods. And so, we passed our own State tax credit at 30 percent that can be combined with the Federal tax credit.

Since the creation of our tax credit, the number of historic rehabilitation projects has increased 800 percent, and the amount of private investment has increased more than ten-fold. In just 4 years, 235 projects representing private investment of one and a third billion dollars—that is 4 years, one and a third billion dollars in little Rhode Island—have applied and participated in the program. These projects are creating over $7 billion in economic activity in our State and almost $700 million in new tax revenue. Property tax revenue, sales tax revenue, and income tax revenue are being generated through this program.

All this construction creates new jobs. We estimate 24,000 construction period jobs and 8,000 permanent jobs in new businesses.

The tax credit also adds to the supply of housing including more than 600 apartments that are guaranteed for low and moderate income residents. In fact, we have looked at census tracts and found that three-quarters of all the historic preservation projects that our program is generating occur in census tracts where family income is below the statewide median.

I brought three examples of projects to show you. If we could get the first picture up on the screen, it is this rundown building in downtown Providence. In downtown Providence, owners have invested $54 million in 5 buildings in a 3-block area, creating 200 new apartments and bringing new businesses into street level stores.

We will look at the after; this is the 1873 Peerless Building, one of the five. It has been rehabbed into 97 new apartments and 22,000 square feet of new retail space.

We have a Victorian neighborhood on the west side of Providence known as Elmwood. It contains a wealth of Victorian architecture like this before and after picture of a house from the 1890's, but the neighborhood declined and the houses deteriorated.

The next picture shows that recently 15 houses—15 houses—near the intersection of Melrose Street and Adelaide Avenue have been rehabilitated for low and moderate income residents. The project created 42 rental apartments and five houses as home ownership starter homes.

Finally, Rhode Island's historic mills and factories reflect our State's past as a manufacturing innovator, and we have a lot of these red brick elephants that became obsolete and vacant. The picture I am showing is the Ashton Mill constructed in 1867 for the manufacture of cotton textiles, and the next pictures shows an interior of the completed renovation. This was a $42 million project that saved an industrial landmark in our State but also created over 200 new apartments.

As I have said, the Federal tax incentive just isn't strong enough to leverage the kind of investment that I have just described to

you, and I would recommend three ways that Congress could address this issue. First, I would second what you have already heard about H.R. 3159, important technical changes.

Second, you heard from the Associate Director of the National Park Service about a new effort to improve program delivery and make it more flexible. I had the honor to serve on the committee that developed this report, and so I certainly endorse its recommendations.

But the third recommendation I would have is to call your attention to the fact that there is a basic historic preservation infrastructure that supports all the preservation programs. Historic preservation investments like the ones that I and other witnesses have described require information from State Historic Preservation Offices to identify potential investment properties, to nominate those properties to the National Register of Historic Places, to process the applications for tax credits and grants and other assistance, and to provide needed technical assistance, as you were saying earlier in the hearing, to make sure that we get to a successful conclusion, not to be gatekeepers but to be assisters in making the process work. All of these functions in State Historic Preservation Offices are funded by the Annual Historic Preservation Fund, and so we need to keep those appropriations in place in order to have a program infrastructure.

In my State and in many others, vacant and under-utilized historic buildings are a standing inventory of potential capacity for needed housing, jobs, and public use. Historic rehabilitation programs put these buildings back to work.

[The prepared statement of Mr. Sanderson follows:]

Testimony
on
Historic Preservation and Community Development
U. S. House Government Reform Committee
Subcommittee on Federalism and the Census
The Honorable Michael R. Turner, Chairman

Edward Sanderson, Executive Director
Rhode Island Historical Preservation and Heritage Commission
Past President, National Conference of State Historic Preservation Officers

September 20, 2006

I. Introduction

Mr. Chairman, my name is Edward Sanderson. I am the executive director of Rhode Island's State Historic Preservation Office and I served as President of the National Conference of State Historic Preservation Officers from 2001 to 2005, the national organization that represents historic preservation in every state.

In cities and towns across America, historic buildings have been rehabilitated and continue to be used for businesses, homes, and other uses. This investment not only saves historic places but also creates jobs, increases household income, and generates new state and local tax revenue. Since 1976 when the federal government began to offer a historic preservation tax incentive, over 32,000 buildings listed on the national Register of Historic Places have been rehabilitated involving a capital investment of over $36 billion.

II. Rhode Island's Historic Preservation Investment Tax Credit

In 2001, the Rhode Island General Assembly enacted a state historic rehabilitation tax credit for the purpose of stimulating the redevelopment and reuse of historic commercial, industrial, and residential structures primarily found in city, town and village centers throughout the state. Owners of these properties can earn State income tax credits equal to 30% of qualified rehabilitation expenditures. To qualify, a building must be certified as having historical value and projects must meet historic preservation design standards and be approved by the RI Historical Preservation & Heritage Commission. The program rules are similar to the federal investment tax credit for historic rehabilitation projects, and many projects apply for both 30% Rhode Island credits and 20% federal credits.

The incentive has most certainly caught the interest of the development community, both locally and nationally. Since the creation of our state tax credit, the number of historic rehabilitation projects has increased 800 percent, and the amount of private investment has increased more than ten fold. By itself, the federal tax credit did not offer enough incentive for developers to take on large projects in deteriorated old buildings in inner-city neighborhoods. The Rhode Island Historic Preservation Investment Tax Credit changed the equation. Today our program is returning historic properties to municipal tax rolls, generating employment and housing where they are most needed and leveraging substantial private investment that otherwise would not

occur. In just the last four years, 235 projects, representing private investment of $1.3 billion, have participated in the program.

Based on a professional economic impact study, I estimate that the state's multi-year investment in the tax credit is generating $7.3 billion in economic activity. Put another way, each $1 of state tax credit investment is leveraging $5.47 in total economic output. Additionally, the program is estimated to add $689 million in additional property tax revenue and sales and income tax revenue. The study noted that approximately 20% of the state's investment is recouped even before any cost is incurred because the credit is not actually provided until after the project is completed. By that time, the state has already collected construction-related income and sales taxes.

All this construction activity creates jobs for construction workers, and the renovated buildings provide space for businesses and residences. The current projects are creating over 24,000 construction-period jobs and over 8,000 permanent jobs.

Housing advocates say the tax credit is helping to ease the state's housing affordability crisis by increasing the overall supply of houses and apartments and by assisting in the creation of housing for low and moderate income residents. 4,581 residential units are being created, with over 600 (or approximately 13 percent) guaranteed affordable to families of earning less than 80 percent of the RI median of $52,781.

Three-quarters of all the historic preservation projects are occurring in census tracts where family income levels are below the Rhode Island statewide median. According to the Housing Network of Rhode Island: "At a time when Rhode Island needs to increase overall housing production and particularly affordable housing production, the historic tax credit has proved to be a powerful tool. It provides another resource that non-profit developers can use in assembling the financing necessary to create affordable housing. And it has encouraged for-profit developers to create both market-rate and affordable units in urban neighborhoods they wouldn't have considered before, contributing to neighborhood revitalization and stability."

In its four short years of existence, the Rhode Island historic preservation program has stimulated more urban and town center revitalization than any tool or incentive established by state government in decades. Old textile mills and commercial buildings that have sat vacant or under utilized for many years are now getting a new lease on life through the stimulus of the tax credit. The importance of the historic tax credit has been recognized by important constituencies around the state. Calling it "one of Rhode Island's most effective tax incentives" the Rhode Island Economic Policy Council, in its *2004-2005 Economic Performance Scorecard*, says ..."there is no question the tax credit program has spurred mill renovation activity at levels that no one thought possible in the 1990s."

Scott Wolf, Executive Director of Grow Smart Rhode Island, says: "At a time when Rhode Island's open space and farmland are still under tremendous development pressure and our cities

and towns are struggling to expand their tax base, the Historic Preservation Investment Tax Credit is helping to address both of these challenges. Rehabilitation and reuse of historic buildings is smart economic development that plays to our strengths," he said, noting Rhode Island's abundance of authentic historic neighborhoods and buildings that exude charm, 'quality of place' and that attract visitors the world over. Wolf continued: "And this is happening quite efficiently with very little bureaucracy. It's becoming clear that the public investment in the tax credit program is paying big returns financially and socially by revitalizing neighborhoods throughout the state and expanding tax bases and revenues. This is the single best economic development and neighborhood revitalization tool the state has seen in decades. This is about new jobs, new residents and new vitality," he concluded.

III. **Examples of historic rehabilitation projects**

1. Downtown Providence

The State Historic Preservation Investment Tax Credit Program has proven to be a catalyst for the rehabilitation of the State of Rhode Island's much neglected urban and town centers. Since the passage of the program, cities and towns throughout the State have benefited from the influx of out-of-state developers, businesses and residents. Properties that have remained dormant for years have now become vibrant places to live, work and play. The program has become one of the State's most effective economic development tools.

One dramatic example of the program's success is the recent revitalization of a number of buildings purchased in the early 90's with the vision of creating a vibrant residential neighborhood in Downcity Providence. After the flight of businesses to the suburbs, these buildings remained vacant or severely underutilized due to the high cost of rehabilitating historic structures and the limited sources of funds made available by lenders. It was not until the adoption of the tax credit program that the rehabilitation of these buildings became financially feasible. Since the program's inception, approximately $54 million has been invested in a three-block area to rehabilitate deteriorated commercial buildings into approximately 200-residential apartments and first-floor retail space. The demand for residential apartments has come from a cross section of demographics including residents from New York, Connecticut and Boston looking for more space at a lower cost. The retail space has attracted new businesses to the State of Rhode Island such as Design Within Reach, Symposium Books, tazza caffe, Lumiere Salon and G-Media Productions.

A major effect of the program that cannot be overlooked is the need and demand that it has created for new development in proximity to these rehabilitated historic structures. For example, the credit-induced Downcity redevelopments have established the need to invest $35 million in a 500-car parking structure featuring two residential towers with first floor retail to support the residential and retail. In addition, recent plans for a 32 story condominium project are a clear response to the enhanced critical mass of Downcity revitalization stimulated by the tax credit. The tax credit program is also generating intangible positive effects such as new residents and

business people now taking pride and ownership in their cities and towns. Over the past year, Downcity has seen the creation of a neighborhood crime watch and the much anticipated Downcity Improvement District, whereby property owners voluntarily tax themselves to provide additional cleanliness and safety services in their district beyond the City's services.

Based on feedback from experienced developers, it is certain that the Downcity projects listed below and their ripple effects could not have been accomplished without the use of State Historic Preservation Investment Tax Credits.

Alice Building

The Alice Building is located in the heart of Downcity at 236 Westminster Street. Prior to the establishment of the tax credit program, the building was virtually vacant and had fallen into disrepair. As a result of the tax credit, the building has been restored and rehabilitated into 5,000 square feet of first floor retail space and 38 residential units on the upper floors. The residential units, ranging from 820 to 2,500 square feet, are occupied by a wide variety of new residents of Downcity including graduate students, professionals, artists and empty nesters.

Burgess and O'Gorman Buildings

Constructed in 1870, the Burgess Building located at 220 -232 Westminster Street was designed by architect George Waterman Cady in the post-Civil War expansion of Providence's central business district. It is now the oldest surviving building on Westminster Street. Both the Burgess and O'Gorman Buildings were combined as one exciting new building with 13 loft-style apartments and first floor retail space.

Wilkinson Building

The Wilkinson Building located at 210 Westminster Street is an example of early 20th century American commercial construction. Built in 1900, the Wilkinson Building formerly housed the Lerner Department Store. The building has undergone a complete rehabilitation to include twelve (12) loft style apartments and San-Francisco based retailer Design Within Reach, which occupies 3,200 square feet on the ground floor.

Peerless Building

The most significant Downcity rehab project and the most difficult to finance, the Peerless building ca. 1873, is a six-story brick and stone building that occupies a city block in the center of Downcity. This project required the use of six different sources of funds. The building is being renovated to become 97 unique loft style apartments. This project required the coring out of approximately 40,000 square feet of the center of the building to create a central six-story glassed atrium. On any day you will see approximately 150 construction workers diligently working towards the completion of the project for the spring of 2005. In addition, the project

shall include a 68-car parking garage in the basement, a private roof garden for the residents and 22,000 square feet of newly created retail space.

2. Melrose Project

On Providence's West Side, the Elmwood neighborhood contains a wealth of historic late 19th-century architecture that once housed the city's successful middle-class. Unfortunately the neighborhood declined during much of the 20th century and the houses deteriorated. Fifteen buildings near the intersection of Melrose Street and Adelaide Avenue have been rehabilitated for low and moderate income residents through the cooperative work of Greater Elmwood Neighborhood Services and the Providence Preservation Society Revolving Fund. This multiple building intervention has advanced preservation through a several block area. By saving key buildings, the whole neighborhood is improved and nearby property owners may be encouraged to improve their own property.

In the 1980s, a previous owner unsympathetically converted ten of the buildings to multiple apartments, and then abandoned them to foreclosure by the US Department of Housing and Urban Development. With help from the City of Providence, RI Housing, HUD and federal and state tax credits, the project invested $4.5 million to save the buildings and rehabilitate 42 rental apartments and five houses for homeownership.

This project makes a significant contribution to the neighborhood's ongoing revitalization and creates affordable homes in a historic neighborhood with a strengthened sense of place.

3. Historic Mills

RI's heritage of mills and factories reflects our state's world leadership as a manufacturing innovator and production powerhouse in the 19th and early 20th centuries. Then these "red brick elephants" became obsolete and at- risk. Preservationists knew these significant structures offered great space, and the combination of federal and state tax credits are proving them right. Creative developers willing to take risk, talented architects who adapt industrial floors to new uses, and skilled building trades workers are preserving this architectural legacy and helping to rebuild by-passed neighborhoods.

The following six mills have a combined investment of $207 million and they created 841 apartments. In every case, nearly empty factories with broken windows and crumbling brick have been brought back into active use as apartments, offices, and shops. Long unused floors often with large banks of windows, have been converted to loft apartments in a wide range of layouts, sizes, and visual character to suit tenants preferences.

The Ashton Mill, in Cumberland, was constructed in 1867 for the manufacture of cotton textiles. Now known as The River Lofts at Ashton Mill, this $42 million project created 214 one- and two-bedroom units as well as gathering places.

Pawtucket's Campbell Machine Shop, built in 1888-89, previously housed manufacturers of machines, textiles, yarn, and braided rugs. Rehabilitated as the Bayley Street Lofts, the five-story mill now houses 25 market-rate and low-income apartments. It represents a $5.6 million investment.

The former Lebanon Mill (1901)on the Blackstone River was transformed into the Riverfront Lofts with 59 live-work spaces. The $24 million investment represents a benchmark in the revitalization of Downtown Pawtucket.

The New England Butt Company (1865) on Providence's West Side is now the Pearl Street Lofts. The $13 million renovated factory accommodates 38 loft-style apartments and condominiums, commercial space, and offices.

Two historic buildings in Providence's sprawling Brown & Sharpe Complex (after 1872) have found new life as The Promenade Apartments. The $57 million project created 220 new residential units. Commercial office tenants occupy additional historic buildings in the complex.

The rehabilitated National & Providence Worsted Mill (1881) includes 285 apartments, office space, and a restaurant. This $65 million mixed-use project is a catalyst for future preservation efforts along the Woonasquatucket River.

IV. Recommendations

Rhode Island's experience, and the experience of other states, has shown that the current Federal tax incentive for historic rehabilitation is not an adequate economic incentive to leverage private investment in many cases. The following recommendations are intended to suggest ways that the Congress can improve the ability of historic preservation projects to promote economic development and community revitalization.

1. Improve the Federal Historic Rehabilitation Tax Credit

Although the rehab credit has been widely used as an effective tool for transforming vacant and abandoned buildings into safe, decent, and – in many cases – affordable places to live, it must be improved so that it can truly realize its full potential. The rehab credit should be easier to use, especially in projects that twin the incentive with the Low-Income Housing Tax Credit (LIHTC) and for smaller, more "main street"-oriented projects. H.R.3159 would make the following changes:

- Basis Reduction -- Lessen the rule that lowers tax benefits dollar-for-dollar according to the amount of credit taken when using the historic rehab credit.
- Smaller Projects -- Increase the rehab credit rate to 40 percent for smaller projects in which the qualified rehabilitation expenditures do not exceed $2 million. This would target the incentive to "main street" type developments in which rehab credit costs are currently too prohibitive.
- More Housing -- Permit the 10 percent credit to be claimed with respect to residential rental property. It is currently prohibited for projects that include dwellings.
- Re-Using "Older Buildings" -- Change the definition of "older building" from "built before 1936" to any property "fifty years old or older."
- Non-Profit Uses -- Ease the rules governing non-profit deals so that more community-oriented projects may move forward by amending Section 47 to limit the types of leasing arrangements with non-profits and other tax-exempt entities that preclude the use of rehab credits.
- Targeting in Disinvested Areas -- Boost by 130 percent the qualified rehabilitation expenditures on which the rehab credit can be claimed for buildings located in certain disinvested neighborhoods, difficult to develop areas, and census tracts with high poverty rates.
- Application to Condominiums – Remove the recapture clause -- requiring the payback of tax credits upon conversion of a tax credit property into a condo development-- to broaden the tax credit's use to condominium developments and in so doing, provide new support for the revitalization of urban neighborhoods nationwide.

2. Improve program delivery

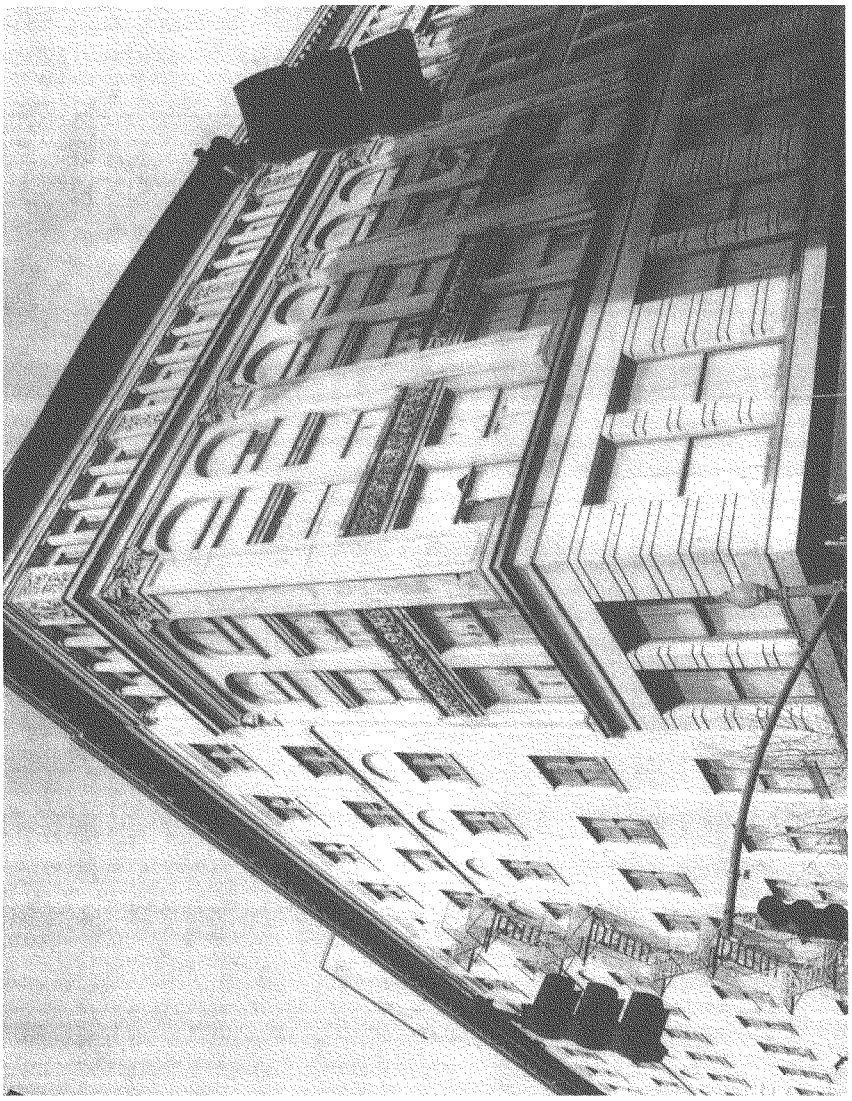
The National Parks Advisory Board has recently adopted a series of recommendations for improved administration of the Federal Tax Credit program by the National Park Service and for greater flexibility to allow more worthwhile projects to qualify for historic rehabilitation tax credits. The National Park Service should implement these recommendations, with the support of state Historic Preservation Offices.

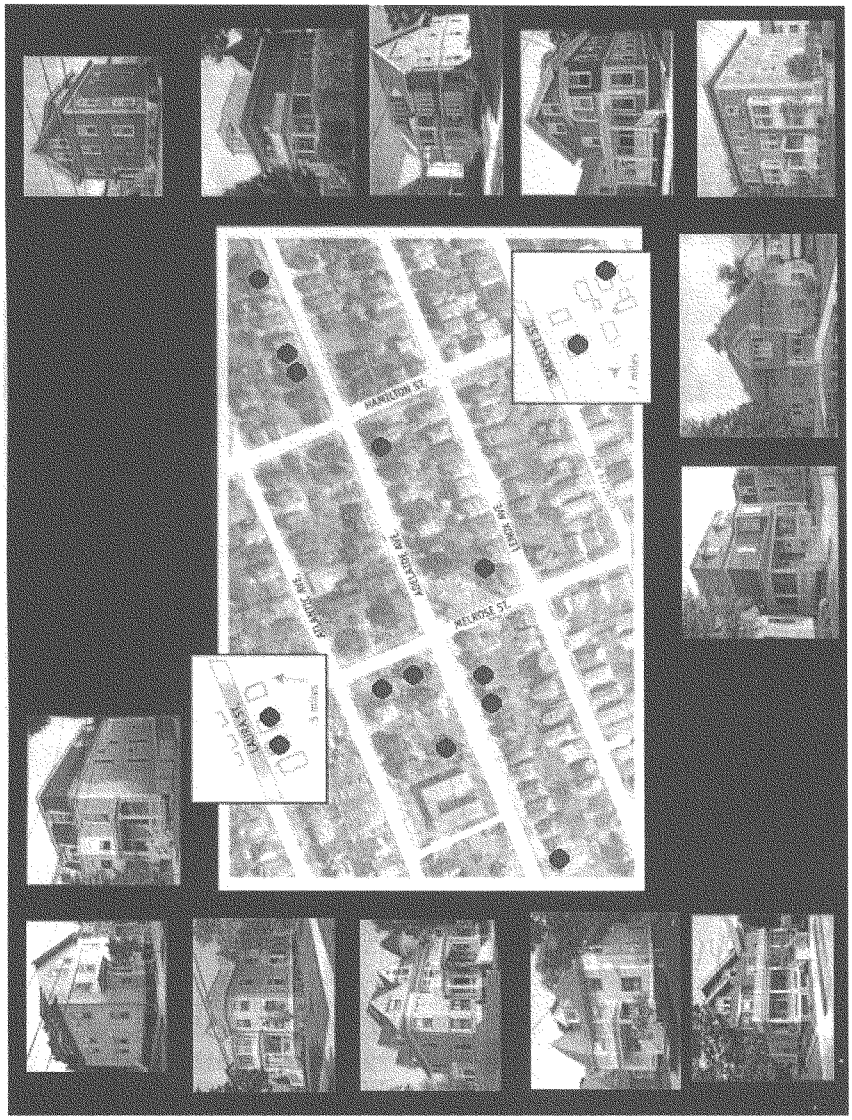
3. Support the preservation infrastructure

Successful historic preservation investments require that the infrastructure of the national historic preservation program is in place and functioning effectively and adequately supported by federal appropriations to the Historic Preservation Fund within the Department of the Interior. Potential investment projects are identified by historic site surveys carried out within the states, and investment properties must be nominated to the National Register of Historic Places by State Historic Preservation Officers and listed by the National Park Service. Investment project applications are reviewed by State Historic Preservation Office staff and by National Park Service staff, who also assist property owners by providing technical information and professional guidance. These functions are supported by federal Historic Preservation Fund appropriations.

V. Conclusion

Mr. Chairman, America's heritage can be found in historic buildings in local places all over the United States. Our national heritage is not only found in a few well-known landmarks located "somewhere else" far away from where most Americans live. On the contrary, every landmark is part of a local community and most of the nation's older cities and towns contain historic neighborhoods and downtowns that need revitalization. In my state and in many others, vacant and under-utilized historic buildings are a standing inventory of potential capacity for needed housing, jobs, and public use. Programs like the Rhode Island Historic Preservation Investment Tax Credit and the Federal Historic Rehabilitation Tax Credit offer significant opportunity to renovate historic buildings and put them back to use. Thank you for your leadership in studying how to support and expand this important work.

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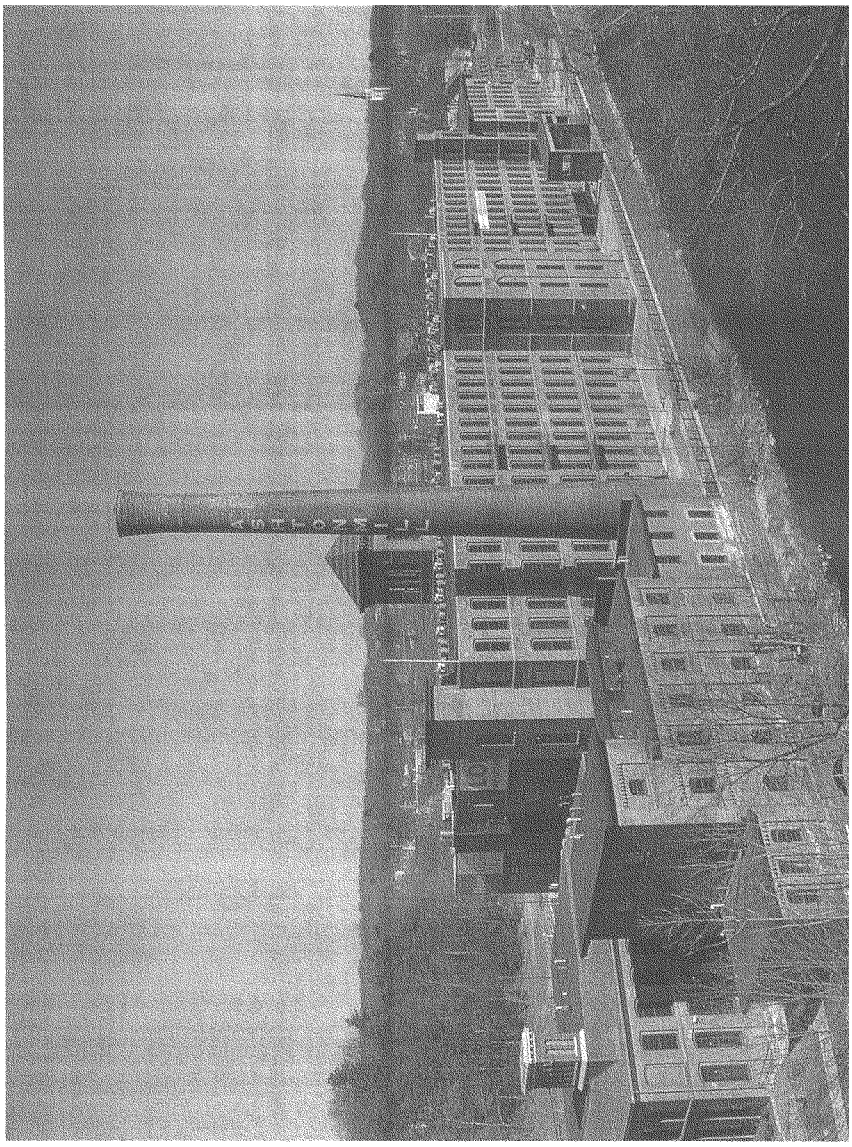


Mr. TURNER. Mr. Baumgartner.

STATEMENT OF KEN BAUMGARTNER

Mr. BAUMGARTNER. Thank you, Mr. Chairman. I appreciate the opportunity of being in front of you this morning and having the opportunity to address this committee.

My name is Ken Baumgartner. I am with the Corky McMillin Companies, and we are a full service real estate company in San Diego, California. We have been in business in San Diego for about 45 years and, over those years, we have developed approximately 25,000 homes, apartments, condominiums, etc. in the San Diego area.

I would like to just make a personal note first. Mr. Bilbray made a comment about being baptized at the Naval Training Center. My dad, my 88 year old dad who recently moved from New Jersey to California was a seaman recruit in 1940. I was a seaman in 1969 at the Naval Training Center. So it has a personal flavor to me to see it restored as well as certainly a business interest as my position with the company.

As our company was selected by the city of San Diego in 1999 to rebuild the Naval Training Center, the former military base, I am hopeful that my testimony will provide you some perspective on how the private sector can partner with local, State, and Federal Governments to achieve the goals of both community revitalization and the preservation of historically valuable properties.

Allow me to begin with some background. In 1993, the Base Realignment and Closure Commission closed the 550 acre Naval Training Center located west of downtown San Diego after serving for more than 60 years as a basic training facility for military recruits. Built in the 1920's, the Naval Training Center, now called Liberty Station, was notable for its unique architectural design of Spanish Colonial buildings.

Once the base closed in 1997, the city of San Diego, which was deeded the base, embarked on a lengthy process with the Navy, numerous government agencies, community groups, members of the public to determine what should be built on the property. The result was a reuse plan that called for approximately 500 military housing units which have been built, not by us but have been built and occupied, it was the first thing that was built. A public park, a 48-acre public park, a non-profit art and cultural district, several schools, two charter schools are open right now, new housing, commercial and retail district, a restored nine hole golf course that was part of the Naval Training Center for eternity, and a hotel sector with about 1,000 units.

Integral to the success of the plan is the reuse of buildings of historic value on the property. The historic core includes 50 buildings listed on the National Register of Historic Places, comprising over 600,000 square feet of space. According the plan, approximately 300,000 square feet of space is to be dedicated to use as an arts and cultural district that will be administered by a non-profit foundation. Over 300,000 square feet of retail and commercial use will be developed for retail and commercial use.

Once converted for reuse, the historic core of the project will truly serve as an economic engine and will drive the revitalization

of the former base and surrounding communities. These vintage-era buildings will provide new office space, retail stores, restaurants, cultural events, entertainment, and jobs, all within walking distance of many new homes including the homes of hundreds of military families.

Our greatest challenge in fulfilling this potential of the redevelopment project is to find a cost-effective way of adapting functionally obsolete military buildings into marketable properties that will accommodate the very specific uses allowed by the myriad of restrictions governing the property. An example would be rehabilitating small office spaces in old military buildings that are now zoned and planned for visitor retail.

While maintaining the historical features, plan flexibility is needed for this retail reuse. It is important to note that we are not only restricted with what we can do with the buildings by Federal historic regulations but also by State and local historic preservation, project precise plans, city zoning codes, daily traffic limitations, because our project is located near the airport and within the coastal zone, runway protection zones and State of California local coastal programs.

So we try to balance all these opportunities with different regulations and create a project that we think will be viable.

Without programs such as the Federal Historic Tax Credit Program, renovating these buildings would not be financially viable, leaving us with few options but to leave them in a vastly underutilized condition or in a state of disrepair. Overemphasis on historical preservation could negate the interests and threaten the loss of historic rehabilitation. We encourage an adaptive reuse where there is a balance between the economic viability of the reuse and the historic preservation.

Mr. Chairman, in closing, it is our view that the Federal Historic Tax Credit Program can be a significant catalyst in achieving the goals of community revitalization and historic preservation.

I just wanted to make a comment after hearing Dr. Matthews' testimony. Her office has been extremely cooperative in working with us through a myriad of regulations that we have never been faced with before in terms of processing applications, and we have learned an awful lot from the process and are eager to continue with it and see some wonderful opportunities to kind of jointly work with this Historic Tax Credit Program and achieve the goals that we are trying to achieve out in San Diego.

So, again, I thank you, and I would certainly invite you or anyone on your staff to San Diego, preferably in January or February to view the Training Center. Thank you again for the opportunity to testify.

[The prepared statement of Mr. Baumgartner follows:]

Testimony of Ken Baumgartner

President, The Corky McMillin Companies

Before the Committee on Government Reform

Subcommittee on Federalism and the Census

September 20, 2006

Mr. Chairman and members of the Committee, My name is Ken Baumgartner, President of the Corky McMillin Companies, A privately held residential and commercial builder with over 45years experience in the construction of master planned communities in several states. I have been with the company for the past 27 years.

I would like to thank you for the invitation to testify before you to discuss today's topic, "Historic Preservation and Community Development: Why Cities and Towns should Look to the Past as a Key to Their Future".

As the company selected by the City of San Diego in 1999 to rebuild The Naval Training Center, a former military base, I am hopeful that my testimony will provide you with a perspective of how the private sector can partner with local, State, and Federal Governments to achieve the goals of both community revitalization, and the preservation of historically valuable properties.

Allow me to begin with some background. In 1993, the Base Realignment and Closure Commission closed the 550 Acre Naval Training Center (NTC) located west of downtown San Diego after serving for more than 60 years as a basic training facility for military recruits. Built in the 1920's, the Naval Training Center, now called "Liberty Station" was notable for its unique architectural design of Spanish colonial buildings.

Once the base closed in 1997, the City of San Diego embarked on a lengthy process with the Navy, numerous government agencies, community groups and members of the public to determine what should be built on the property. The result was a "reuse plan" that called for approximately 500 military housing units, a public park, a non-profit arts and culture district, several schools, new housing, and a commercial and retail district, a restored historic 9-hole golf course and a hotel sector with 1,000 new rooms.

Integral to the success of the plan is the modernization and reuse of the buildings of historic value on the property. This "Historic Core" includes 50 buildings listed on the National Register of Historic Places comprising over 600,000 sq ft of space. According to the plan, approximately 300,000 sq ft of space is to be dedicated to use as an Arts and Culture District, and over 300,000 sq ft for retail and commercial uses.

Once converted for reuse, the historic core of the project will truly serve as the economic engine that will drive the revitalization of the former base, and the surrounding community. These vintage-era buildings will provide new office space, retails stores, restaurants, cultural events, entertainment, and jobs, all within walking distance to many new homes, including the homes of hundreds of military families.

Our greatest challenge in fulfilling the potential of this redevelopment project is to find cost effective ways of adapting functionally obsolete military buildings into marketable properties that will accommodate the very specific uses allowed within the myriad of restrictions governing the property. An example is rehabilitating small office spaces in old military buildings that are now zoned and planned for visitor retail uses. While maintaining the historical features, some flexibility is needed for retail reuse.

It is important to note that we are not only restricted with what we can do with the buildings by federal historic regulations, but also the state and local historic preservation offices, The Project Precise Plan, City Zoning Codes, Daily Traffic Limitations, and because our project is located near an airport within the coastal zone, Runway Protection Zones, and the State of California Local Coastal Program.

It is also important to understand that it actually costs more to renovate these buildings than it would to build new ones from the ground up. Furthermore, maintaining the strict historical configuration of the properties can reduce rents up to 25%, and make them harder to lease.

Without programs such as the Federal Historic Tax Credit Program, renovating these buildings would not be financially viable, leaving us few options but to leave them in a prolonged state of disrepair. It is clear this program has a direct impact on preventing blight and preserving historic resources, provided the end-user needs and historic elements of the buildings are balanced in the rehabilitation. Over emphasis on historic preservation could negate the end-use interest, threatening the loss historic rehabilitation. The continued success of this program will be driven by a good balance between adaptive reuse and historic preservation.

Mr. Chairman, in closing, it is our view that the Federal Historic Tax Credit Program can be a significant catalyst in achieving the goals of community revitalization and historic preservation. I invite you or any member of

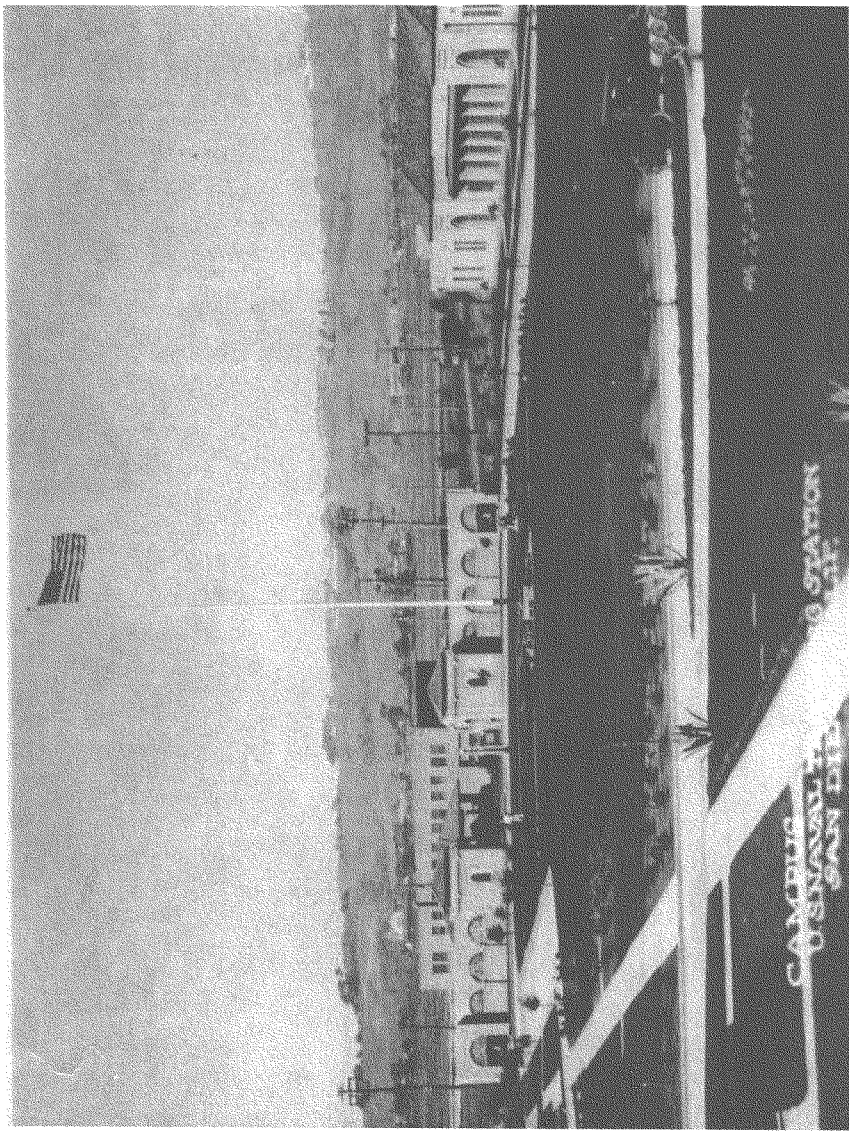
congress who is interested to visit us in San Diego. I would be very happy to give you a tour and show you how this program is benefiting our community.

Thank you again for inviting me here today. I would be glad to answer any questions you may have.

Naval Training Center
San Diego

LIBERTY STATION

In the early days of the Naval Training Station, aviation was still in its infancy. Most recruits arrived in San Diego by train, and Navy trucks shuttled between the Santa Fe Depot and the Station to transport the new arrivals.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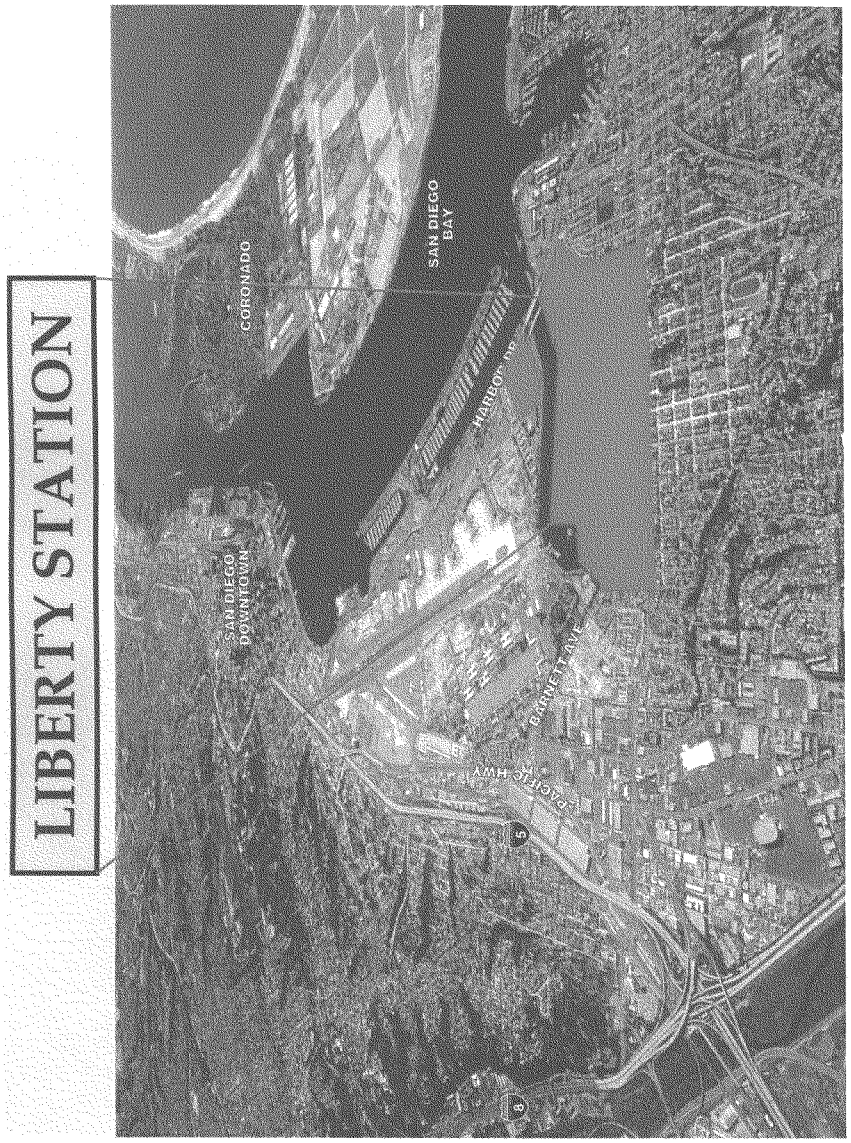
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NIMITZ BLVD
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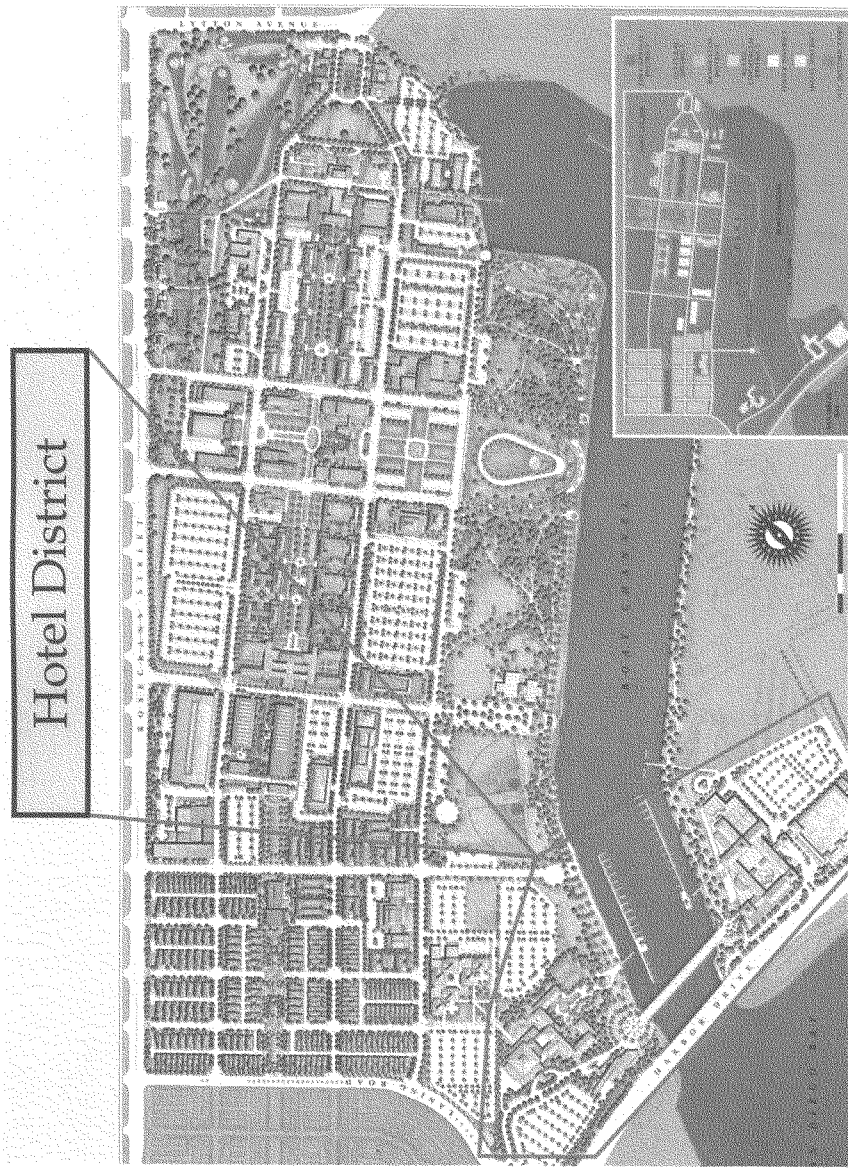
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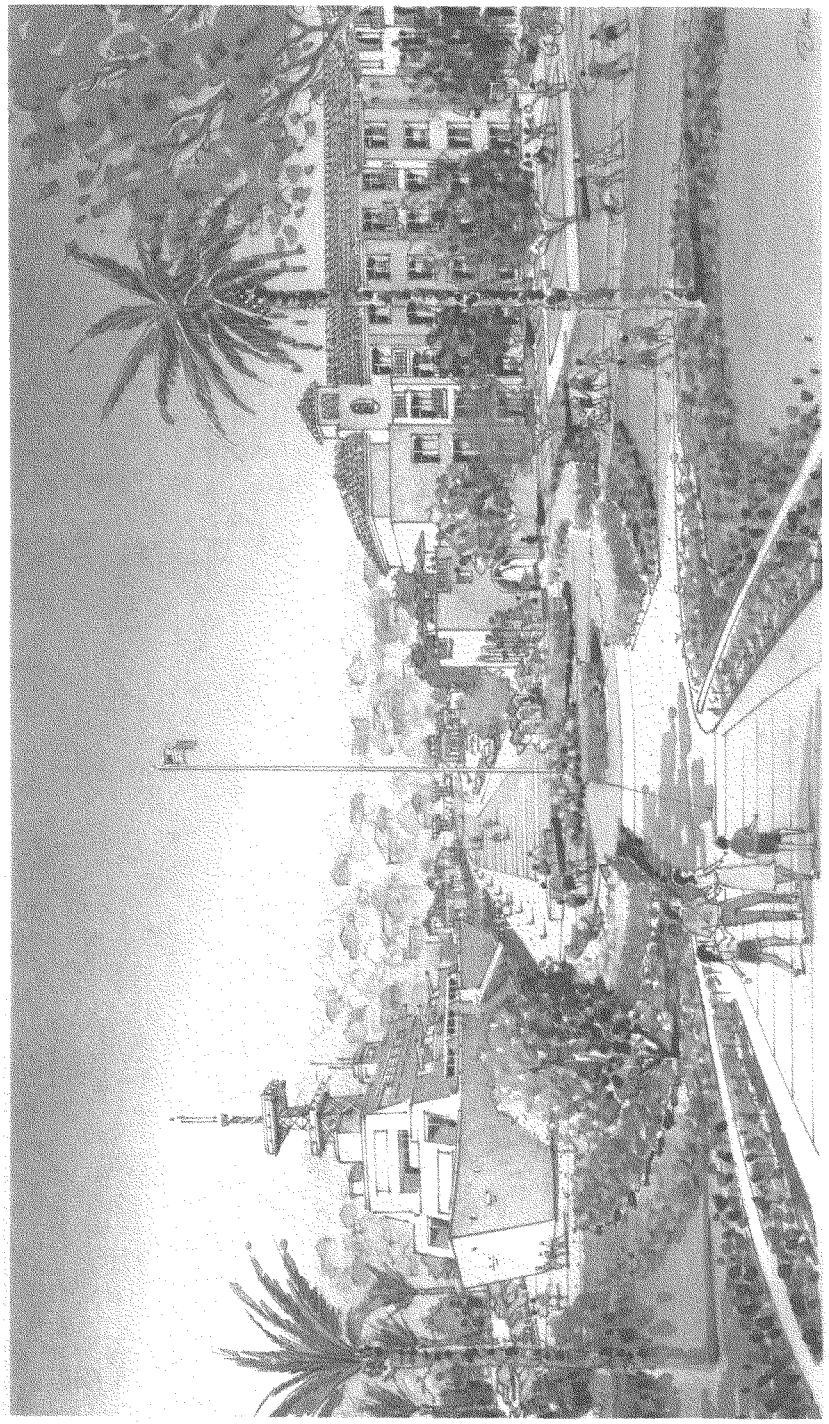

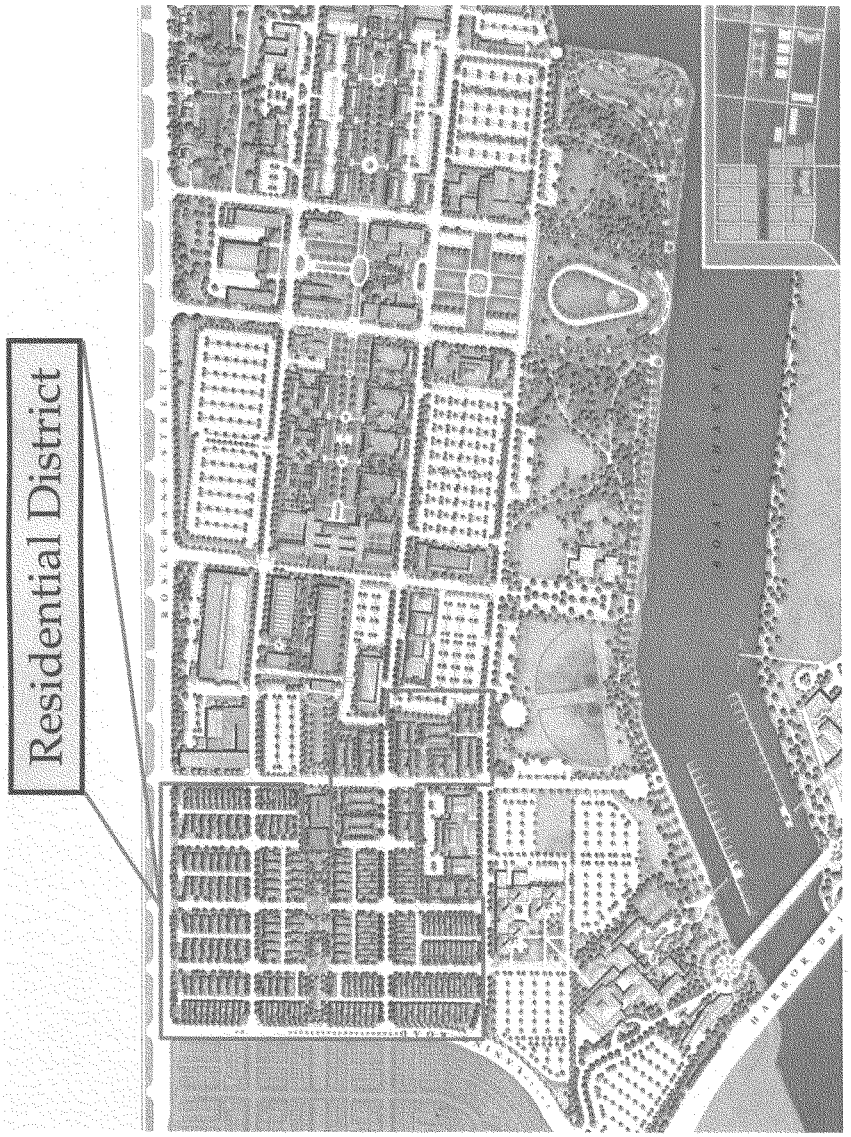
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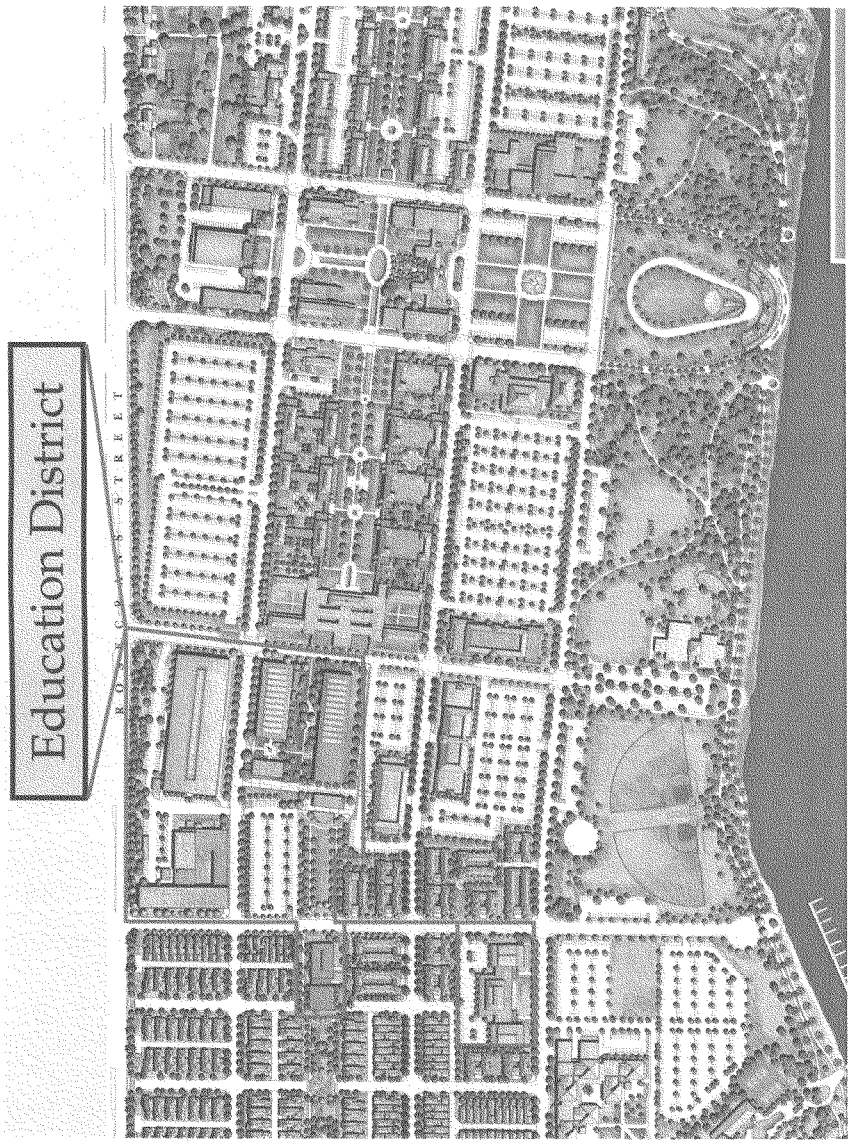
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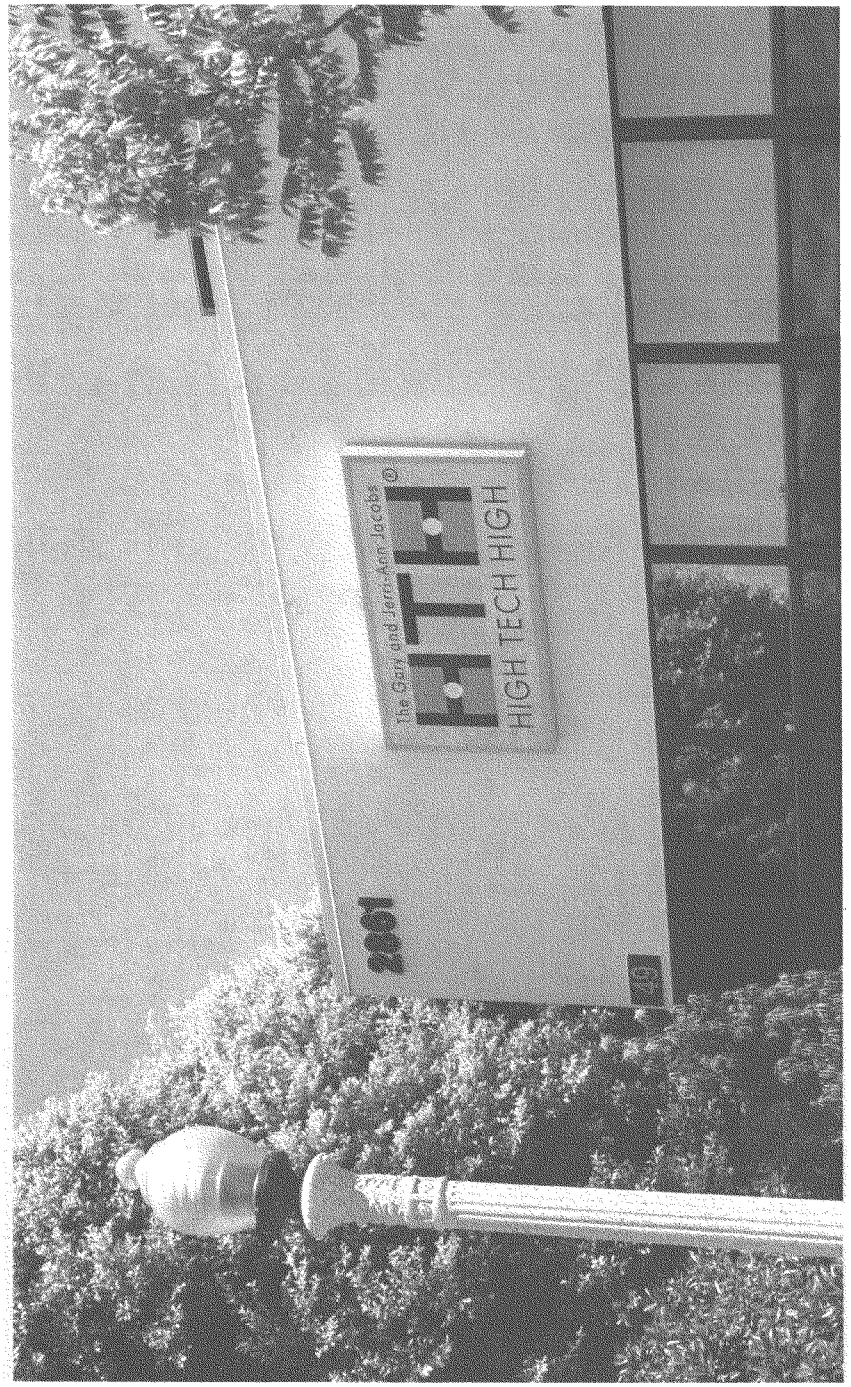
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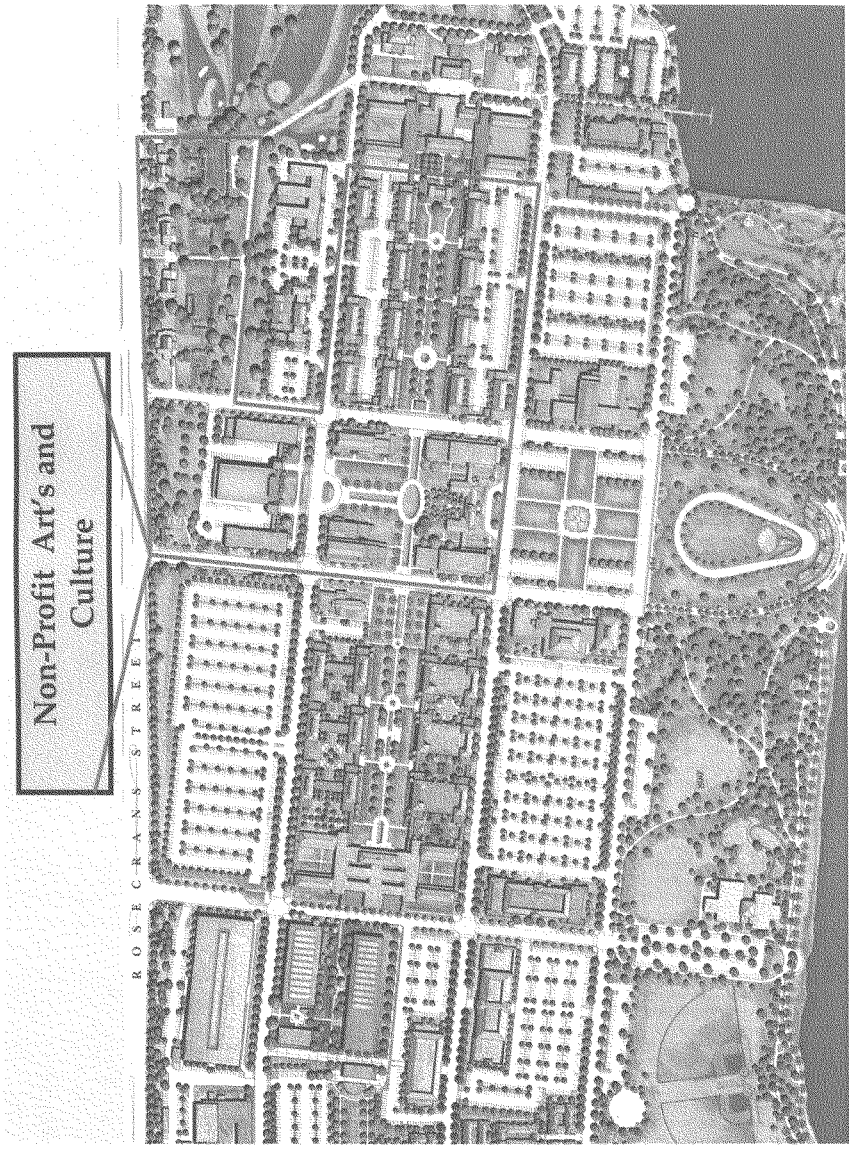
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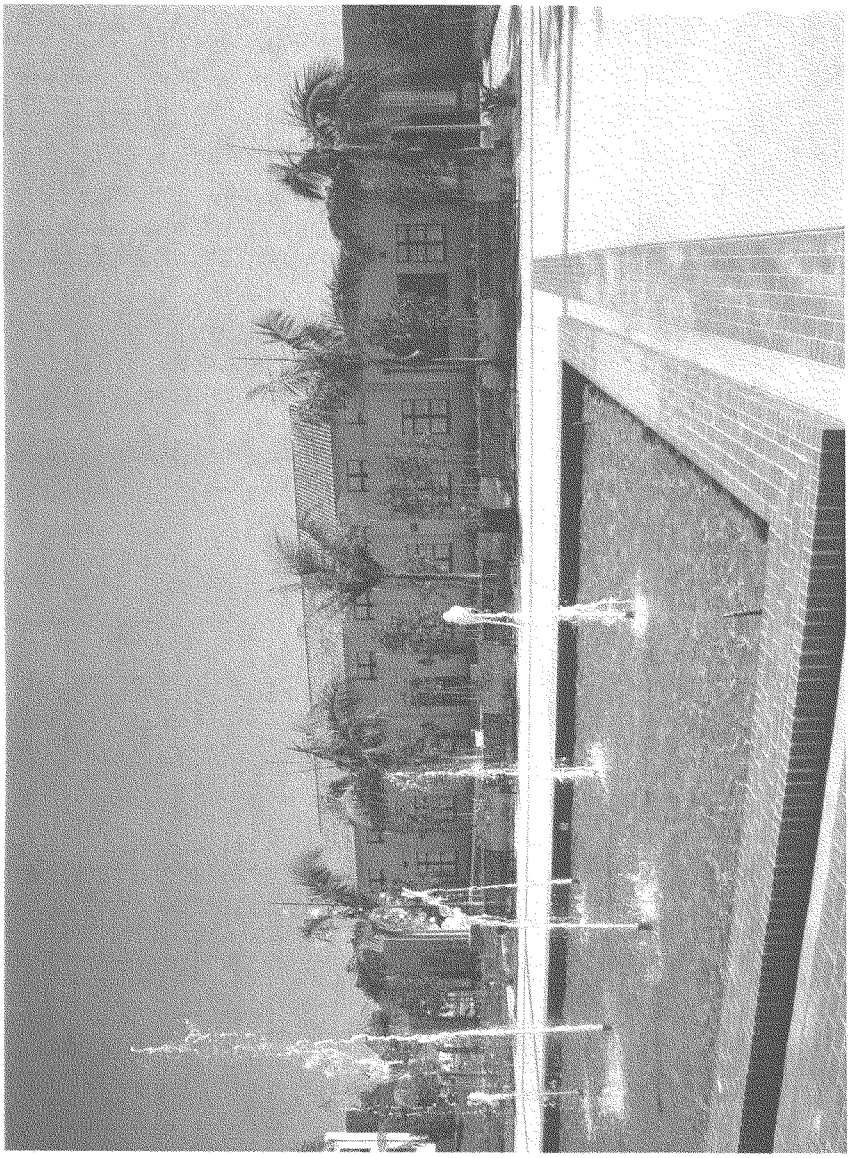

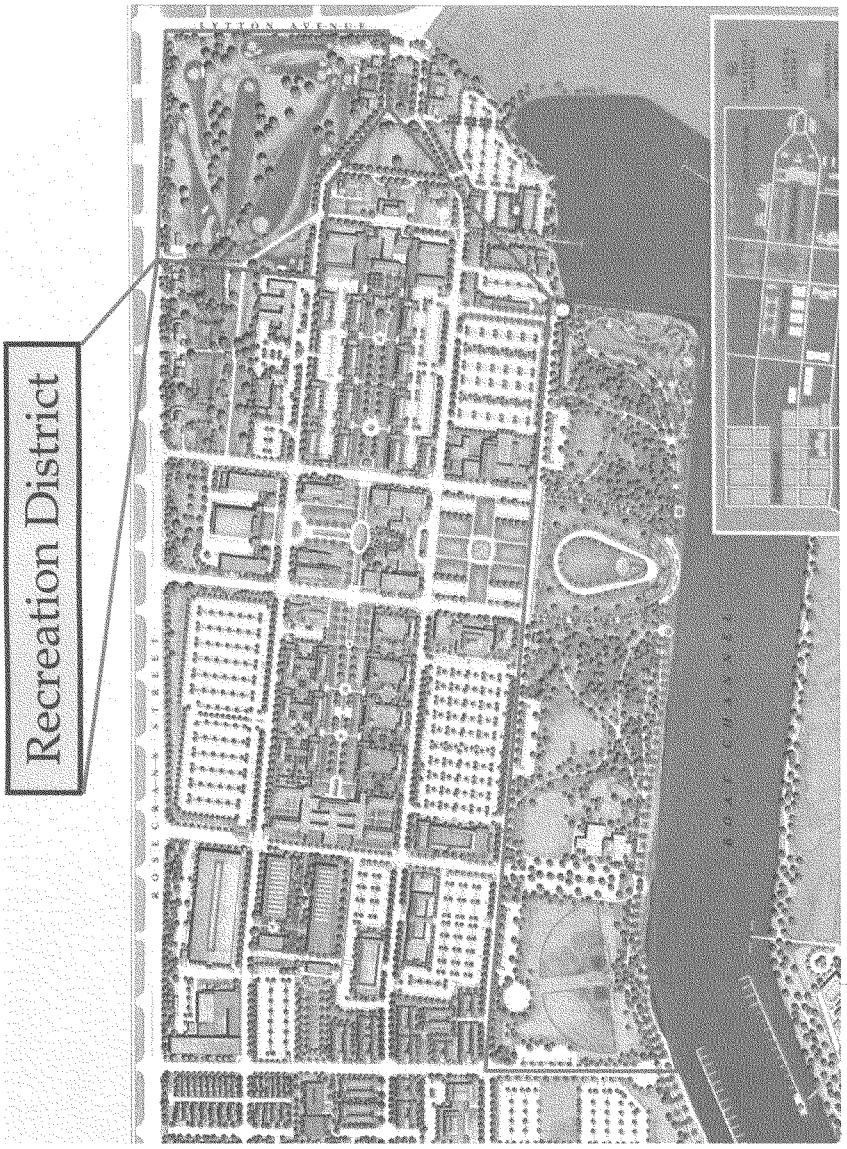
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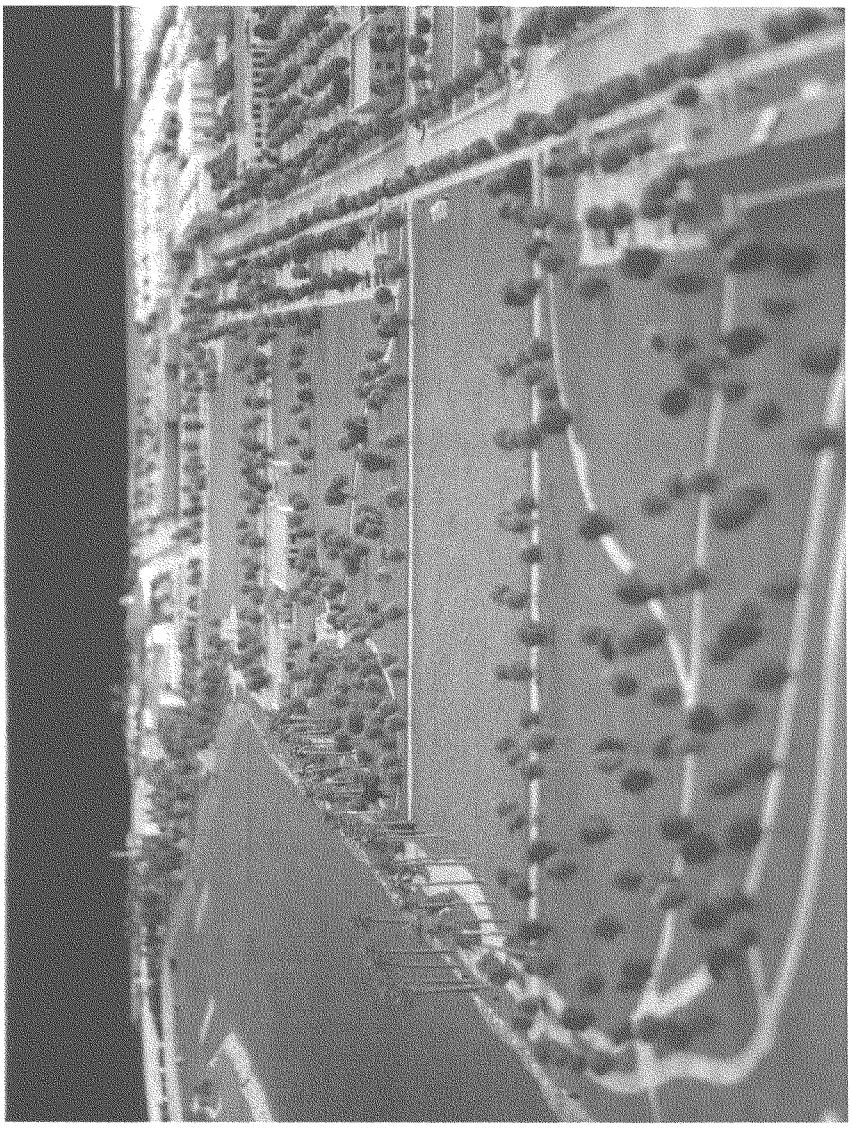

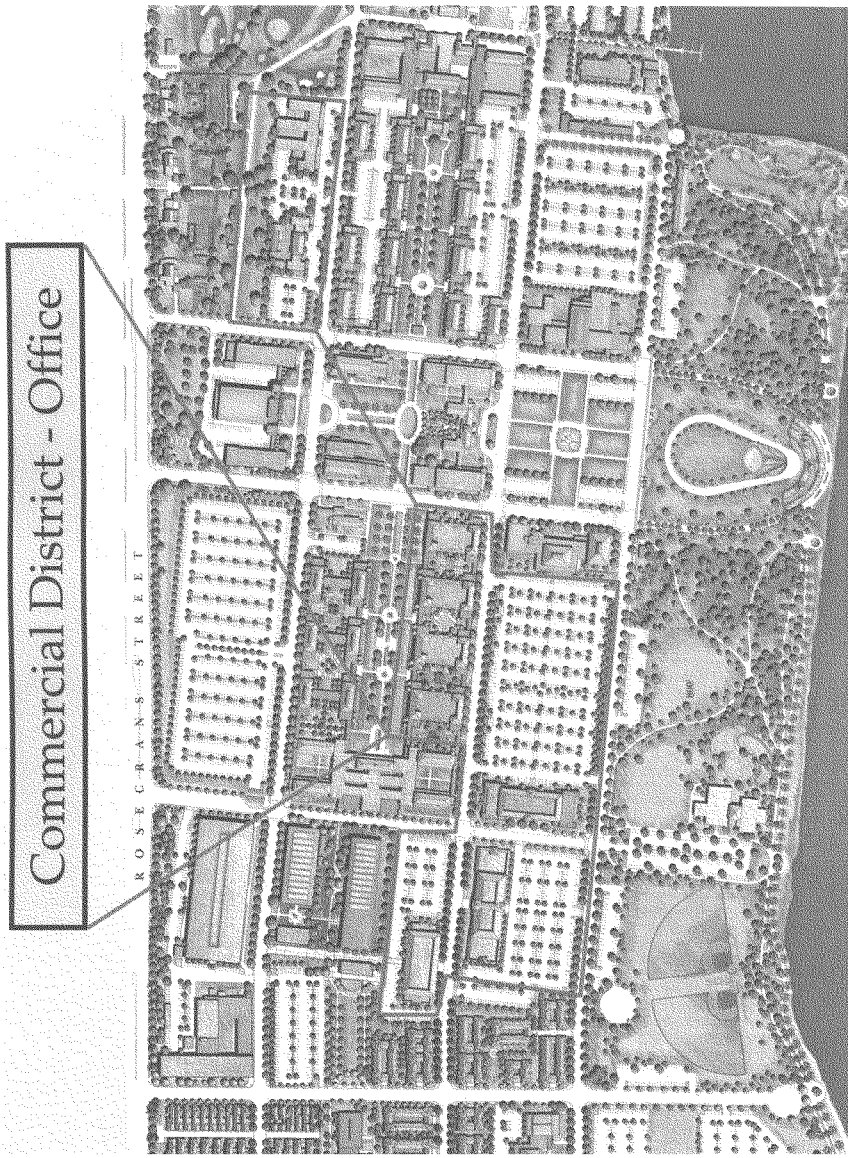
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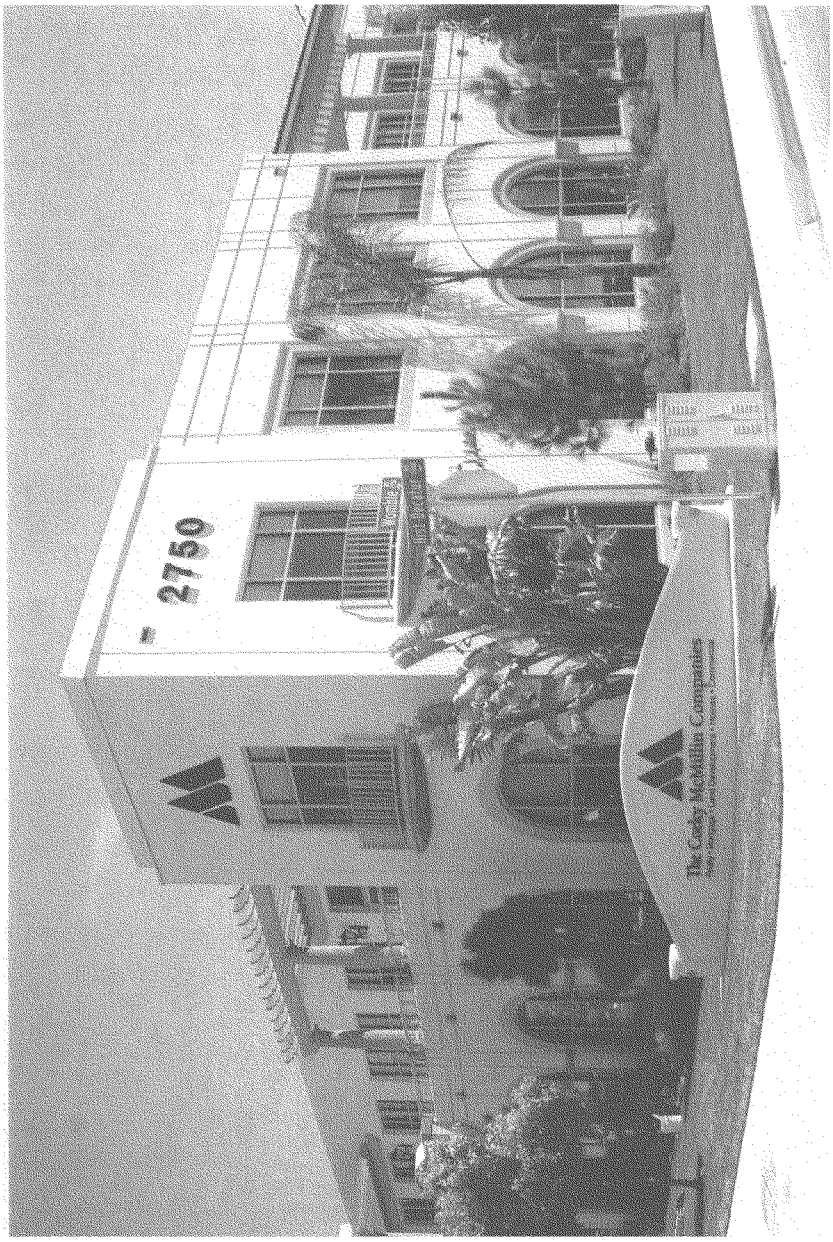
2750
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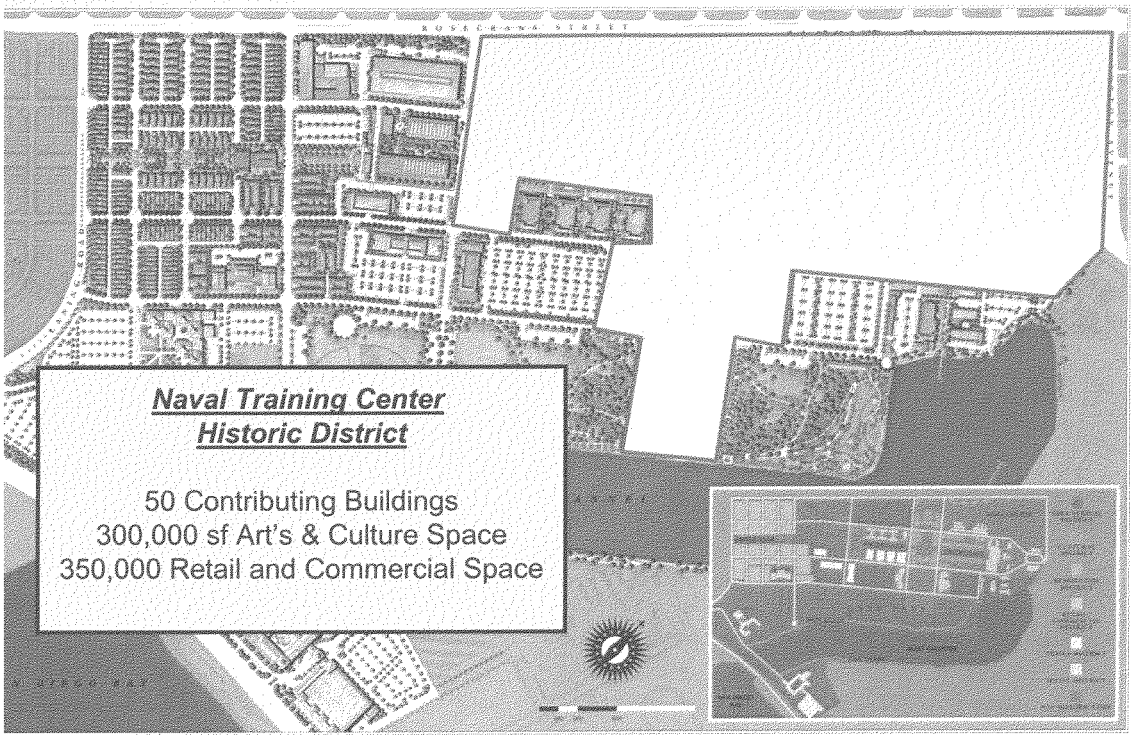
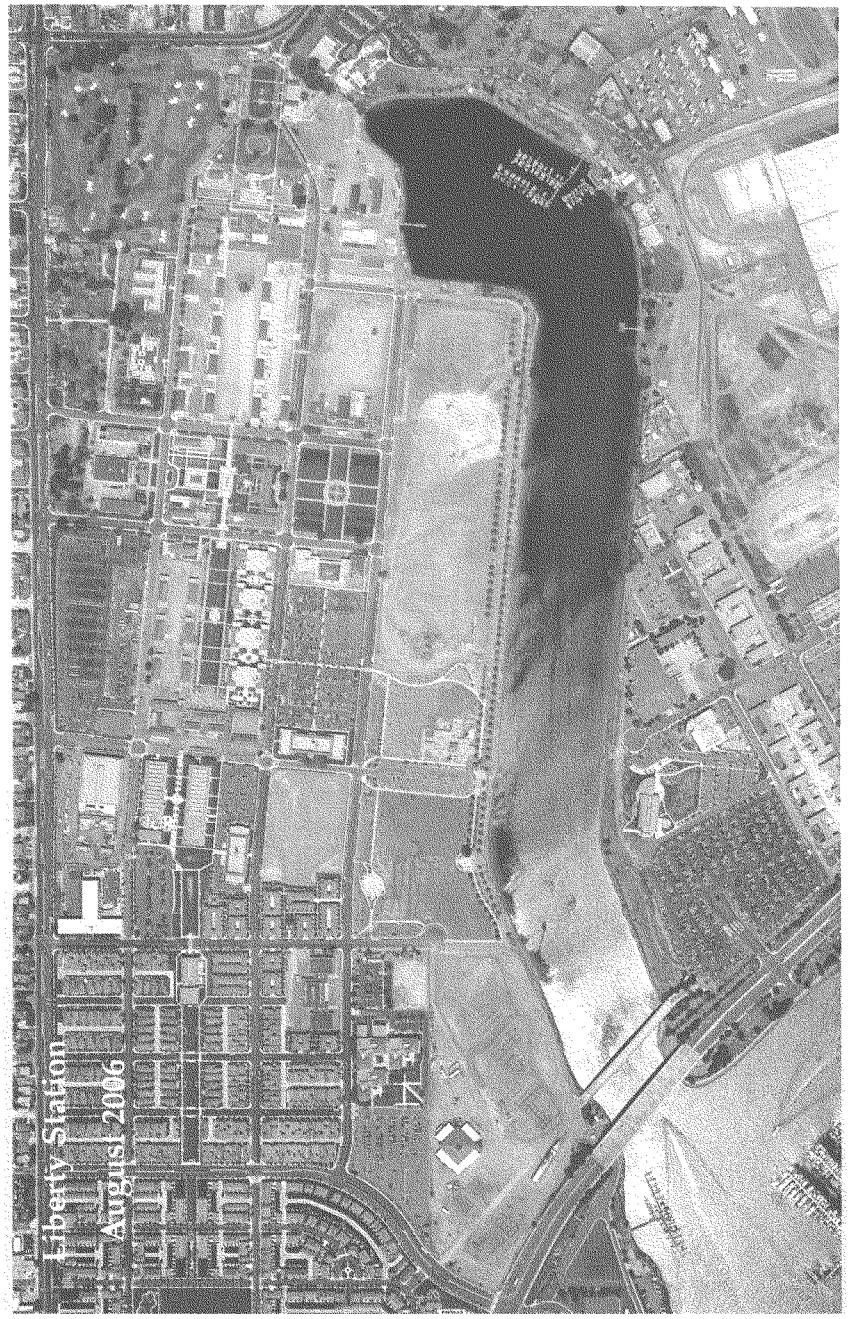
Historic District



Example Pre-Rehabilitation

Example Pre-Rehabilitation

Conceptual of Completion


Liberty Station
August 2006

Mr. TURNER. A great opportunity for a field hearing.

I am going to start with Kathleen. Kathleen, I want to acknowledge, in asking you this question, that this hearing is because Kathleen came to us and was talking to us about historic preservation. We were familiar with the Cleveland Restoration Society and what they had accomplished, their leadership up in Northeast Ohio, and the complex transactions that they have done, and their knowledge of the Federal programs, and really how they should be modified and made more user-friendly, and the needs for additional resources.

When you came to us, Kathleen, obviously, one of the things we talked about was H.R. 3159, the need to modify the Historic Tax Credit Program and make it more user-friendly, but since it is from your leadership that you came to us and said we need to highlight this whole area a whole lot more, I thought I would turn to you first and say: Are there things that you want to make certain get highlighted from this hearing and things that we might have missed that you want to add at this point?

Ms. CROWTHER. Well, thank you, Mr. Congressman.

I think that a lot of work has been completed by the Park Service and the National Trust for the Revitalization Bill and the tax credit program. So I think that it would benefit all of us to act speedily on those measures.

And then second, I would like to emphasize the value of Community Development Block Grant funds in American cities that are facing significant issues of poverty and out migration of the middle class. We have been able to knuckle down and get the use of those CDBG funds, but they are not easy to use really, frankly, for historic preservation organizations.

So streamlining some of the rules and regulations with regards to the use of them, in particular, the lead paint abatement difficulties which John Leith-Tetrault referred to would help local organizations on the ground. But most importantly, it is preservation of those funds and increase those funds because they are deployed for a wide range of things.

My concern really, I think it is the concern of many people in historic preservation is this urban sprawl issue which is sucking the life out of cities and is creating soft markets where you just have to keep layering incentive after incentive after incentive in order to balance it and create the desire for the private sector to invest. In thinking over my own testimony, I felt that it was important to really lay that out. Urban sprawl, the wastefulness that is created is going to hurt our global competitiveness. I think Thomas Friedman in his book that is a New York Times bestseller, The World is Flat, said that in part. So I think in this age of limited resources, we need to be thinking how we spend those resources from the Federal level so that we preserve our farmland and our wilderness and we get the full economic value out of the built environment that we have, and much of that is historic.

Mr. TURNER. Bootsie, in your area in Wright-Dunbar and in looking at your testimony, you have stacked in the successfulness of the project that you have—both from when you served as a City Commissioner and advocate for this project when there wasn't one all the way to where you are now the Director of Wright Dunbar,

Inc.—a number of the vehicles that were discussed today. You have within that territory a National Park. You have a home component that includes historic home rehabilitation. You have a commercial district where you are looking at the rehabilitation of those properties and also attracting then businesses and jobs.

In some of your testimony, you mentioned stacking transportation funding, Community Development Block Grants, the Main Street Community, the Preserve America Programs and Grants that you have received. Congratulations also on your success that you mentioned with Urban Nights. I did hear what a wonderful experience that was. Of the Urban Night events that happened throughout the community, it was Wright-Dunbar that was the attractive site that people went to and that people were amazed at the amount of renovation and restoration that has occurred and that was a major attraction to pull people in the area.

One of the things that we struggle with is how do all these programs stack and work together. What advice would you have for us in both gaps in funding that you see and ways that these programs can be improved, and what tools are you missing?

Ms. NEAL. It is real important that Community Block Grant funds are made available continuously to the urban communities to address blight and flight, and that is one tool that is critically important.

The other part of that is our biggest challenge is the financial gap to get the buildings from being structurally stabilized, dry and safe to actually being put back into reuse. We have done a great job, and we have had the resources to stabilize the building, but from a private investor's perspective, the gap is still too large to, in fact, occupy the building. So that is the challenge that we have. We have beautiful facade improvements, but however we need to get the buildings occupied; so having additional resources.

Also for the Wright-Dunbar area in particular, the Dayton Aviation Heritage National Park was funded at one level and has not yet today received that amount of appropriations that the legislation indicated when it was first started. So it would be great if the National Park would just be funded at the level that it was originally awarded. That would be important to us as well.

There is a new centennial challenge called the National Park Centennial Challenge that is just emerging. When I was preparing to come to Washington, I talked with our partners because it takes partnership to be successful. So the National Park, the Dayton Aviation Heritage National Park asked that I would ask for consideration for the National Park Centennial Challenge as we get prepared for the centennial celebration of the National Park System in 10 years.

And so, with those tools, the Historic Tax Credit, plus your creativity is going to be really important as we move forward because historic preservation can be the catalyst to rebuild urban America.

Mr. TURNER. Kathleen brought up an important issue that I would like to give others an opportunity on which to comment, and that is when we implement tools of historic preservation, we are saving a structure that perhaps had not been occupied, that then results in its use and then the counter effects to dissuade someone from going out into a greenfield and having urban sprawl. Could

you please speak for a moment on your experience and what you see as we look to our areas that already have infrastructure, that already have investment, and preserve those and how they also then help preserve our communities by not having new development and new construction that might waste what we see as abandoned opportunity with our historic properties that are under-utilized?

Mr. SANDERSON. Mr. Chairman, if I could jump in on that, coming from a small State, we care a lot about every open green acre that we have in Rhode Island. Our Office of Statewide Planning estimates that a new housing unit consumes about two acres of land on a statewide average. Our Historic Tax Credit Program has created more than 5,000 dwelling units in existing buildings in existing cities with existing infrastructure. So I like to tell people that this program is not only saving historic places; it is making Rhode Island a bigger place because if you multiply those 5,000 units by two acres a piece, we have just added 10,000 acres to our State. I think it is a good point.

Existing infrastructure, utilities; and transportation is something that is often overlooked. In my testimony, I noted that 75 percent of the investment is occurring in census tracts below the statewide median of income. The idea that economic development, that community development should be based on ownership of one or two personal automobiles for every resident in order to get to and from their place of work, to their school, to do their shopping, I think is a luxury that many communities can't afford. We need to rehabilitate our communities in a way that mass transportation is possible for those that want to use it as well as to save infrastructure.

Mr. TURNER. Does anyone else wish to comment on that topic?

Mr. BAUMGARTNER. We have largely been a suburban developer, and I must admit we are responsible for a lot of the sprawl that is in San Diego, but it has provided a lot of housing for a lot of people that have benefited substantially over the years. As houses have gone up in value, it has been a great source of income, and it has been a wonderful place for people to raise their families.

I think the situation in San Diego is really working with combined local governments to provide transportation and infrastructure back into the areas that we are trying to redevelop. Many of the areas have been lower density single family areas, and when you basically introduced higher densities into those areas which is needed for a lot of the rehabilitation programs to work—again, this is one perspective that maybe is a little different than other places—we really had to deal with providing the additional infrastructure that local government is looking to provide in those increased areas, i.e., more parks, more schools, more public facilities to accommodate the higher densities. So that has been a challenge, and I know the city of San Diego has been working for some time on the concept of city of Villages where we are looking at some of the Smart Growth principles and applying it to various parts around the town.

So I think the tax credits on a much more global scale is one that our company is definitely looking at as we look at looking in more than looking out. As we kind of look at our future in San Diego, we are going to be building more higher density and looking at

more rehab programs and ability to kind of try to be a part of the rehabilitation and the continued growth and still be active as a builder in San Diego.

Mr. TURNER. I want to thank each of you for the time that you have taken to prepare and also the time that you have taken to be here.

We do have some additional written questions that have arisen as a result of your written testimony that are more technical in nature that, with your permission, we are going to submit to you and leave the record open for a 2-week period to afford receipt of your response if you are willing to participate. Also, for the first panel, we will be doing the same. They really go beyond just the subject matter of which we have discussed here but are a result of the written testimony you have submitted.

Before we conclude, I want to give each of you the opportunity if you have any closing remarks or any items that you would like to place on this record as part of your testimony before we close. Does anyone wish to add anything to their testimony?

If not, I want to thank you all very much again. This is certainly an important issue. You have been able to see manners in which we have changed communities. I think that the topics that you have in front of you of how Federal programs can be utilized to change communities and to provide capital are probably the most important ones that we can discuss in the success that you have accomplished.

We know that you have changed lives. You have changed communities. But how can we do it better? How can we be your partner is the topic that we want to continue our discussion in, and you certainly are going to be an incredible resource for us looking at your success and how we can be more successful in the communities.

So I want to thank you.

[Whereupon, at 12:25 p.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Wm. Lacy Clay and additional information submitted for the hearing record follow:]

STATEMENT OF CONGRESSMAN WM. LACY CLAY
COMMITTEE ON GOVERNMENT REFORM
HEARING ON HISTORIC PRESERVATION
SEPTEMBER 20, 2006

Thank you, Mr. Chairman, for holding today's hearing on historic preservation and community development. I welcome our witnesses and look forward to their testimony.

Historic preservation plays an important role in the identity and character of our cities and towns. Many older cities, such as my hometown of St. Louis, view historic preservation as catalyst for the economic revitalization of downtown areas and for improving the quality of life of its residents. When done right, the rehabilitation of historical buildings or districts can serve as a basis for new housing and industrial expansion efforts that previously were not economically viable.

Aiding their organizational and planning efforts are generous federal tax incentives that are intended to encourage the rehabilitation and preservation of historic properties. Since the establishment of these incentives, the National Park Service reports that approximately 33,000 projects have been approved and have generated about $36 billion in rehabilitation activity.

Historic preservation and redevelopment, however, are local issues, and our work in Congress is only as good as what our local partners are willing to undertake. Thus, I'm hopeful that our witnesses today can update us on new policies and planning strategies at the state and local level for historic preservation activities. This includes what state and local governments are doing to provide additional incentives for development that can work in concert with current federal programs.

This concludes my remarks, Mr. Chairman, and I yield back.

ACHP Response to Questions from the
Subcommittee on Federalism and the Census of the
House Committee on Government Reform
November 6, 2006

1. How does the Advisory Council promote the overall benefits of historic preservation and the Council's many programs?

To raise the visibility and effectiveness of the ACHP, its programs, and the benefits of preserving America's heritage, the ACHP has been pursuing an aggressive communication plan that promotes greater awareness of traditional ACHP activities in addition to newer initiatives such as Preserve America.

The plan raises the visibility of the ACHP and its programs—and therefore historic preservation and its myriad economic and cultural benefits—through a full array of print and electronic media. Institution of multiple award programs attracting national attention encourages public interest and understanding of the economic and cultural values of historic preservation as envisioned by the NHPA.

Enhanced outreach activities have ensured the ACHP's participation in national forums that explain and promote the benefits of historic preservation, videoconferences, educational panels, and special events. For example, the ACHP initiated and coordinated the Preserve America Summit held October 19-20, 2006 in New Orleans to examine the effectiveness of the National Historic Preservation Act and chart a future course for the national historic preservation program. First Lady Laura Bush was the keynote speaker and participated actively in the conference. These efforts are essential to fulfilling the ACHP's statutory role and mission, as awareness of its views and policies are critical to their effective implementation.

Recently, the ACHP, working with the Newspapers in Education Institute, published a 20 page newspaper insert "Preserving America Heritage: National Historic Preservation Act 40th Anniversary," which has appeared in newspapers nationally and will be distributed to tens of thousands of teachers. Complete with lesson plans, the insert explains the origins and components of the NHPA, and the economic, cultural, and educational benefits of history, historic preservation, and heritage tourism.

Increasingly important communications and outreach tools are the ACHP's two main Web sites and several audience-specific Web sites. The agency Web site, www.achp.gov, contains information about the ACHP, historic preservation news items, extensive information about the national historic preservation program with links to key Web sites, detailed information on working with Section 106 review process, the historic preservation programs of Federal, State, and tribal organizations, training and educational opportunity, and a comprehensive list of ACHP publications available in print or electronically.

The ACHP also hosts and maintains the official Preserve America Web site for the Administration, which contains complete information on the initiative, including a list of designated communities and their profiles, Preserve America Award winners, Grant recipients, and more.

2. What recommendations will the Advisory Council offer to State Historic Preservation Officers (SHPOs) in the revised "Policy Statement on Affordable Housing and Historic Preservation?"

The revised ACHP Policy Statement on Affordable Housing encourages State Historic Preservation Officers to give priority to preserving and rehabilitating historic properties as they conduct their Section 106 reviews of affordable housing projects so that historic districts will be stabilized and become a catalyst for economic development initiatives planned for a neighborhoods and communities. The

policy clarifies that the review of affordable housing activities should focus on the exteriors of buildings within the historic district since these are typically the character defining elements of the historic district. To that end, SHPOs and other stakeholders are encouraged to consider the broader preservation goals of the community, rather than focusing on individual buildings, when assessing and resolving the adverse effects that may result from an affordable housing project. The statement encourages SHPOs to adhere to *The Secretary of the Interior's Standards for the Treatment of Historic Properties* (*Secretary's Standards*) when possible and practical, recognizing that the *Secretary's Standards* should be flexibly applied to respond to the local architectural character and project and program needs. Finally, as part of the design and implementation of affordable housing projects, the policy suggests that archeological surveys should be avoided when the focus is on rehabilitation that requires minimal ground disturbance.

Rather than limiting the Section 106 consultation to the local government, SHPO, and project proponent, the policy statement recommends that consultation include the affected community so that the full range of issues that are related to affordable housing and historic preservation are considered. Community involvement is particularly important as the SHPO considers the National Register eligibility of properties and develops treatment and mitigation plans for the historic properties in which residents have resided for years. SHPOs are encouraged to continue to develop Programmatic Agreements with local and State governments as a way to streamline historic preservation reviews and make them responsive to local conditions. The development of design protocols tailored to a neighborhood or community ensures that the views of the community will be considered and that all aspects of affordable housing, including rehabilitation and new infill construction, preserve the overall character of a historic district and/or neighborhood.

The goal of the ACHP Policy Statement on Affordable Housing is to promote consistency and predictability in the Section 106 review process. Since SHPOs play a major role in this process, it is anticipated that the adoption of the revised policy will streamline reviews and promote the use of historic properties for affordable housing projects.

3. When developers take on projects such as renovating closed mills or shopping malls and find difficulties in adhering to local preservation guidelines (i.e. space usage), would the Advisory Council suggest that local commissions allow increased flexibility if the project results in economic development for a community?

The ACHP has consistently encouraged the flexible application of the *Secretary's Standards* when developers are pursuing Federal and state rehabilitation tax credits. Since local preservation guidelines are typically a component of the local administrative review process, the ACHP's involvement is limited to when there is Federal assistance, licensing, permitting, or approvals required. Nevertheless, the ACHP encourages local governments to consider the broader goals of historic preservation when a project is subject to review by a local historic review board, and to consider case studies and best practices from other successful historic preservation projects to balance project goals and historic preservation values. Adaptive use projects can only succeed and be financially viable when the full range of factors, including costs, design, code compliance, and marketing, are considered by local, State, and Federal reviewers.

4. If the Preserve America grants program is appropriated only $3 million for FY 2007, that is $7 million less than the President's proposal and the Senate supported figure, what changes will have to be made?

The National Park Service administers the funding for Preserve America grants, and we have not discussed possible changes to the program with them if the lower figure is provided. Certainly, there will be fewer grants made available to applicants. It is conceivable that adjustments would be considered in

the maximum grant amount that would be available, which is currently $150,000 with a one-to-one match required.

5. How effective has Executive Order 13287 been in promoting preservation, and what lessons have we learned in the three years since its implementation?

EO 13287 has been an effective vehicle for engaging Executive Branch agencies in the administration of the national historic preservation program. Since its issuance in March 2003, approximately 65 agencies have designated Senior Policy Officials to act as the point of contact for preservation policy issues. Accordingly, the ACHP has been able to elicit broader participation in the development and implementation of private/public sector historic preservation initiatives, including the Preserve America initiative. Further, even non-property managing agencies have assessed their approach to historic preservation in their assistance, licensing, and permitting activities, and identified opportunities to promote historic preservation and encourage applicants to support local economic development and heritage tourism when involved complying with the requirements of Section 106 and 110 of the National Historic Preservation Act. Examples of non-property managing agencies that continue to support Preserve America initiative include HUD, FERC, the Department of Education, and the Department of Commerce.

EO 13287: Section 3 has provided a snapshot into the historic preservation programs of approximately 35 property-managing agencies. Pursuant to the requirements of the EO, agencies provided baseline information to the ACHP on their historic inventory, the condition of this inventory and the maintenance needs, the suitability of their properties to support local economic development, the status of each agency's compliance with Sections 110 and 111 of the National Historic Preservation Act, and the need to revise agency procedures to adhere to these statutory requirements. Agencies submitted their baseline reports in 2004, which were a self-assessment of the effectiveness of their historic preservation programs and stewardship. In September 2005, progress reports were submitted summarizing the progress that had made by the agencies since 2004. Agency compliance with EO 13287: Section 3 was analyzed and formed the basis of the ACHP's initial **The Preserve America Executive Order: Report to the President**, presented to the President on February 15, 2006.

The major findings in the **Report to the President** are as follows:

1. Many agencies that manage real property lack accurate and comprehensive information regarding the historic property assets in their inventory, and may not fully understand their property's value and management requirements.

2. Agency strategic plans often do not address historic property management needs or target historic property issues related to the development of business plans, ongoing facilities management, and capital improvement projects and programs.

3. Agency priorities do not typically include staffing and funds to support the historic property stewardship goals of the NHPA or to address at-risk and under performing historic properties within the agency's inventory.

4. Executive branch agencies would benefit from directives and guidelines that promote the establishment of private-public partnerships, consistent with agency missions and governing laws, for the preservation and use of federally owned and controlled historic properties in local economic development initiatives, including heritage tourism.

5. Agencies generally lack procedures that ensure the timely consideration of alternative uses for historic properties that are excess to or no longer able to support an agencies mission.

The ACHP believes that these findings and implementation of the recommendations that outline strategies for addressing these issues will provide a framework for continued collaboration with the Administration and Federal agencies to improve their commitment to and implementation of historic preservation practices. As a result of the issuance of EO 13287 and other government-wide initiatives related to Federal property management, agencies for the first time have a sense of the breadth of their historic preservation responsibilities and the opportunities for using the agencies' diverse historic assets to support agency missions as well as local economic development initiatives.

6. How are recipients for Preserve America Presidential Awards selected?

The Preserve America Presidential Awards are part of Preserve America initiative that encourages the preservation and active use of our Nation's cultural and natural heritage assets. Each year two awards are given for heritage tourism and two for historic preservation. The President and Mrs. Laura Bush, Honorary Chair of Preserve America, presented the 2006 Preserve America Presidential Awards at a White House Rose Garden event on May 1. It is the highest national award honoring historic preservation achievement.

These annual awards are given to organizations, businesses, government entities, and individuals for:

- Exemplary accomplishments in the sustainable use and preservation of cultural or national heritage assets;
- Demonstrated commitment to the protection and interpretation of America's cultural or national heritage assets; and
- Integration of these assets into contemporary community life, combining innovative, creative, and responsible approaches to showcasing historic local resources.

The rigorous nomination, review and selection process has followed the same formula for the past three years. Print and electronic call for entries are broadly distributed, with a postmark deadline of November 1. The ACHP staff conducts an initial nomination sufficiency check and completes corresponding data sheets. Next, a Staff Review Team comprised of 12 Preserve America partner agency staff meet for two days for a preliminary review and scoring of the nominations weighing them against published criteria.

Approximately 10 of the top ranked nominations in each of the two award categories are then vetted with appropriate state Historic Preservation Officers to obtain a valuable local perspective. In January of each year a jury of seven ACHP council members or policy level designees meet to review the highest ranked nominations as recommended by the Staff Review Team. In advance of the meeting each jury member must read the complete jury book to become familiar with all nominations. Each nomination is assigned two "readers" who summarize the nomination and provide detailed observations about its strengths and weaknesses to fellow jurors.

Once the jury has discussed what it has heard and read, the nominations are given new scores, taking into account the preliminary read, subsequent jury deliberations, and any re-evaluations. Ultimately, this jury submits between five and nine nominations in each category to the next level of vetting, rated as "highly recommended" or "recommended."

In order to maintain the integrity of the selection process, jurors recuse themselves from discussions if they believe their participation may cause a real or perceived conflict of interest, e.g., if a juror's serves on the board of an organization being considered for an award.

The slate of finalists is passed along for additional screening by appointees from the ACHP, Department of the Interior, and the Council on Environmental Quality. A final slate of nominations—five in each category—is then forwarded to the White House for the selection of the four ultimate Preserve America Presidential Award winners.

7. Is there a Performance and Accountability Report available that covers the Preserve America Initiative?

There is no Performance and Accountability Report that currently covers the Preserve America Initiative, because the first round of grants was only distributed in FY 2006. The National Park Service requires reports on the use of the grants and has prepared forms for the Preserve America grants program. The ACHP's revised strategic plan proposes developing performance measures for the aspects of the program that we administer during this fiscal year.

The National Trust for Historic Preservation
Richard Moe, President

"Historic Preservation and Community Development: Why Cities and Towns Should Look to the Past as a Key to their Future"

U. S. House Government Reform Committee
Subcommittee on Federalism and the Census
The Honorable Michael R. Turner, Chairman

September 20th, 2006
2154 Rayburn House Office Building
10:00 A.M.

Question 1. You state that the Historic Preservation Fund is chronically under funded. How much is required to fully fund it?

Answer:

Congress has authorized the HPF at $150 million annually with appropriations that come from offshore oil and gas leasing receipts. The HPF has never achieved that level of funding and normally gets less than half that amount in the yearly spending bills. It is certain that the national historic preservation program could use every penny Congress intended for the Fund, because the need across the country is so great. Preservationists have been requesting Congress for nominal increases that would represent only modest support for the tremendous workload of the State Historic Preservation Officers (SHPOs) and their tribal counterparts mandated by the National Historic Preservation Act (NHPA). Considering how vital the SHPOs are in administering the national historic preservation program and the tremendous need to save America's historic resources, this is a fair investment in our heritage for relatively little cost.

Question 2. As you mention in your testimony, H.R. 2488 is one measure that would help encourage State tax credits. Would any other proposed historic rehabilitation bills encourage greater use of State tax credits?

Answer:

Right now, H.R. 2488 is the only measure in Congress that is designed to facilitate greater usage of state rehabilitation tax credits. One of the greatest impediments to expanded usage of the state rehabilitation tax credits is the treatment of transferable and refundable tax credits as personal income for federal taxation purposes. This bill would allow taxpayers to defer the tax on the state tax credit until the individual sells the

project, providing for increased cash for the rehabilitation up front. Second, the individual would pay capital gains rather than regular income tax. The net effect would be an enhancement and greater use of state tax credits as well as a boon to the historic real estate market. By clarifying the federal tax implications of state tax credits, Congress would facilitate the indispensable involvement of the private sector in achieving the goals of these vitally important state initiatives.

Question 3. You mention that minor discrepancies between Section 47 Credits and the Low-Income Housing Tax Credit drive up transaction costs and often act as traps. How many historic preservation/ affordable projects failed to advance because of this impediment?

Answer:

There are several difficulties with combining the Low-Income Housing and Historic Tax Credits, but the key problem is what we call the "basis adjustment." The regulations require that the value of the historic tax credit must be deducted from the eligible costs (or tax basis) of the low-income housing tax credit dollar for dollar. For example, the net effect of this rule on $10 million in eligible affordable housing costs is the loss of $1.3 million in subsidy or 14 percent of the subsidy amount. H.R. 3159 would eliminate this basis adjustment, restoring the needed subsidy There is no way to know how many projects do not come to fruition because of this regulation, because there is no way to count the number of projects that developers ultimately decide not to move forward. However, a 14 percent loss of subsidy is a very significant disincentive, especially for historic properties that cost more on balance than new construction. Removing this "basis adjustment" would have a very positive impact on the number of historic properties that are adaptively reused for affordable housing.

Question 4. Has the Trust estimated the private sector investment that might be leveraged by extending a Section 47-type rehab credit to owner occupied homes?

Answer:

The Trust has not independently estimated the potential private sector investment that might be leveraged by an owner-occupied rehabilitation tax credit, but I can provide a rough estimate by extrapolating National Park Service data for the rehab credit. Right now, the existing credit for commercial properties has leveraged more than $3.1 billion in private investment in income producing properties during 2005. There are over 1.4 million properties listed in or contributing to historic districts in the National Register of Historic places and the National Park Service estimates that 20 percent of these buildings qualify as income-producing. If even half of the remaining National Register inventory qualified for an historic homeowner credit, that could generate upwards of $6 billion in private investment annually. For cities like Philadelphia where it is estimated that there are 60,000 vacant dwellings -- so much of which is historic -- and similarly about 15,000 in Baltimore, a homeowners' credit would make all the difference in attracting private investment.

Question 5. What recommendations did the Trust have for the National Park Service Advisory Board for the purpose of streamlining reviews and providing greater flexibility?

Answer:

The Trust participated as an active member of the Advisory Board and sought to contribute to a process which will ultimately provide greater ease and clarity for applicants to meet the tax credit program's requirements, and help expand the benefits of historic preservation and economic development. Our goal was to strengthen the existing program so that it may increase private investment in historic buildings, while preserving historic resources, stimulating economic growth, creating housing, and revitalizing communities.

NATIONAL TRUST COMMUNITY INVESTMENT CORPORATION
A subsidiary of
The National Trust for Historic Preservation

November 3, 2006

The Honorable Michael R. Turner
Chairman
Subcommittee on Federalism and the Census
Committee on Government Reform
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Congressman Turner,

Thank you for the opportunity to testify before your subcommittee on September 20, 2006 and for your continuing support for the wider use of historic preservation as an economic development tool in the United States. I am delighted to respond to the additional questions you raised in your follow up letter of October 13. Your questions are restated below along with my answers.

1. Q. How effectively has the 20% federal Rehabilitation Tax Credit (RTC) worked in conjunction with the 39% New Markets Tax Credit (NMTC)? Can both of these credits work together with the Low-Income Housing Tax Credit (LIHTC)?

   A. The 20% RTCs are a natural fit with the NMTCs. National Trust Community Investment Corporation (NTCIC) research has shown that 68% of all RTC approved properties since 2002 were located in NMTC qualified low-income census tracts. A high percentage of RTC projects are commercial which is another requirement of the NMTC. Both credits can be passed on to investors through the same kind of credit pass through entity, either a limited partnership or limited liability corporation. "Twinning" the RTCs and NMTCs adds very little in transaction costs because it can be described in few extra paragraphs in the operating agreement in conjunction with extending the 5-year partnership to 7 years. The twinned RTC/NMTC equity investment has quickly become the most over-subscribed product in the New Markets industry. Nearly all syndicators and direct corporate investors in the RTC seek NMTC allocations including Chevron Texaco, US Bank, Bank of America, Key Bank, Wachovia Bank, Citiscape Capital and National Trust Community Investment Corporation. The IRS does not permit the twinning of the LIHTC and NMTC credits.

2. Q. According to your testimony, only 25 states offer some kind of tax incentive for historic preservation. How are preservation projects handled in the other 25 states? Are

they dependent on local preservation organizations and developers or are preservation projects in other 25 states simply deferred or abandoned.

A. NTCIC research shows that states that have strong state historic tax credit programs such as Missouri, Virginia, Maryland, Rhode Island, Massachusett and North Carolina have a much greater utilization rate for the federal RTC. More eligible historic properties are rehabilitated in these states compared to those states without effective state historic tax credits. It can be inferred by these data that there are a greater number of tax credit eligible properties in states without state tax incentives for historic preservation that either remain vacant or are demolished. Without state incentives, the development timeframe for the rehabilitation of a historic building can be greatly extended while the developer searches for other forms of subsidy. This extended development period lowers developer profit.

3. You mention a few studies in your testimony that suggest that historic preservation has a significant return on investment with respect to community stability and economic revitalization.
   a. Q. Are more studies underway to distill the results and provide additional evidence that historic preservation will result in more jobs, increase nearby households' income and generate more local retail sales?

      A. Economic impact studies related to historic rehabilitation are typically deal specific or written to advocate for new, or defend existing state historic tax credit statutes. They consistently show that that public dollars spent on RTCs generates 3-4 times that amount in additional tax dollars, local household incomes and retail sales. NTCIC is currently working with Rutgers University to refine its Preservation Economic Impact Model (PEIM) in order to be able to publish an annual report on the economic impact of the federal RTC. This model ultimately seeks to quantify the direct, indirect and induced economic impacts of historic rehab. We are not aware of any other general studies underway that would add to the current body of literature on the subject.

   b. *Q.* Who is conducting or could conduct these studies that would help dispute any challenge to program appropriations or continuance in the future?

      A. In addition to the Rutgers Center for Urban Policy Research, the Brookings Institution on Urban and Metropolitan Policy is often mentioned as having the capacity to conduct new studies on the economic impact of historic preservation.

Thank you again for the opportunity to participate in your subcommittee discussion on how cities and towns can make better use of historic preservation as an economic development tool. Please do not hesitate to contact me if you have any further questions.

Sincerely,

John Leith-Tetrault
President
National Trust Community Investment Corporation

Cc: Ursula Wojciechowski

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240
NOV 27 2006

TAKE PRIDE IN AMERICA

Honorable Michael Turner
Chairman, Subcommittee on Federalism
and the Census
Government Reform Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed are responses to follow-up questions from the oversight hearing on Historic Preservation and Community Development held by the Subcommittee on Federalism and the Census, House Government Reform Committee, on September 20, 2006. These responses have been prepared by the National Park Service.

Thank you for providing us the opportunity to respond to you on this matter.

Sincerely,

for Jane M. Lyder
Legislative Counsel
Office of Congressional and Legislative
Affairs

Enclosure

cc: The Honorable Wm. Lacy Clay
Ranking Minority Member

Post-Hearing Questions
Oversight Hearing on Historic Preservation and Community Development
Hearing Date: September 20, 2006
House Government Reform, Subcommittee on Federalism and the Census

1. The National Park Service Advisory Board recently made recommendations for the improved administration of the Federal Historic Rehabilitation tax credit program and for greater flexibility to allow more worthwhile projects to qualify for the tax credits. How will the National Park Service comply with these recommendations?

Answer: The recommendations by the National Park Service Advisory Board are embodied in the report entitled "Federal Historic Rehabilitation Tax Credit Program: Recommendations for Making a Good Program Better" that was presented to the Director in September. A copy of the report is enclosed. The report suggests that all tasks recommended in the report be implemented by the National Park Service by December 2007 (see page 20 of the report). To meet this timetable, the National Park Service has outlined a detailed implementation schedule (see p. 21 in the report). We are committed to meeting these requirements as put forth in the implementation plan.

2. Does the National Park Service believe it could be more flexible when reviewing, approving, and supporting preservation projects?

Answer: The National Park Service Advisory Board Committee found in its report "that the Federal Historic Rehabilitation Tax Credit Program's application of the [Secretary of the Interior's] *Standards* [for Rehabilitation] is marked by considerable flexibility. Nevertheless, the Committee finds that in some cases reconciling interpretation of the *Standards* with other public policy goals, such as smart growth, energy efficiency, and affordable housing, can be problematic. The Committee finds further that in some cases reconciling interpretation of the *Standards* with market pressures that are part of large and complex projects... can be problematic." Consequently, the Committee recommended that the National Park Service "...reexamine and revise as appropriate its interpretation of the *Standards* in order to provide some greater measure of flexibility in addressing especially challenging projects. The NPS review should focus in particular on windows, interior treatments, new additions and related new construction, modern-day requirements, and use of modern technologies and materials." (See page 9 of the report). However, the Committee did not recommend changing the Standards for Rehabilitation, only its interpretation of them. The National Park Service supports the recommendations of the report and will strive to improve its interpretation of the standards to maximize flexibility. Accordingly, the NPS will focus on these specific issues identified by the Committee in its implementation plan (see page 21 of the report).

3. How does a local government qualify as a Certified Local Government, becoming eligible for 10 percent of the State's Historic Preservation Fund allocation?

Answer: Since 1985, more than $40 million in grants from the Historic Preservation Fund (HPF) have been allocated to local governments through the Certified Local Government (CLG) Program. Currently more than 1,550 local governments participate in the program nationwide. Section 103(c) of the National Historic Preservation Act requires each State to subgrant at least 10 percent of the State's annual HPF grant to CLGs in its State—thus $3.5 million was awarded to CLGs nationwide from the 2006 appropriation.

Local governments apply for certification through their State Historic Preservation Office (SHPO). Specific application procedures vary from SHPO to SHPO, but each SHPO's certification procedures must be approved by the National Park Service. At minimum, a local government applying for certification must agree to: 1) enforce appropriate State or local legislation for the designation and protection of historic properties; 2) establish an adequate and qualified historic preservation review commission by State or local legislation; 3) maintain a system for the survey and inventory of properties that furthers the purposes of the National Historic Preservation Act; 3) provide for adequate public participation in the local historic preservation program; and 4) satisfactorily perform the responsibilities delegated to it under the National Historic Preservation Act.

Applications for certification must be submitted to the SHPO by the chief elected local official or his/her designee. The SHPO then reviews and compares with State procedures the following application documentation: 1) the legal instrument creating the historic preservation review commission; 2) any laws that provide for the designation and/or protection of historic properties within the jurisdiction of the applicant; 3) a list of current or proposed commission members and demonstration of their interest, competence, or knowledge in historic preservation; and 4) a copy of the proposed Certification Agreement. After having determined that a CLG application meets all the requirements of State procedures, the SHPO forwards a request for concurrence to the National Park Service. The National Park Service then reviews the application for certification, and if acceptable, notifies the SHPO in writing of its concurrence. The date of certification is the date of the National Park Service letter of concurrence.

4. You mention in your testimony that the National Park Service administers other grant programs authorized by the Native American Graves Protection and Repatriation Act and the American Battlefield Protection Act. Additionally, the National Park Service offers aid via the Land and Water Conservation Fund. How effective have these programs been in their historic preservation efforts?

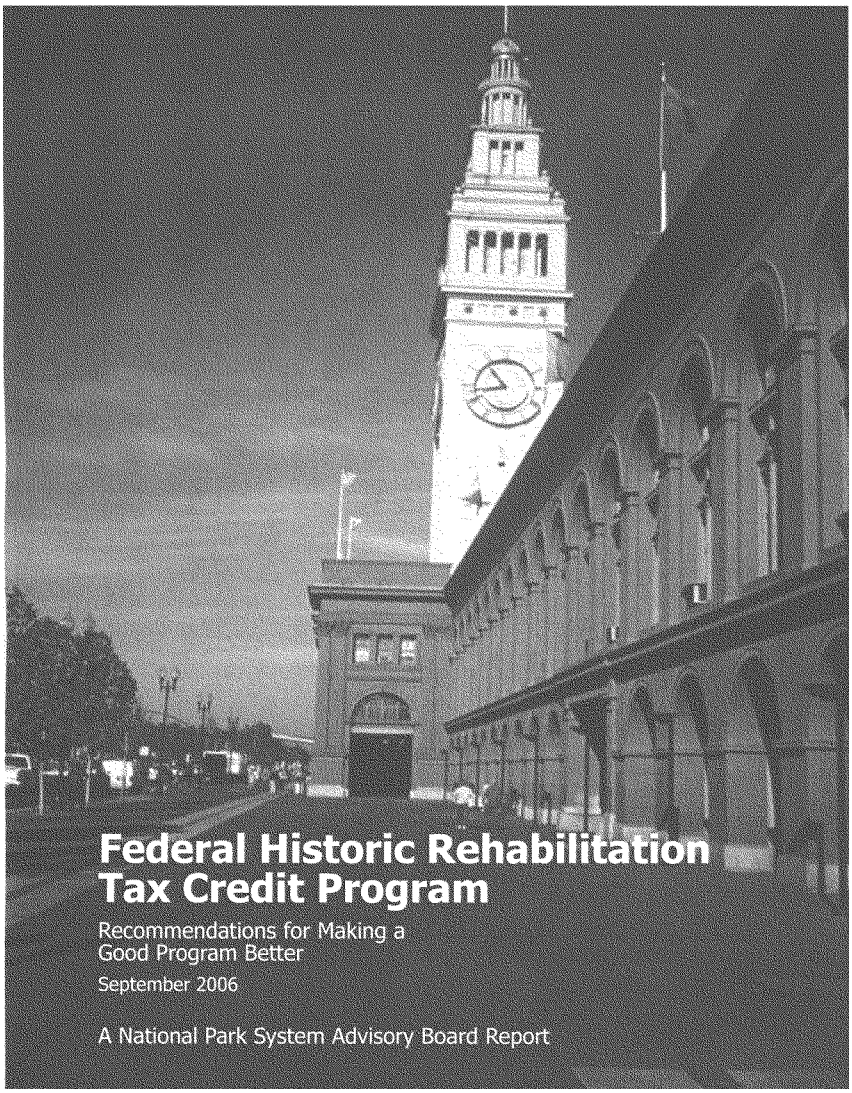
Answer: The Native American Graves Protection and Repatriation Act (NAGPRA) authorizes the Secretary of the Interior to award grants to assist in the inventory, documentation, and repatriation of Native American human remains and other cultural items. Eligible grant applicants include museums, Indian tribes, Native Alaskan villages and corporations, and Native Hawaiian organizations. Congress has annually appropriated funds for NAGPRA grants since 1994. From FY 1994 through FY 2006, there have been 1,174 grant requests, totaling $77 million. During that period, NPS awarded 523 NAGPRA grants for a total of $27.2 million. NAGPRA grants totaled $2.4 million in FY 2006. NAGPRA grants have enabled museums across the country to consult with Tribal representatives on the care and disposition of museum holdings, have allowed State governments and museums to work with Tribal governments to identify Tribal interests in State and private museum collections, and have funded the transfer of more than 30,000 Native American human remains from museums and Federal agencies to the control of Tribal entities.

The American Battlefield Protection Program (ABPP) promotes the preservation of significant historic battlefields associated with wars on American soil. Since the program's inception in 1992, the ABPP has awarded 328 grants totaling $7.69 million. In FY 2006, the ABPP awarded 11 historic preservation grants totaling $350,000 to State and local governments or nonprofit organizations to assist grantees in preservation activities other than fee simple acquisition that lead to the identification, preservation, and interpretation of battlefields and/or historic sites associated with battlefields. The average grant award in recent years has been $32,000. Also in FY 2006, the ABPP completed the final draft of the American Revolution and War of 1812 Historic Preservation Study. The completed document will be released early in FY 2007. It signifies the growing interest in preserving battlefields of wars other than the American Civil War.

Since FY 1998, Congress has appropriated $29 million from the Land and Water Conservation Fund to assist State and local governments in the acquisition of threatened Civil War battlefields. Grants through this program have been used to save 14,000 acres of battlefield ground in 15 states. Among the sites that have been saved as a result of this program are historic properties at Antietam, Maryland; Chancellorsville, Fredericksburg, and Manassas, Virginia; Chattanooga and Fort Donelson, Tennessee; and Harpers Ferry, West Virginia. The National Park Service requires that all land acquired with funding through this program be must be encumbered with a preservation easement running with the land, in favor of and enforceable in court by the State Historic Preservation Office, or by another government agency acceptable to the National Park Service,

in perpetuity. Acquisition of battlefield sites provides the highest degree of protection from development and from loss of historical integrity.

All three of these grant programs have been effective tools for preserving historic properties, protecting historic lands such as battlefields, and respecting cultures by repatriating remains and cultural items.


Federal Historic Rehabilitation
Tax Credit Program
Recommendations for Making a
Good Program Better
September 2006
A National Park System Advisory Board Report

Cover: Ferry Building, San Francisco, CA. Photo Credit: Page & Turnbull.
All photos are from NPS files unless otherwise credited.

The following report of the National Park System Advisory Board Committee on the Federal Historic Rehabilitation Tax Credit Program was adopted unanimously by the Board on September 15, 2006.

MEMBERS PARTICIPATING
Douglas P. Wheeler, Chairman
John Francis
Jerry N. Hruby
Jay Parmer
Larry Rivers
William Walters
George Willeford III
LaJuana Wilcher

MEMBERS ABSENT
William Baker
Marie Greene
Michael Kammen
Daniel Ritchie (in attendance; not present during deliberation/vote)

Committee on the
Federal Historic Rehabilitation Tax Credit Program

Report to the National Park System Advisory Board

Committee Members

Chairman
Jay Parmer, Principal and Managing Director
American Strategies, Inc.
Reno, NV
Member, National Park System Advisory Board

Peter H. Bell, Executive Director
National Housing & Rehabilitation Association
Washington, DC

Robert A. Fielden, A.D., NCARB, FAIA, President
RAFI– Planning, Architecture, Urban Design
Las Vegas, NV

Richard Graf, Principal
RE: Investments, Inc.
Somerville, MA

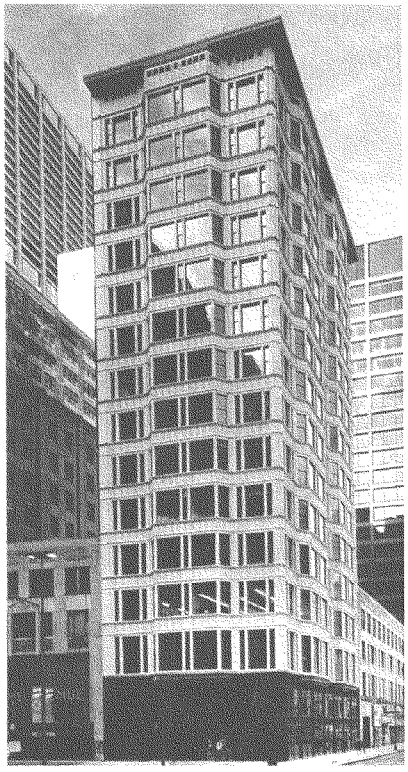
Thomas W. LaTour, Chairman/CEO
Kimpton Hotels and Restaurants
San Francisco, CA

Edward Sanderson, Executive Director
Rhode Island Historical Preservation & Heritage Commission
Providence, RI

Emily Wadhams, Vice-President for Public Policy
National Trust for Historic Preservation
Washington, DC

William C. Walters
Nashville, IN
Member, National Park System Advisory Board

John G. Williams III, AIA, Principal
Hoshide Williams Architects
Seattle, WA
Member, Advisory Council on Historic Preservation



Hotel Burnham, Chicago, IL

Invited Speakers

Milford Wayne Donaldson
CA State Historic Preservation Officer (SHPO)
Sacramento, CA

Leslie Donovan
Partner
Tremont Preservation Services, LLC
Boston, MA

Emily Eig
President
EHT Traceries, Inc.
Washington, DC

Colleen Gallagher
Internal Revenue Service
Bloomington, MN

Kenneth J. Geist
Executive Vice President of Development
Sage Hospitality Resources
Denver, CO

Karen Gordon
Historic Preservation Officer
Department of Neighborhoods
City of Seattle
Seattle, WA

Pres Kabacoff
Chief Executive Officer and Co-Chairman of the Board of Directors
Historic Restoration Incorporated
New Orleans, LA

Wertz-Bestle Farm, South Bend, IN

Kathleen Kilpatrick
VA State Historic Preservation Officer (SHPO)
Richmond, VA

William G. MacRostie
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Ronald F. Murphy, AIA
Preservation Architect
Stickney Murphy Romine Architects, PLLC
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Clark Schoettle
Executive Director
Providence Preservation Society Revolving Fund, Inc.
Providence, RI

Barbara G. Sidway
Trustee, National Trust for Historic Preservation
Owner/Operator
Geiser Grand Hotel
Baker City, OR

William Struever
Partner, Chief Executive Officer and President
Struever Brothers Eccles & Rouse, Inc.
Baltimore, MD

John M. Tess
President
Heritage Consulting Group
Portland, OR

David Vos
Senior Development Project Manager
The Alexander Company, Inc.
Madison, WI

National Park Service

Fran P. Mainella
Director

Janet Snyder Matthews, Ph. D.
Associate Director for Cultural Resources

Jon C. Smith
Assistant Associate Director
Heritage Preservation Assistance Programs

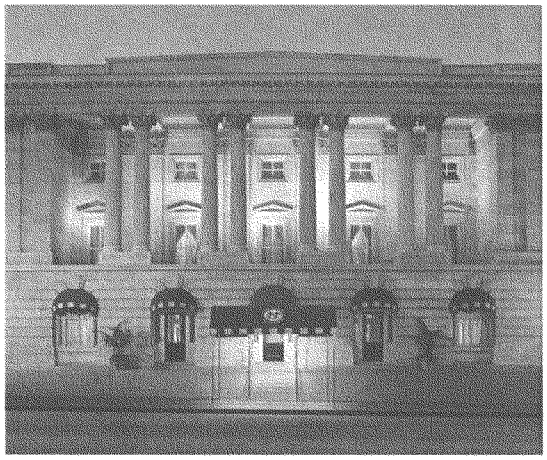
John A. Burns, FAIA
Acting Assistant Associate Director
Heritage Preservation Assistance Programs

H. Bryan Mitchell
Manager, Heritage Preservation Services

Sharon C. Park, FAIA
Chief, Technical Preservation Services Branch
Manager, Federal Historic Rehabilitation Tax Credit Program

Anne Grimmer
Technical Preservation Services Branch

Patrick Andrus
National Register of Historic Places



Hotel Monaco, Washington, DC

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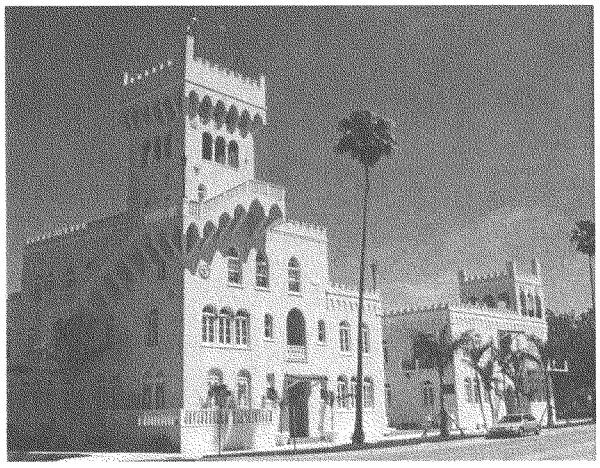
Preface

The first Federal tax incentives for the rehabilitation of historic buildings were created by the Tax Reform Act of 1976 to encourage the preservation of historic buildings by promoting private investment in historic buildings. The law, and subsequent modifications, makes Federal tax incentives available to "certified rehabilitations," which are defined as "any rehabilitation of a certified historic structure which the Secretary of the Interior has certified to the Secretary [of the Treasury] as being consistent with the historic character of such property or the district in which such property is located." The definition of a "certified rehabilitation" in the law requires the Secretary of the Interior to certify that rehabilitations undertaken for the tax incentives are consistent with the historic character of the property and that only rehabilitations that are consistent with a property's historic character qualify for the tax incentives. The Secretary of the Interior delegated this responsibility of certifying rehabilitations that are "consistent" with a property's historic character to the National Park Service, which has managed the Federal Historic Rehabilitation Tax Credit Program since it was created. The Federal Historic Rehabilitation Tax Credit Program is administered by the National Park Service (NPS) and the Internal Revenue Service (IRS) in partnership with the State Historic Preservation Officers (SHPOs).

Two recent reports prepared by participants in this program called on the NPS to consider possible improvements in the program. *Tax Act Review Reform Policy Paper* (June 2003), issued by the National Conference of State Historic Preservation Officers (NCSHPO), recommended "reforms to the Tax Act Review process conducted between the individual states and the National Park Service (NPS) .... in order to improve the review process, to clarify the roles in the review process, to streamline reviews and to apply the Standards in a consistent and direct manner." *Recommendations for Improving Administration of the Certified Historic Rehabilitation Tax Credit Program*, issued December 29, 2003, by the Historic Preservation Development Council (HPDC), contained recommendations "for improving the federal historic rehabilitation tax credit program by making it more sensitive to the realities of the real estate development process."

The National Park Service responded to these two reports in August 2004 with a report entitled *Improving the Administration of the Federal Historic Rehabilitation Tax Credit Program*. In this report the NPS agreed to carry out a number of tasks aimed at improving the project review process and enhancing training for project sponsors and reviewers. For an examination of policy-level issues, the NPS also agreed to "establish a committee of the National Park System Advisory Board to be made up of appointees broadly representative of all those who have a professional interest in what the Secretary's Rehabilitation Standards say and how they are interpreted." With its 30th anniversary approaching, the Director suggested that now

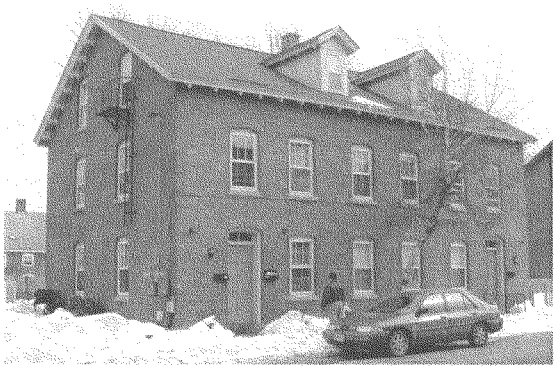


Palace of Florence, Tampa, FL

would be an appropriate time to reexamine the program, which has been successful since its inception, to ensure that it is utilized to the fullest extent and that it is still providing the best possible service to the public.

The Director asked the Committee to study the following questions: (1) "Are the requirements of the Federal Historic Rehabilitation Tax Credit Program clear to program users? Do program users have realistic expectations when they undertake projects? If the process is not clear, how can it be made clearer?" and (2) "How can the interpretation of the Secretary of the Interior's Standards for Rehabilitation be made more user-friendly so that program users and the preservation community can better understand them?"

Committee members participated in a preliminary conference call on August 9, 2005. The Committee met twice, in Washington, DC, October 18-19, 2005, and in San Francisco, CA, December 7-8, 2005, to hear presentations from State Historic Preservation Officers (SHPOs), the Internal Revenue Service, developers and preservation professionals, and then to develop its recommendations.



Berkeley Mill Housing, Cumberland, RI

Summary of Findings and Recommendations

The Committee finds that the Federal Historic Rehabilitation Tax Credit Program has been very successful in leveraging private investment in historic buildings, preserving historic resources, stimulating economic growth, creating housing and revitalizing communities. The changes proposed by the Committee will provide greater ease and clarity for applicants to meet the program's requirements as well as help expand the benefits of historic preservation and economic development. In accordance with the two questions posed by the Director, the Committee's findings and recommendations for improving the program are organized into two categories: Application of the Secretary of the Interior's Standards for Rehabilitation and Improving the Process.

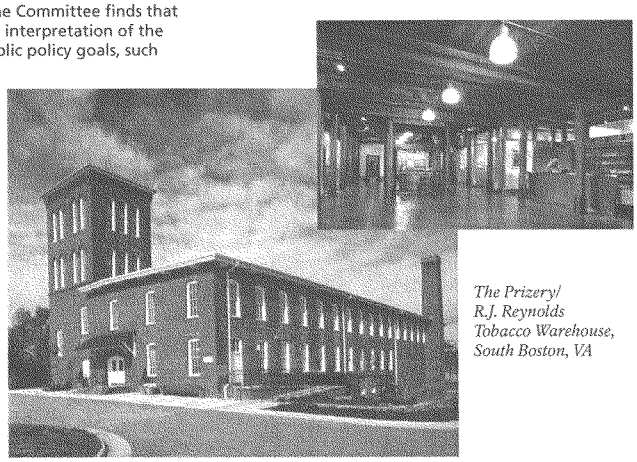
Application of the Standards

1. The Committee recognizes the inherent tension in carrying out a program that seeks to accommodate more than one public policy goal. The Committee also recognizes the inherent tension in seeking to balance the goals of historic preservation with the ever-increasing market pressures for more intense use of land and buildings. The Committee finds that the Secretary of the Interior's Standards for Rehabilitation remain appropriate for addressing this inherent tension, and therefore recommends that there be no change to them.

2. The Committee finds that the Federal Historic Rehabilitation Tax Credit Program's application of the Standards is already marked by considerable flexibility to address this inherent tension. Nevertheless, the Committee finds that in some cases reconciling interpretation of the Standards with other public policy goals, such as smart growth, energy efficiency, and affordable housing, can be problematic. The Committee finds further that in some cases reconciling interpretation of the Standards with market pressures inherent in large and complex projects or in projects where a building's historic function, design or condition makes adaptive use especially difficult can be problematic.

The Committee recommends that the NPS, in consultation with its historic preservation partners, reexamine and revise as appropriate its interpretation of the Standards in order to provide some greater measure of flexibility in addressing especially challenging projects. The NPS review should focus in particular on windows, interior treatments, new additions and related new construction, modern-day requirements, life safety requirements, energy efficiency improvements, green building features and use of new technologies and materials.

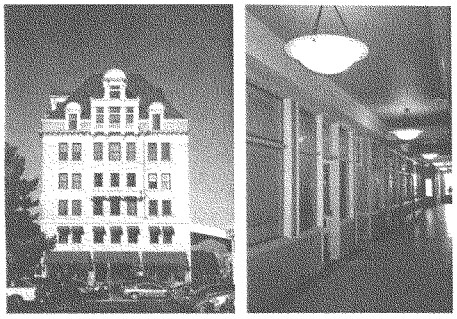
3. The Committee finds that in some cases the NPS interpretation of individual treatment issues such as window replacement, interior alterations, new



The Prizery/ R.J. Reynolds Tobacco Warehouse, South Boston, VA

construction, and new building technologies is unclear. There is also a lack of accessible guidance concerning the significant flexibility that already exists in the program to meet today's challenges. This lack of clarity has led to uncertainty and errors on the part of project designers.

The Committee recommends that the NPS, in consultation with its historic preservation partners, revise and expand its current guidance materials as appropriate, so that the NPS interpretation of the Standards is clearer to project designers, and so that the outcome of the NPS review is more predictable.



Legion Building, Spokane, WA

4. The Committee finds that there is a high level of consistency between the NPS and SHPOs in the interpretation and application of the Standards. However, in an approval process that requires review at two levels of government and that involves multiple and constantly changing individual project reviewers, examples of lack of clarity, inconsistency and professional disagreements are inevitable.

The Committee recommends that the NPS, in consultation with its historic preservation partners, review and enhance its existing training sessions and materials and enhance and refine guidance in an effort to provide the highest possible level of clarity and consistency among all project reviewers in their application of the Standards.

The Committee further recommends that, during its review of particularly complex projects, the NPS ensure the fullest communication with state staffs, so as to foster consistency and to ensure that SHPOs have adequate opportunity to participate by phone or in person in the review process.

Improving the Application Process

5. The Committee finds that the "learning curve" for how to negotiate the application process successfully is steep. There is much for an applicant to know concerning both the requirements and the flexibility of the Standards, when to file an application, and even how to prepare the application form and supplementary materials.

The Committee recommends that the NPS, in consultation with its historic preservation partners, review and enhance its guidance materials to make those materials and the application process, itself, more accessible and user-friendly to first-time users and small project owners. In particular, the Committee recommends that the NPS continue to emphasize the importance of early involvement of the NPS and the SHPO in project planning, and that the NPS promote more widely the use of "preliminary consultation" on complex and difficult projects.

6. The Committee finds that large and complex projects can involve problematic treatment issues, and that coming to a successful resolution of those issues very often benefits from a site visit involving SHPO or NPS staff. The Committee finds further that the current level of program funding allows for few visits to project sites. Finally, the Committee finds that large project sponsors would willingly pay increased fees in return for improved service from SHPOs and the NPS.

The Committee recommends that the NPS investigate how increasing and restructuring the fees charged to process Historic Preservation Certification Applications could facilitate and expedite review of project applications. The

Committee recommends that this investigation include mechanisms for sharing some portion of fee revenues with SHPOs.

7. The Committee finds that the current NPS policy for review of rehabilitation work within functionally-related, multiple-building complexes in single ownership inhibits use of the tax credit program for phased projects and for projects carried out by multiple long-term lessees on buildings within the complex. Current policy makes tax credits for such individual projects within the complex dependent for five years upon acceptability of any other rehabilitation work done elsewhere in the complex.

The Committee recommends that the NPS, in consultation with its historic preservation partners, reevaluate and revise its current policy to lessen the dependence of projects within such a complex on each other for purposes of eligibility for the tax credits.

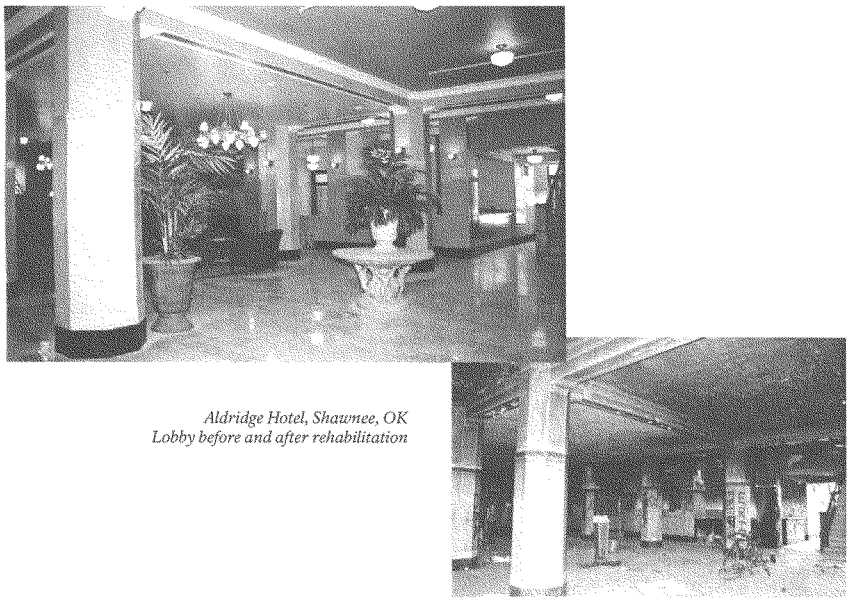
The Committee recommends that the actions identified in this report be addressed immediately in order that they may be implemented by December 2007.

* * * * * * * * * * *

The Committee finds that the program will be improved by implementing the items previously identified in the NPS report *Improving the Administration of the Federal Historic Rehabilitation Tax Credit Program: The National Park Service Response to Recommendations for Improvement*, August, 2004. The Committee recommends that the NPS complete implementation of these items as quickly as possible. Finally, the Committee finds that changes to the Tax Code, as currently proposed by the National Trust for Historic Preservation and others, would also serve to enhance the program and encourage more projects. The Committee acknowledges, however, that such changes are beyond its official purview.

Arabella Bus Barn
New Orleans, LA

FINDINGS, RECOMMENDATIONS AND DISCUSSION



Aldridge Hotel, Shawnee, OK
Lobby before and after rehabilitation

FINDINGS, RECOMMENDATIONS AND DISCUSSION

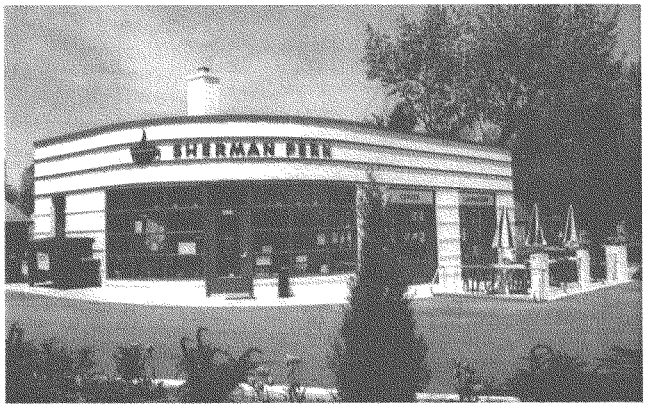
The Committee finds that the Federal Historic Rehabilitation Tax Credit Program has been very successful in leveraging private investment in historic buildings, preserving historic resources, stimulating economic growth, creating housing and revitalizing communities. Since the inception of the program in 1976 over $36 billion in private investment in historic buildings has been generated, involving over 32,800 approved projects. In FY 2005 alone more than $3.1 billion in private investment was leveraged in 1,101 approved projects. These projects included the creation of 4,863 low- and moderate-income housing units, with a total of 14,354 housing units created or rehabilitated overall. The economic benefits of these projects include creation of jobs, revitalization of older communities, and generation of new tax revenue for localities, state, and the federal government. The heritage benefits of these projects are the preservation and rehabilitation of historic buildings and neighborhoods that embody our nation's history and define the unique character of local places.

The changes proposed by the Committee will provide greater ease and clarity for applicants to meet the program's requirements and help expand the benefits of historic preservation and economic development. As the program has evolved, new historic rehabilitation issues have emerged, the scope of some projects has expanded, and rehabilitated historic buildings have become key parts of contemporary real estate development in many communities. These developments along with new directions in marketing rehabilitated properties were instrumental in the Director's decision to appoint this Committee to take a fresh look at and to reevaluate the policies of this 30-year-old program. In accordance with the questions posed by the Director, the Committee's findings and recommendations for improving the program are organized into two categories: Application of the Secretary of the Interior's Standards for Rehabilitation and Improving the Process.

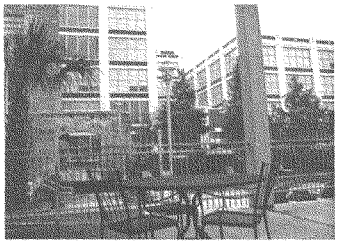
Application of the Standards

1. The Committee recognizes the inherent tension in carrying out a program that seeks to balance the goals of historic preservation with the ever-increasing market pressures for more intense use of land and buildings. The Committee finds that the Secretary of the Interior's Standards for Rehabilitation remain appropriate for addressing this inherent tension, and therefore recommends that there be no change to them.

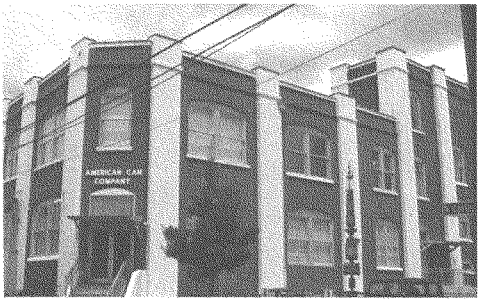
The Secretary of the Interior's Standards for Rehabilitation are the criteria used by the National Park Service to certify rehabilitation projects for the Federal Historic Rehabilitation Tax Credit program. The Standards for



Sherman Perk, Milwaukee, WI



American Can Company, New Orleans, LA



Rehabilitation were first published in 1977 along with Guidelines for Rehabilitating Historic Buildings that were developed by the NPS to help program users interpret the Standards. The Standards were created as a distillation and codification of an already large body of knowledge concerning best practices in the treatment of historic buildings. In the years since then, the technical body of knowledge has continued to expand and inform practitioners, but the Standards have remained the appropriate expression of good preservation practice.

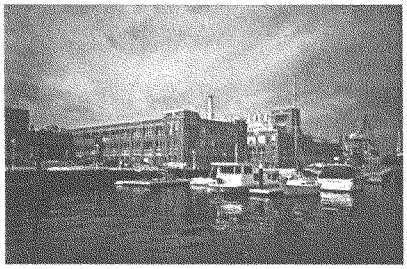
The *Standards* have gained acceptance throughout the preservation community and at all levels of government. They have been adopted by state and local preservation programs all across the country to guide their efforts.

There is also a consensus among current users of the Historic Rehabilitation Tax Credit Program that the Standards for Rehabilitation can accommodate virtually all project requirements, including code-required issues. Consequently, there is no basis at this time for amending the Standards.

2. The Committee finds that the Federal Historic Rehabilitation Tax Credit Program's application of the *Standards* is marked by considerable flexibility. Nevertheless, the Committee finds that in some cases reconciling interpretation of the *Standards* with other public policy goals, such as smart growth, energy efficiency, and affordable housing, can be problematic. The Committee finds further that in some cases reconciling interpretation of the *Standards* with market pressures that are part of large and complex projects or in projects where a building's historic function or design makes adaptive use especially difficult can be problematic.

The Committee recommends that the NPS, in consultation with its historic preservation partners, reexamine and revise as appropriate its interpretation of the *Standards* in order to provide some greater measure of flexibility in addressing especially challenging projects. The NPS review should focus in particular on windows, interior treatments, new additions and related new construction, modern-day requirements, and use of modern technologies and materials.

Windows. One of the most common and frequently encountered rehabilitation challenges involves windows, because windows are almost always important character-defining features of historic buildings. The recommended rehabilitation treatment for any character-defining feature of a historic building, according to the *Standards*, is always to retain and repair



Tide Point, Baltimore, MD

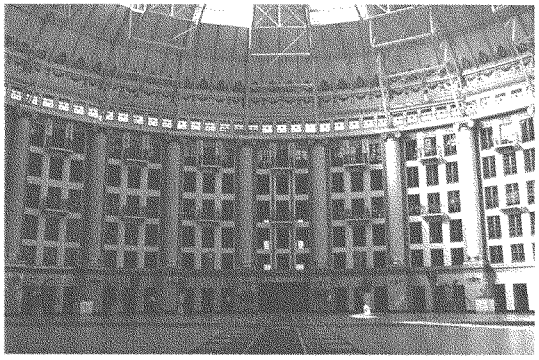
the feature. If the feature is too deteriorated to repair, it may be replaced in kind to match the historic feature or, in some instances, it may be replaced with a compatible substitute material. The Committee recognizes that certain types of windows should be preserved if possible, and replacements if necessary should match historic materials and design. Examples include windows that are highly decorative or that have a unique or distinctive design or material; early-period windows in which the craft details of wood sash are important in defining the building's historic character; and many small-scale buildings where sash may be viewed close at hand and non-historic details would be readily apparent.

However, the windows in many historic buildings are not notably distinctive or unique and, for this reason, in specific circumstances, the Committee believes replacement should be allowed, even if the windows are repairable. Examples include larger scale buildings that contain hundreds or even thousands of windows and tall buildings where most windows are viewed at a distance and details are not easily perceived.

Even when property owners and developers would like to retain and repair existing windows, there may be factors that require that the windows must be replaced. For instance, in hurricane-prone areas, building codes mandate that if existing windows cannot meet certain requirements they must be replaced with new hurricane-resistant windows in rehabilitation projects. Other factors that may determine the feasibility of retaining historic windows include: the cost to properly repair historic windows and future maintenance costs on large-scale buildings; and the need for window operability, energy efficiency and noise control in former industrial and commercial buildings that are converted to residential use.

The NPS should review and revise, in consultation with its historic preservation partners, its existing policy to ensure that it is sufficiently flexible concerning replacement windows when windows are missing, too deteriorated to repair or, when, for other compelling reasons, it is not feasible to retain the existing windows. As a result of its review, the NPS should develop written and web-based policy guidance, as needed, that offers more options for window replacement and when, under specific circumstances, existing windows may be replaced, and what kind of replacement windows will meet the *Standards*. This expanded policy should address the various factors involved in window performance, including cost, functionality for building occupants, energy and sustainability and evaluation of new window technology.

Interior Treatments. Interiors are important in defining the character of historic buildings. Interior treatments of historic buildings are problematic in some rehabilitation projects. While there is general agreement on the need to repair and retain character-defining materials and spatial arrangements in the principal interior spaces



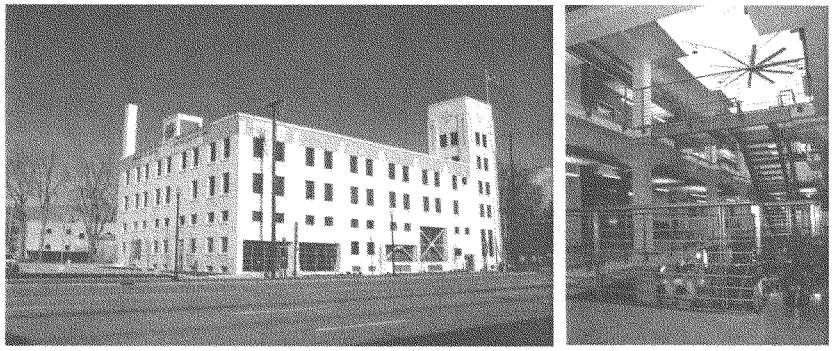
West Baden Springs Resort, West Baden Springs, IN

of a building, an expanded policy on treatment of secondary spaces that would permit more change to less significant secondary spaces would make the program more useable for a larger constituency of property owners and developers. The NPS should, in consultation with its historic preservation partners, expand its policy to allow more change to less significant, secondary interior spaces, and develop written and web-based guidance on this issue.

New Additions and Related New Construction. New additions and rooftop additions to historic buildings and related new construction in a rehabilitation project are problematic issues. The Committee acknowledges that real estate land values often mean that new additions and new construction are necessary to ensure the economic success of a rehabilitation project. The NPS should, in consultation with its historic preservation partners, examine its existing guidance regarding new additions and related new construction to provide maximum flexibility that is consistent with the *Standards* to meet market pressures. As part of this effort, the NPS should provide more guidance on compatible new construction on the site of or adjacent to a historic building.

Modern-day Requirements and New Technology. The *Standards* are flexible with regard to meeting certain code-mandated alterations. Most modern-day requirements for rehabilitation projects can be accommodated within the *Guidelines*. However, NPS policy guidance does not sufficiently address how rehabilitation projects could accommodate more environmentally sensitive treatments and make use of more new building products and materials while meeting the *Standards*.

To better accommodate modern-day requirements, the NPS should revise its policy guidance to include more environmentally sensitive treatments, as well as new building products and materials, in rehabilitation projects. The expanded guidance should address the following: new substitute materials; hazardous materials abatement; ADA (Americans with Disabilities Act) and life-safety requirements; upgrading historic properties to meet seismic standards; improving energy efficiency; rehabilitating historic properties as "green" buildings; and achieving LEED (Leadership in Energy and Environmental Design) certification.



W.P. Fuller Paint Company Office & Warehouse, Salt Lake City, UT

3. The Committee finds that in some cases the NPS interpretation of individual treatment issues such as window replacement, interior alterations, new construction, and new building technologies is unclear. There is also a lack of accessible guidance concerning the significant flexibility that already exists in the program to meet today's challenges. This lack of clarity has led to uncertainty and errors on the part of project designers.

The Committee recommends that the NPS, in consultation with its historic preservation partners, review, revise and enhance its guidance materials as appropriate, so that the NPS interpretation of the Standards is clearer to project designers, and so that the outcome of the NPS review is more predictable.

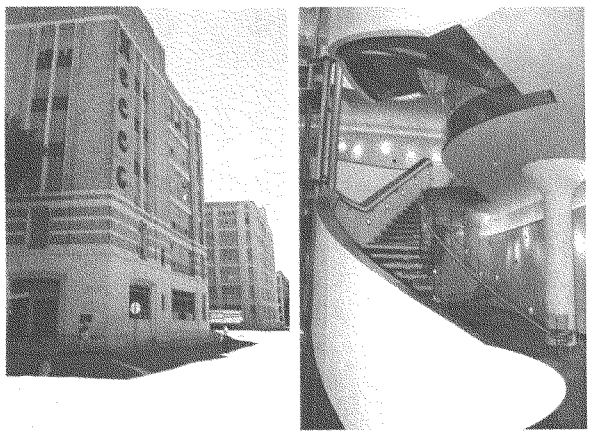
The goal of the program is generally summarized in the definition of "rehabilitation" as "the process of returning a property to a state of utility, through repair or alteration, which makes possible an efficient contemporary use while preserving those portions and features of the property which are significant to its historic, architectural, and cultural values." The fact that rehabilitation, as a treatment, allows some changes to be made to a historic building that are necessary to accommodate the new use may not be understood by everyone, including project reviewers.

To clarify the inherent flexibility in the program, the NPS, in consultation with its historic preservation partners, should develop and publish more printed and web-based guidance that explains the broad scope of rehabilitation treatments that the program allows, including technical guidance regarding conservation treatments for historic buildings, and guidance on interpretation of the *Standards*. The NPS should establish written policy guidance to enable SHPOs and program users to understand how the NPS evaluates the "cumulative effect" of a rehabilitation project that overall conforms to the *Standards*, but that cannot fully implement some of the "recommended treatments" described in the *Guidelines for Rehabilitating Historic Buildings*. Guidance should focus on and explain the thought process in project review that allows a finding that the project as a whole meets the *Standards* and that the program provides an incentive to "rehabilitate" and not to "restore" historic properties.

Specific Treatment Issues

To clarify its policy on windows, the NPS should develop written guidance, with illustrated examples, that explains the inherent flexibility in the program regarding historic windows in rehabilitation projects, including when replacement is acceptable and what visual qualities replacement windows must convey in order to meet the *Standards*.

The NPS should define and clarify what constitutes a secondary space in a historic building. NPS guidance should focus on the public purpose of the program in its discussion of primary and secondary spaces, giving most attention to those features that preserve the public experience and memory of the building.

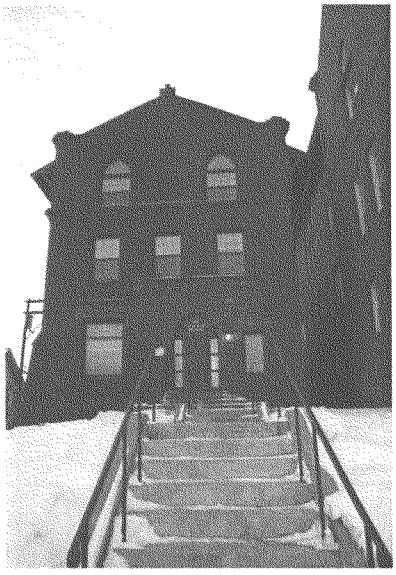


Necco Factory, Cambridge, MA

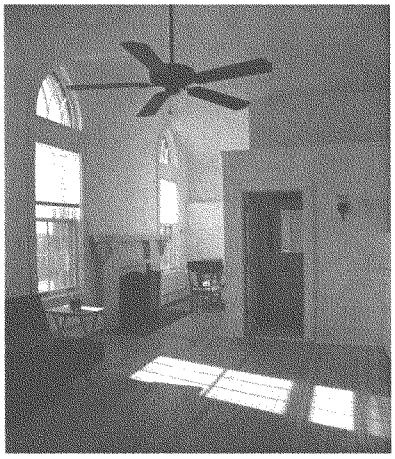
The NPS revised guidance should avoid definitive statements about how much change can be allowed in corridors, repetitive floor plans in high-rise buildings, and whether the floor plan/corridor configuration always has to be retained on all the upper floors in multi-story buildings. NPS guidance and training efforts should help program users to identify inherently beautiful, valuable or unique architectural features in non-public spaces, including structural and mechanical elements, that are important to retain.

Because the NPS may not recommend or prescribe the design for new additions and new construction, the guidance provided in the *Standards* and *Guidelines* is general. The *Standards* and *Guidelines* provide basic guidance regarding such factors as size and scale for "compatible" new additions to historic buildings and related new construction. The concept of compatibility is not always clear to program users, nor is it clear how large a new or rooftop addition may be or how much new construction may be added to a site without compromising the building's historic character.

To achieve greater consistency in the review of new construction, the NPS should examine how it reviews proposed new and rooftop additions and related new construction, and their impact on the historic building to ensure that the *Standards* are applied consistently. The NPS should establish written policy that clarifies and explains the flexibility in its existing program guidance regarding "compatible" new additions to historic buildings and related new construction. The NPS should develop and provide more written and web-based guidance, with examples, to illustrate "compatible" new additions and "compatible" new construction. Examples should be chosen to ensure that a wide range of design options is presented.



Alicia's Place, Duluth, MN



4. The Committee finds that there is a high level of consistency between the NPS and SHPOs in the interpretation and application of the *Standards* and *Guidelines*. However, in an approval process that requires review at two levels of government and that involves multiple and constantly changing individual reviewers, examples of inconsistency and professional disagreements are inevitable.

The Committee recommends that the NPS enhance and augment its existing training sessions and materials, in an effort to provide the highest possible level of consistency among all project reviewers in their application of the *Standards* and *Guidelines*. The Committee further recommends that, during its review of particularly complex or sensitive projects, the NPS ensure the fullest communication with state staffs, so as to foster consistency and to ensure that SHPOs have adequate opportunity to be included in the review process.

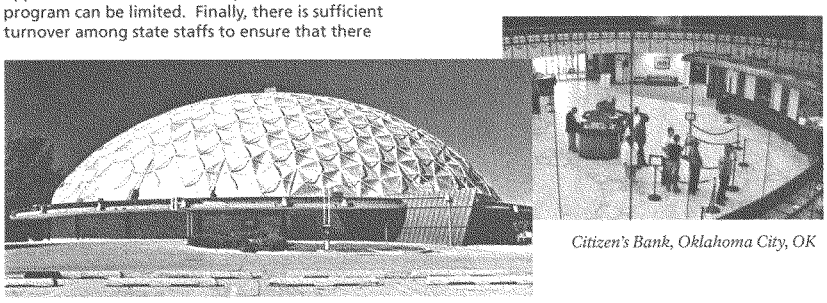
Final NPS decisions are in accordance with SHPO recommendations over 80 percent of the time. While this level of agreement is commendable, there remain nearly 20 percent of projects in which the applicant receives a final answer from the NPS that is to some degree different from what the SHPO recommended. In most cases, the difference is that the NPS adds one or more conditions for approval beyond whatever conditions the SHPO may have recommended for approval. Only very rarely does the NPS deny certification where the SHPO has recommended approval.

The committee heard from presenters that they felt in some cases SHPO staffs had not consulted in a timely manner with the NPS, so that when projects came to the NPS there was need for refinement or retention of more physical fabric than the owner had been led to believe by the state. Several presenters mentioned that in some regions of the country there are very few trained consultants who are familiar with the requirements of the Federal Historic Rehabilitation Tax Credit Program.

In addition, the majority of states review fewer than 10 tax credit projects each year, so that the opportunities to become well-practiced in the program can be limited. Finally, there is sufficient turnover among state staffs to ensure that there will always be relatively inexperienced staff administering the program somewhere.

Currently the NPS offers biennial training for all SHPO staff and one-time training for new project reviewers in the State Historic Preservation Offices. Approximately 10 new state reviewers are given a three-day orientation and training by NPS in Washington, DC, each year. Not all new state reviewers can attend. In some cases, state staffs are not permitted to come to Washington, DC, due to travel restrictions imposed statewide, so training for them must wait until an NPS project reviewer is traveling to the state. At the biennial training for SHPO staff generally half of the attendees may be new to project review and only minimally familiar with the program. Many of them have never had any NPS training or have only attended the three-day orientation training.

In short, maintaining the current level of consistency between the NPS and the SHPOs requires an ongoing commitment to providing training at least as often and as intensive as the current effort. Striving for greater consistency will require an increased level of effort and greater outreach to all participants in the program.



Citizen's Bank, Oklahoma City, OK

Currently, the NPS offers additional training through national forums, such as the annual meetings of the National Trust for Historic Preservation, the American Institute of Architects and statewide preservation organizations. However, much of this training is tied to other conference objectives and is very short in duration. Since most states mandate annual continuing education for design professionals, the NPS should work on outreach to state architectural review boards and also to the purveyors of the courses themselves, to ensure that training on all aspects of the historic tax credit program is made available.

In order to increase consistency in decision-making, the NPS should look at both short-term and long-term training of project reviewers and consultants. This training should be supplemented with more published and web-based guidance on interpretation of the *Standards*, including "Interpreting the Standards" Bulletins. In addition, the NPS should investigate how to provide funding to allow more frequent trips to review projects on site with SHPO staff, owners and consultants. The NPS should undertake training not only of SHPO staff, but also develop training sessions with the SHPO for consultants, applicants, city officials and others who might benefit from learning more about the *Standards*, the application process and best practices in preservation.

NPS and SHPO staff who work with the program should also be encouraged to expand their knowledge of the development process to ensure that they are able to provide more informed service to program users.

500 Block West Fillmore, Phoenix, AZ

Improving the Application Process

5. The Committee finds that the "learning curve" for how to negotiate the application process successfully is steep. There is much for an applicant to know concerning both the requirements and the flexibility of the *Standards*, when to file an application, and even how to prepare the application form and supplementary materials.

The Committee recommends that the NPS, in consultation with its historic preservation partners, review and enhance its guidance materials to make those materials and the application process more accessible and user-friendly to first-time users and small project owners. In particular, the Committee recommends that the NPS continue to emphasize the importance of early involvement of the NPS and the SHPO in project planning, and that the NPS promote more widely the use of "preliminary consultation" on complex and difficult projects.

Major developers who do primarily large projects and who use the tax credit program regularly have the resources and experience to deal with the program's administrative requirements. However, the overwhelming majority of applicants are first-time users who expect to use the process only once, and who may be undertaking relatively small projects. There is not enough guidance material specifically for inexperienced developers, smaller projects, or property owners in smaller, rural communities across the country. As a result, applications may be incomplete, resulting in time-consuming requests from the SHPO or the NPS for additional information; applications may be submitted well after work has begun, greatly decreasing the opportunity to avoid or correct inappropriate treatments.

For example, the *Secretary of the Interior's Standards for Rehabilitation* focus on preserving "character-defining features." Yet, some first-time program users may not understand character-defining features and may have difficulty identifying them in their historic buildings. Because an understanding of character-defining features is essential to the success of a rehabilitation project in this program, the NPS should develop more illustrated, written and web-based guidance featuring examples of character-defining features to help applicants evaluate their historic buildings and plan their rehabilitation projects. NPS guidance should stress that projects are reviewed on their overall success in complying with the Secretary's *Standards*, so that first-time users in particular are aware that project evaluation strives for a good project, not a perfect project.

Groton General Store, Groton, VT

Some potential applicants may find the process confusing and burdensome to the point that they are discouraged from applying. Some potential users of the program are not aware of the program, and some do not participate due to a lack of understanding or a misperception about the program. Others do not submit applications because they do not know whom to contact for information and are unable to get professional guidance locally. More education, technical

assistance and a facilitated application process could encourage owners of smaller, historic, income-producing properties to take better advantage of this incentive.

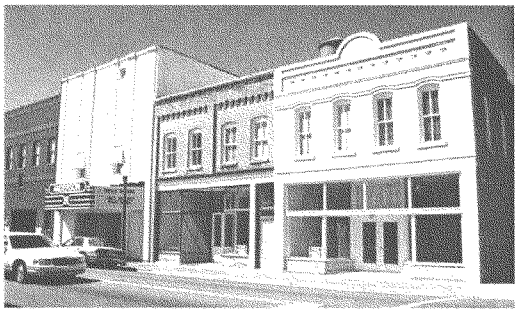
A "preliminary consultation" is an informal meeting among the NPS, the SHPO and the project sponsor prior to submission of a formal application. In the past, such meetings have been held when the SHPO has been working with a project sponsor and finds that some major treatment issue would benefit from discussion with the NPS before project planning proceeds any further. Preliminary consultation, thus, has been specific to that issue and is advisory. These preliminary meetings can be very helpful in guiding the subsequent development of project plans and should be routinely available to project sponsors and design teams that request them. The agenda for preliminary consultations should be limited to key issues agreed upon by the project development team, the SHPO and the NPS. Because the option of such preliminary meetings is not widely known, the NPS should take steps to make sure that project sponsors, design teams and contractors know that such meetings can be requested.

6. The Committee finds that large and complex projects can involve very difficult treatment issues, and that coming to a successful resolution of those issues very often would benefit from a site visit involving SHPO or NPS staff. The Committee finds further that the current level of program funding does not allow for site visits to as many projects as would benefit from such an on-site meeting. Finally, the Committee finds that large project sponsors would willingly pay increased fees for timely and responsive service from SHPOs and the NPS.

The Committee recommends that the NPS investigate how increasing and restructuring the fees charged to process Historic Preservation Certification Applications could enhance service and facilitate and expedite review of project applications. The Committee recommends that that this investigation include mechanisms for sharing some portion of fee revenues with the SHPOs.

There is consensus among developers that the overall success of the program, as well as the success of individual rehabilitation projects, depends on having a close working relationship with the NPS and the SHPO and a timely review of projects. This relationship includes preliminary review of projects in their early concept stage, timely review of applications for proposed project work, and on-site visits when needed. In looking for ways to improve this working relationship, developers pointed in particular to the need for more site visits by NPS and SHPO staffs. However, current funding for the program is not sufficient for the NPS and SHPOs to provide this increased level of service desired by applicants.

At present, NPS project review staff is supported by a combination of appropriated funds and revenues from fees paid by project sponsors. SHPO staffs are supported by a combination of grant funds from the NPS and appropriated state funds. Fee revenues are not shared with the states. Current funding levels require that both the NPS and SHPOs carry out their program responsibilities with limited staffs that are pressed to complete their reviews within expected deadlines. This funding level simply does



Anderson Center, Mullins, SC

Welch Apartments, Muscatine, IA

not permit NPS and SHPO staffs to make many of the site visits requested by project owners and developers.

When the fee payment system was established more than 20 years ago, it created a sliding scale of fees. There is no fee for rehabilitation projects costing less than $20,000. The fees begin at $500 for projects over $20,000, and rise to $2,500, which is the amount charged for any project costing $1 million or more. This fee structure has never been adjusted since then, either to account for inflation or to address the additional review costs for projects costing many millions of dollars. As a result, the review fees charged by the NPS do not reflect today's dollar values or the increased costs of the many extremely large and complex projects that invariably require considerably more staff time.

Higher fees could help pay for enhanced service from the NPS and the SHPOs, including additional funds for more visits to project sites. Most of the developers who spoke before the Committee stated their willingness to pay higher fees, if this would enable the NPS and SHPOs to provide increased service in reviewing their projects. Higher fees would also benefit smaller and rural projects in the increased service they would receive from the NPS and SHPOs. The developers also pointed out that additional revenue from fee payments could also enable the NPS to offer more training programs to provide more service and program guidance.

The NPS should review the existing fee structure to determine the extent to which increasing the fees for inflation and restructuring the scale could generate revenue sufficient to support a higher level of service, including increased NPS and SHPO travel to project sites to provide technical assistance. Further, the NPS, in consultation with SHPOs, should determine how best to share some portion of the increased fee revenues with SHPOs based on workloads or other particular needs. A new, increased fee structure, which is currently being developed, will be put into effect when the revised regulations, now being drafted, are published in one to two years.

7. The Committee finds that the current NPS policy for review of rehabilitation work within functionally-related, multiple-building complexes in single ownership inhibits use of the tax credit program for phased projects and for projects carried out by multiple long-term lessees on buildings within the complex. Current policy makes tax credits on such individual projects within the complex dependent for five years upon acceptability of any other rehabilitation work done elsewhere in the complex.

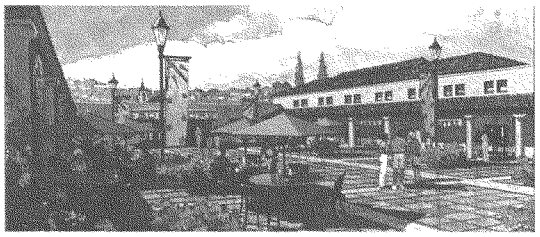
The Committee recommends that the NPS reevaluate and revise its current policy to lessen the dependence of projects within such a complex on each other for purposes of eligibility for the tax credits.

Increasingly, Federal Historic Rehabilitation Tax Credit projects are being considered for military bases that have been decommissioned as required by the Base Realignment and Closure (BRAC) process and for large functionally-related complexes that contain numerous buildings such as mills, hospitals and factories. Often these complexes, many in excess of 10 buildings, are in single ownership, and the most successful strategy for the overall rehabilitation of these underutilized structures is one where the owner of record leases out one or more buildings on a long-term basis. The various long-term lessees can then underwrite all rehabilitation expenses for their leased buildings and take advantage of the 20 percent credit.

Current NPS regulations [36 CFR Part 67.6 (b)(4)] require the owner of record in a multi-building, functionally-related complex to ensure that the rehabilitation of all the buildings included in the National Register listing meet the *Secretary of the Interior's Standards for Rehabilitation* if one or more of the structures is taking advantage of the credits. While on the face of it this seems reasonable, it is in fact a burden to the owner who may have undertaken a successful rehabilitation of a portion of the property and must now ensure that any and all long-term lessees also undertake rehabilitations that meet the *Secretary of the Interior's Standards*. If a long-term lessee subsequently undertakes an unsympathetic rehabilitation, the IRS may recapture the credit on the previously approved rehabilitation work. Likewise, if rehabilitation work on a complex is stretched over a number of years, the overall project cannot receive final certification until all work is completed. If rehabilitation work is being undertaken by different entities, projects that are completed must keep their records open beyond the normal 36-month statute of limitations of IRS auditors.

In contrast, in historic districts and in complexes where individual buildings are separately owned, each rehabilitation project is reviewed on its own merits and is not subject to the uncertainty of whether other owners carry out projects that meet the *Standards*. The Committee heard during the presentations that some owners of large multi-building complexes had sold buildings within the complex outright to others to avoid being tied into a phased review or to projects that might not meet the *Standards*.

The NPS should review its policy on complexes, including military bases, to determine whether a more flexible interpretation of "functionally-related complexes" and "ownership" can be developed in conjunction with IRS regulations. The NPS should assess whether complexes can be treated as districts with separate contributing buildings being reviewed as separate projects and whether long-term lessees can be considered as owners for purposes of the tax credits. The Committee acknowledges that the integrity of the National Register-listed resource must also be considered to protect complexes from extensive demolition.



San Diego Naval Training Center, San Diego, CA

Implementation of Recommended Tasks

Due to the importance of the actions identified in this report, the Committee strongly recommends that the NPS make their implementation a priority. The Committee acknowledges that these tasks are substantive and that undertaking them will require considerable time and effort on the part of the NPS and SHPOs. As administrator of the program, the NPS is responsible for providing the best possible service to program users while at the same time meeting the legal mandate to approve only projects consistent with the building's historic character. Accordingly, because of the overwhelmingly positive enhancements to the program that will result from these improvements, the Committee recommends that work on accomplishing these tasks should begin immediately. The Committee recommends that these tasks be completed by December 2007 to ensure the continued success of the program. In order to meet this deadline the Committee recommends that the NPS initiate consultation with its historic preservation partners immediately and complete this consultation by December 2006, after which time the NPS should begin to address its partners' recommendations and incorporate them into draft guidance by August 2007.

The Bay School, The Presidio, San Francisco, CA

NPS IMPLEMENTATION PLAN

Implementation of the tasks recommended by the NPSAB Committee on the Federal Historic Rehabilitation Tax Credit Program will be completed by December 31, 2007.

Special teams (1-3), composed of National Park Service staff and including historic preservation partners to the extent allowable by law, will be created to carry out implementation of these tasks. After initial consultation, NPS will continue to seek comments and recommendations on a regular basis from its historic preservation partners as it works on implementing these tasks.

Team 1. Interpretation of the Standards - Specific Issues Identified by Committee:
Windows
Interior Treatments
New Additions and Related New Construction
Modern-day Requirements and New Technology

Team 2. Education, Training and Written and Web-based Guidance on:
Interpreting the Standards for SHPO staff and program users, including project owners, architects and preservation consultants
Improving the Application process/Expanding program user base/Expanding availability of Preliminary Consultations

Team 3. Reevaluate and revise NPS policy concerning functionally-related complexes

Team 4. Oversight:
Ensure tasks recommended by Committee are completed and that remainder of tasks identified in the August 2004 report *Improving the Administration of the Federal Historic Rehabilitation Tax Credit Program: The National Park Service Response to Recommendations for Improvement* are completed.
Provide the NPSAB with updates on progress as circumstances warrant.

Schedule

September, 2006.....NPSAB Committee Final Report issued
October, 2006 .....NPS meets to consult with its historic preservation partners to discuss scope of work and policy direction in implementing tasks recommended by the Committee
October, 2006 ..... NPS establishes four teams to implement tasks following its consultation with historic preservation partners
November, 2006 .....NPS teams analyze assigned tasks and begin to develop work plans
December, 2006.....NPS provides work plans to historic preservation partners for review and comment
January, 2007.....NPS teams begin work on implementing tasks
March, 2007.....NPS reports to annual NCSHPO meeting on status of teams' work
July, 2007 .....NPS holds special workshop at biennial training for SHPO staff to discuss the guidance that is being proposed while it is still in draft, as well as to share the status of implementing the other tasks, and to seek comment and additional input from SHPO staff
August, 2007.....NPS prepares final draft guidance and provides to historic preservation partners for final comment
December, 2007..... NPS implements all tasks recommended by the Committee and issues final guidance

OTHER ISSUES

In its August, 2004 report, *Improving the Administration of the Federal Historic Rehabilitation Tax Credit Program: The National Park Service Response to Recommendations for Improvement*, the NPS deferred to this Committee for a consideration of issues related to application of the *Secretary of the Interior's Standards for Rehabilitation*. However, the NPS did recognize a number of more procedural aspects of the program in which it could work with its partners to bring about improvements. Work on some of these items has already been completed, while work in other areas is still underway.

The Committee finds that the program will be improved by implementing the remaining 18 items -- the creation of this Committee having been the first item - previously identified in the NPS report. The Committee recommends that the NPS complete implementation of these 18 items as quickly as possible. Those items and their status as of the date of this report are as follows:

1. The NPS will consult with the National Conference of State Historic Preservation Officers (NCSHPO) to determine feasibility/schedule for more frequent regional SHPO meetings.
The NPS has informed all SHPOs that NPS staff is available to participate in statewide training and regional training. Status: Ongoing.

2. The NPS will hold its biennial workshop for SHPOs and will consult with the Historic Preservation Development Council (HPDC) and NCSHPO about developer participation.
The NPS held its biennial workshop for SHPOs in July 2005. At the invitation of the NPS, the National Trust for Historic Preservation and representatives of the development community from the private sector participated in the workshop. This format will be used for future workshops. Status: Ongoing.

3. The NPS will complete 12 new "Interpreting the Standards" Bulletins and post them on its Technical Preservation Services (TPS) website.
Status: Completed.

4. The NPS will review "Interpreting the Standards" Bulletins issued earlier in the program which are now out of print to select approximately 45 to be adapted and posted on the TPS website.
NPS review revealed that less than 20 of the previously issued ITS Bulletins are suitable to be adapted into new ones. The NPS is currently preparing these for posting on its website. Status: To be completed October 2006.

5. The NPS will make clear on its website that all guidance materials are available to the public, not just to SHPOs.
The NPS has reviewed its website and has determined that all guidance materials are available to the public. Status: Completed.

6. The NPS will consult with its partners to determine if consolidating the two versions of the *Secretary of the Interior's Standards for Rehabilitation* would be desirable and feasible.
The Office of the Solicitor of the Department of the Interior has advised the NPS that the version of the Secretary of the Interior's Standards for Rehabilitation in the current regulations should not be changed. Instead, the revised regulations will include a statement that all versions of the Standards for Rehabilitation may be applied and will carry equal weight for purposes of the Federal Historic Rehabilitation Tax Credit Program. Status: Drafting of revised regulations in progress; revised regulations estimated to be published in one to two years.

7. The NPS will convene a Task Force that includes SHPOs and the private sector to examine guidance material to ensure that all NPS guidance for the Federal Historic Rehabilitation Tax Credit Program refers only to rehabilitation treatments and not to restoration treatments.
The NPS met with the NCSHPO Task Force chaired by Jim Garrison (SHPO/AZ) in March 2006 and discussed this matter. The NCSHPO Task Force indicated it will begin to examine NPS guidance material for the program to ensure that it refers only to "rehabilitation" treatments and not to "restoration". Status: Completion contingent on NCSHPO Task Force schedule.

8. The NPS will consult with the Office of the Solicitor of the Department of the Interior to devise and begin implementing a plan for posting information on appeals decisions on its website.
The NPS consulted with the Office of the Solicitor with regard to posting appeals decisions on its website. The most recent appeals decisions have been reformatted with sensitive personal

information removed (Tax ID numbers, owners' names, etc.), and they have been posted on its website. New appeals decisions will be posted. Status: Completed.

9. The NPS will notify SHPOs that they may accept travel expense reimbursements for site visits to projects seeking rehabilitation tax credits, and will post this information on its website.
The NPS has notified SHPOs via e-mail that they may accept travel reimbursements for site visits. This topic was also discussed in depth at the July 2005 NPS/SHPO workshop. In addition, this information was included in the annual newsletter that the NPS sends out to SHPOs. Status: Completed.

10. The NPS will post guidance questions on its website to assist SHPOs and property owners in documenting the pre-rehabilitation condition of a building.
The NPS has collected and reviewed existing state guidance on documenting the pre-rehabilitation condition of a building. The NPS is developing a standard format in preparation for posting the guidance on its website. Status: To be completed December 2006.

11. The NPS will invite a NCSHPO task force to work with NPS staff to develop recommendations for the expansion of facilitated review and/or implementation of expedited review. Pending NCSHPO concurrence, the joint task force should report its findings at the NCSHPO annual meeting.
The NPS met with the NCSHPO task force in March 2006 to discuss this. The NCSHPO task force concluded that the existing facilitated review process works well and currently does not need to be expanded. Status: Completed.

12. The NPS will finalize draft guidelines for preliminary project consultations, circulate for comment, disseminate and post on its website.
The NPS has finalized the guidance for preliminary project consultations. This guidance will be included in the annual newsletter that the NPS sends to SHPOs and will also be posted on its website. Status: To be completed December 2006.

13. The NPS will consult with partners regarding changes to the Part 2 Application form, particularly about listing "character-defining features" and significant treatment issues. NPS will make recommendations for change, if any.
The NPS met with the NCSHPO task force in March 2006 to discuss this. Since SHPOs are the first point of contact with regard to listing properties in the National Register or potential rehabilitation tax credit projects, the NCSHPO task force concluded that developing a list of "character-defining" features, in consultation with National Register staff, and supplemental guidance on treatment issues should be left up to the discretion of individual SHPOs. Status: Completed.

14. The NPS will issue a letter to SHPOs to remind them that they are welcome to participate in appeal meetings, in writing, in person or by phone.
The NPS has provided this information via e-mail to SHPOs and announced it at the July 2005 NPS/SHPO workshop. It was also included in the annual newsletter that the NPS sends to SHPOs. Status: Completed.

15. The NPS will consult with partners and the Office of the Solicitor of the Department of the Interior to determine the desirability and feasibility of some less formal process for the Chief Appeals Officer to seek advice other than from the NPS and SHPOs.
The NPS has consulted with the Office of the Solicitor. The Office of the Solicitor has clarified that the program regulations already provide the Chief Appeals Officer with this discretion. The NPS has reiterated this in its annual newsletter to SHPOs. Status: Completed.

16. The Chief Appeals Officer will routinely grant any request for an "administrative hearing." The NPS will ensure that property owners are notified of this in letters denying certification of a rehabilitation project.
The Chief Appeals Officer grants all such requests for "administrative hearing." The NPS has revised the denial letter to include this information. Status: Completed.

17. The NPS will consult with partners regarding the feasibility of electronic submittals of project applications. If agreed upon by its partners, the NPS will develop and disseminate guidelines for submitting applications electronically.
The NPS undertook a six-month pilot project study with five SHPOs to review the feasibility of submitting applications electronically. Preliminary data indicated that most states do not have the capability of receiving applications electronically

at this time. However, the NPS and those states that do have that capability currently receive a considerable amount of additional information sent electronically for projects already under review that have been submitted in traditional hard copy format. Status: Completed.

18. The NPS will consult with SHPOs concerned about the NPS practice of transmitting communications simultaneously to the SHPO and the project owner, and implement any changes necessary.
Each state has its own preferred means of communicating with NPS staff. In some states, all contact is through the SHPO; in others, the SHPO prefers that the NPS contact owners directly. In still others amendments to the Part 2 Application are sent concurrently to both the SHPO and the NPS. The NPS will follow the procedure according to each state's specified preference. (All applicants may, at any time, contact NPS staff directly to discuss projects.) Status: Completed.

FEDERAL HISTORIC REHABILITATION TAX CREDIT PROGRAM HIGHLIGHTS

The Tax Reform Act of 1976 established the first Federal incentive for private investment in the rehabilitation of income-producing historic properties.

The current program provides a 20% Federal Tax Credit to qualified projects based on eligible expenses associated with the rehabilitation.

The first tax incentive project was undertaken in 1977.
Since then, over 32,000 properties have been rehabilitated involving a capital investment of over $36 billion.

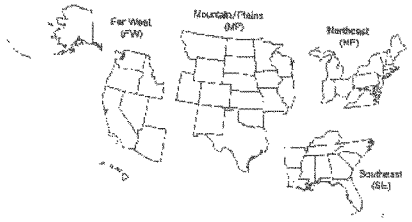
Approximately 40% of projects involve some form of housing.
Approximately 350,000 housing units have been created or rehabilitated.
Approximately 80,000 of these units are for low- and moderate-income tenants.

Fiscal Year 2005:

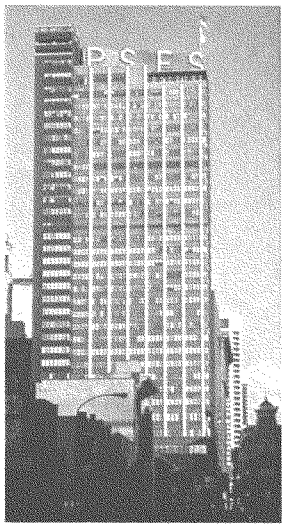
Private investment for 1,100 approved rehabilitation projects was $3.12 billion.
The average cost of projects receiving final certification was $2.85 million.
The total number of housing units created or rehabilitated was 14,354.
The average number of local jobs created per project was 48.
The estimated total number of local jobs created was 52,464.

The cost of the smallest project was approximately $8,000.
The cost of the largest project was $50,000,000.

Regional Share of investment for completed projects:
Northeast.....48% - $1,190,000,000
Southeast.....16% - $403,000,000
Mountains/Plains.....23% - $561,000,000
Far West.....13% - $337,000,000



States by Geographical Region



PSFS Building, Philadelphia, PA

APPENDIX

The Committee is aware that any recommendation regarding legislative changes to the Federal Historic Rehabilitation Tax Credit Program is outside its purview. However, the Committee would like to note several limitations of the tax laws that prevent some individuals from using the program that were discussed during the course of the meetings. These are as follows:

1. The five-year holding period for properties that have received the credit makes it difficult for some users to benefit from the program.
2. The requirement that investment equal the adjusted basis excludes smaller projects and some projects in high value real estate markets, as well as properties that have experienced high appreciation in value over the past several years.
3. The requirement that properties be income-producing excludes most condominium developments.
4. At 20 percent, the credit is too low to finance some projects.
5. "Passive loss" rules enacted in 1986 limit syndication financing for many smaller projects.
6. Alternative minimum tax rules may hamper an applicant's ability to claim the total amount of the credit.
7. Review period turnaround, 30 days for complete applications, is critical to projects and a deterrent in some private rehabilitation experiences.
8. Projects that use the federal tax credit for low-income housing sometimes encounter conflicts when also using the historic preservation tax credit because the requirements for the Low-Income Housing Tax Credit, which is a program administered by the Department of Housing and Urban Development (HUD), differ from the requirements for the Federal Historic Rehabilitation Tax Credit Program.
9. In some real estate markets with high land values, rehabilitation of a smaller historic building will create a lower economic return than constructing a larger new building.

It should be noted that the National Trust for Historic Preservation has drafted legislation that addresses some of the current disincentives that would, if acted upon, encourage more widespread use of the Federal Historic Rehabilitation Tax Credit.