

March 27, 2025

Senator Rest, Chair, Taxes Committee
Members of the Senate Taxes Committee

Subject: SF768 Underutilized buildings conversion tax credit

Dear Legislators,

I am writing to highlight potential unintended and negative consequences that SF768, the Catalyzing Underutilized Buildings (CUB) Tax Credit, may have on the Minnesota Historic Structure Rehabilitation Tax Credit (MNHTC).

The Department of Administration's (Admin) State Historic Preservation Office (SHPO) administers both the state and federal Historic Rehabilitation Tax Credit (MNHTC and HTC) programs in partnership with the National Park Service, Internal Revenue Service, and the Minnesota Department of Revenue.

According to a recent analysis by the University of Minnesota, the MNHTC generated nearly \$600 million in economic activity in Minnesota last year alone. This was just one year after the legislature reinstated the credit after it sunset in 2022. The state program also aligns with the federal program with well-defined guidance and definitions that effectively allows developers to combine both federal and state credits to rehabilitate qualified buildings.

SF768 would establish a new tax credit to renovate underutilized buildings. We agree reusing vacant and underused buildings is important and believe that the CUB could complement the MNHTC for reusing non-historic buildings as well as spur development. As currently drafted, however, we are concerned that the new credit would undermine the effectiveness of the MNHTC and ultimately erode historic preservation and economic activity in Minnesota in several ways:

- **Developers may forgo the federal HTC altogether for historic buildings** which requires projects to comply with rehabilitation standards to maintain a historic property's character and significance. The CUB credit doesn't have a similar design review requirement and allows for partial demolition and new additions which would negatively impact buildings listed on the National Register of Historic Places.
- **Proposed at 30%, applicants would apply for the CUB credit instead of the 20% MNHTC for the duration of the temporary CUB credit.** Since 2010, SHPO increasingly relies on MNHTC fees for staffing that serves as critical non-federal match to the Historic Preservation Fund. The fees collected also lower the state general funds required for SHPO to carry out their responsibilities.

- **The requirements to determine eligibility for the CUB credit are onerous and lack clarity**, and it's unclear whether DEED or Admin/SHPO is the agency selected to administer the CUB credit.

We are supportive of efforts to prevent demolition and best utilize existing buildings. We look forward to a continued conversation with the advocates of CUB to ensure that meets this goal and effectively makes use of existing and new tools to achieve these aims.

Sincerely,

Tamar Gronvall
Commissioner
State Historic Preservation Officer

Cc: Senator Mohamed
Rethos