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# Economic Impact of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit in Fiscal Year 2012

AN ECONOMIC IMPACT ANALYSIS PROGRAM REPORT

Brigid Tuck and Neil Linscheid



**IN PARTNERSHIP WITH: MINNESOTA HISTORICAL SOCIETY**

THE RIVER INN WAS DESIGNED BY VERNON A. WRIGHT IN 1929 AT THE BEHEST OF THE LOCAL COMMERCIAL CLUB TO IMPROVE ACCOMODATIONS NEAR THE U.S. DISTRICT COURT. THEIR MINNESOTA HISTORIC REHABILITATION TAX CREDIT PROJECT WILL PRESERVE THIS IMPORTANT HISTORIC BUILDING AND PROVIDE UPDATES TO APARTMENTS AND COMMERCIAL SPACES.



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January 2013

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**Partners/Sponsors:**  
Minnesota Historical Society

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## INTRODUCTION

Historic preservation is valued for its creation of a sense of community, its ability to generate a personal connection with history, its gifts to quality of life, and its ability to enhance cultural landscapes. For others, historic preservation is a means to contribute to our state and national economy, through jobs in construction, architecture, engineering, and other fields.

The history of historic preservation efforts as a redevelopment tool began in the 1960's. In 1966, following increasing recognition of the importance of historic places, the United States' Congress passed the National Historic Preservation Act. The Act, and related legislation, created a partnership between the federal government (National Park Service) and state governments (State Historic Preservation Offices). Historic tax credits as a policy tool didn't become available until later. Since 1976, the federal government has provided a historic tax credit as a financial incentive to assist in the preservation of important historic structures.

Minnesota didn't institute an historic tax credit until recently. In April 2010 the Minnesota Historic Rehabilitation Tax Credit was signed into law. The law was intended to promote private investment in historic properties with the goal of stimulating job growth, increasing the tax base, and revitalizing communities. The law makes two tools available; state income tax credits and grants in lieu of credits. Eligible property owners can receive a state income tax credit of up to 20 percent of qualifying expenses on historic preservation projects. Alternatively, a grant in lieu of a credit (equal to 90 percent of allowable credit) is available to property owners. The state and federal tax credits are only available as a package. Properties must be eligible for the federal tax credit in order to receive the state credit. The Minnesota State Historic Preservation Office, in conjunction with the Minnesota Department of Revenue, administers the credit.

Eligibility for the Minnesota Historic Rehabilitation Tax Credit is determined by two factors. First, the property must be a certified historic structure, that is, a building listed on the National Register of Historic Places or certified as contributing to a registered historic district. Second, the building must be rehabilitated for an income producing use and the project must meet a substantial rehabilitation test. As a condition of receiving the credit, all work on the property must meet the US Secretary of Interior's Standards for Rehabilitation and the completed work must be approved by the US National Park Service.

As part of the Minnesota legislation, the Minnesota Historical Society "must annually determine the economic impact to the state from the rehabilitation of property for which credits or grants are provided" ([Minnesota Statutes, Chapter 290.0681, Subdivision 9](#)). To complete this charge, the Minnesota State Historical Society contracted with University of Minnesota Extension's Economic Impact Analysis (EIA) program. University of Minnesota Extension first completed the analysis in 2011, covering projects receiving part II approval from NPS in fiscal year 2011. The final report can be viewed here: [http://www.mnhs.org/shpo/grants/docs\\_pdfs/Economic\\_Impact\\_Historic\\_Tax\\_Credit\\_2011.pdf](http://www.mnhs.org/shpo/grants/docs_pdfs/Economic_Impact_Historic_Tax_Credit_2011.pdf).

This report is an update to that analysis. The primary focus of this report is on projects receiving part II approval from NPS in fiscal year 2012. Information from 2011 will be included to provide context and a summary of the economic impact of the two years of the Minnesota Historic Rehabilitation Tax Credit is incorporated into this report. Pursuant to Minnesota Statutes, Chapter 3.197 regarding the cost of reports, the cost of this economic impact report is \$2,500.

## HIGHLIGHTS OF THE ECONOMIC IMPACT OF PROJECTS LEVERAGED BY THE MINNESOTA HISTORIC REHABILITATION TAX CREDIT

The following statements summarize the results of a 2013 University of Minnesota analysis of the economic impact of projects leveraged by the Minnesota Historic Rehabilitation Tax Credit.

- In April 2010, the Minnesota State Legislature passed and the Governor signed legislation creating the Minnesota Historic Rehabilitation Tax Credit. Eligible property owners can receive a state income tax credit of up to 20 percent of qualifying rehabilitation expenses or a grant in lieu of the credit.
- From July 1, 2011 to June 30, 2012, 16 projects received preliminary approval for the credit, had begun renovation projects, and were included in this study. An estimated \$406 million dollars will be spent on these projects. The credit is granted upon successful completion of the project. Additional projects are in various stages of development, but are not included in this analysis.
- The 16 projects receiving preliminary approval for the credit in FY 2012 estimate spending \$292 million dollars on local, qualifying rehabilitation expenses. The project developers anticipate hiring 1,480 construction workers. They will pay \$85.7 million to their employees.
- The total economic impact of projects leveraged by the FY 2012 Minnesota Historic Rehabilitation Tax Credit is \$559 million. This includes \$181 million in labor income. Projects spurred by the credit support 3,500 jobs.
- Provided the projects are completed as planned and meet the requirements of the program, an estimated \$70 million will be awarded by the Minnesota Historic Rehabilitation Tax Credit to leverage these projects. Therefore, for every state dollar of tax credit or grant allowed, \$8.00 in economic activity is generated in the State of Minnesota.
- In fiscal year 2011, the Minnesota Historic Rehabilitation Tax Credit created \$430 million in total output, 2,880 jobs, and \$144 million in labor income in the state of Minnesota. The Minnesota Historic Rehabilitation Credit awarded an estimated \$49 million to leverage those projects. Therefore, in fiscal year 2011, for every state dollar of tax credit or grant allowed, \$8.75 in economic activity was generated in the state of Minnesota.



- In the two years of the Minnesota Historic Rehabilitation Tax Credit, the credit has leveraged \$536 million in construction activity, including 3,110 jobs and \$165 million in payments to labor. As a result of the spending on rehabilitation projects, the tax credit has generated \$989 million in output in the state's economy, 6,512 jobs, and \$324 million in labor income. Projects receiving Part II approval from NPS in fiscal years 2011 and 2012 requested credits and grants totaling \$118.8 million, which will be paid out over several years. Therefore, for every state dollar of tax credit or grant allowed in the two years, \$8.32 in economic activity was generated in Minnesota. It is important to note that credits and grants in lieu of credit will be claimed over several years, as projects are completed.
- Minnesota's construction industry will benefit most significantly from the rehabilitation projects. However, other construction-related industries will also benefit. These include the wholesale trade industry, the housing market and the architectural, engineering, and related services industry. Finally, wages earned by construction workers will spur additional economic activity in the food service and beverage industry and the general retail industry.
- This is a conservative analysis, focused primarily on construction-related spending. The economic benefits of the potential new commercial activity are not included in this study. Further, this study does not measure any non-market values generated from newly renovated structures.



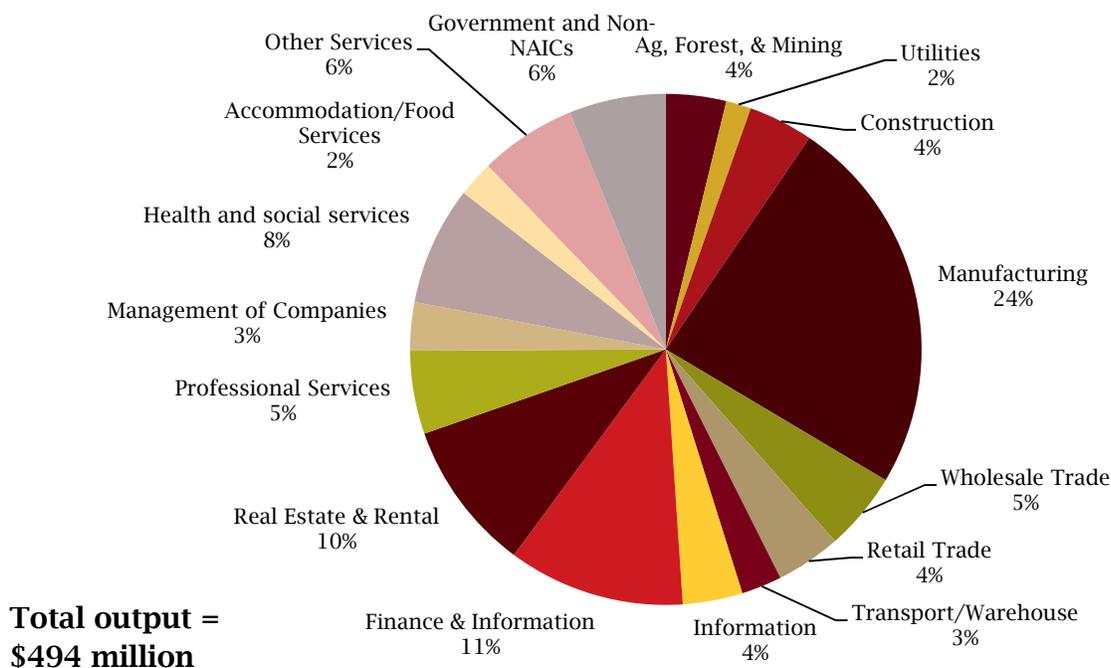
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## PROFILE OF THE STUDY AREA ECONOMY

The study area for this analysis is the state of Minnesota. The state was chosen as the study area since the Historic Rehabilitation Tax Credit can be issued in any community in Minnesota. The spending on tax credit projects can be compared to \$498 billion of output in all sectors of Minnesota's economy in 2010. There were 3.4 million jobs in all sectors in the state.

Chart 1 shows total output in Minnesota by industry category. The manufacturing sector contributes 24 percent of total output to the state's economy. The service sector, in total, contributes 49 percent of output to the state's economy. Of the service sector categories, finance and information (11 percent) and real estate and rental (10 percent) comprise the largest components. The construction sector generates \$20.4 billion in output.

**Chart 1: Output by Industry  
Minnesota 2010**

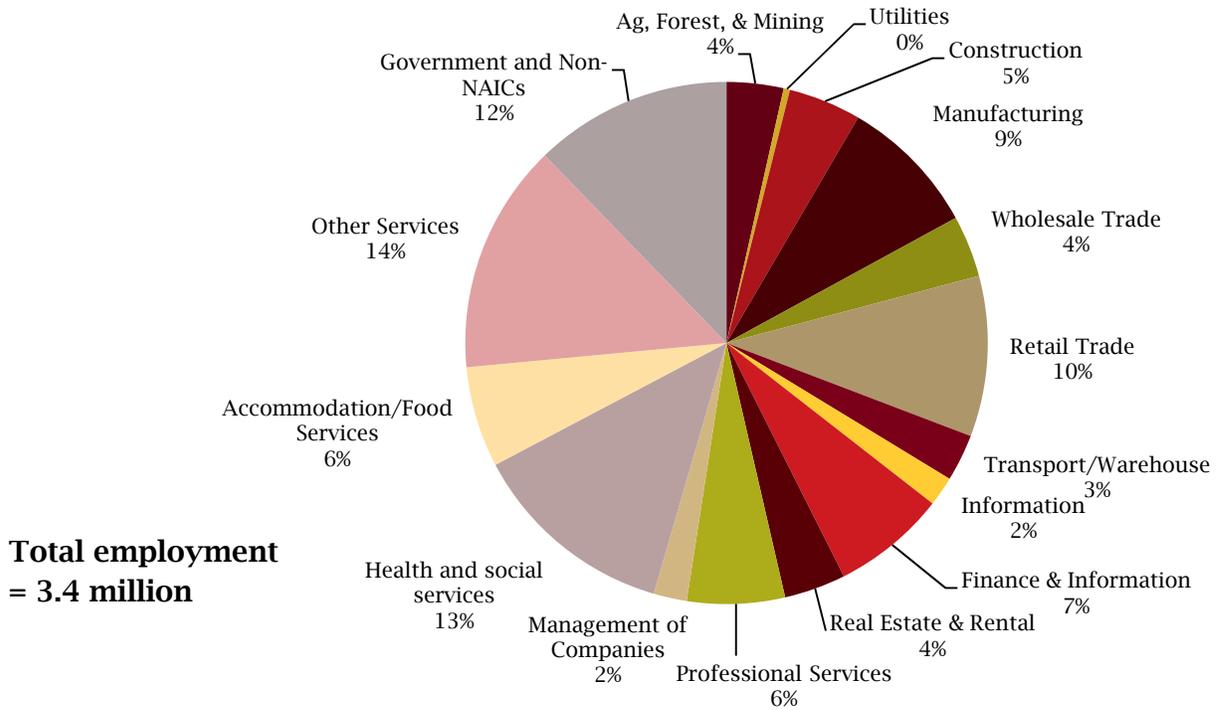


Employment by industry category is shown in chart 2. The service industry has the largest share of employees in Minnesota (54 percent). Trade (14 percent) and government (12 percent) have the second and third largest shares respectively. The construction industry employs 5 percent of workers in Minnesota. In 2010, there were 154,000 construction workers in the state.

While manufacturing creates 24 percent of output, it only employs 9 percent of all workers. There are two possible reasons for this observation. One, in the database, one job is one job, regardless of

its status as part-time, full-time, or seasonal. Since the service sector tends to employ more part-time employees and manufacturing more full-time, manufacturing's share of employment may appear lower. Second, manufacturing tends to have higher dollar-volume-productivity per worker.

**Chart 2: Employment by Industry  
Minnesota 2010**



## **ECONOMIC IMPACT**

Total economic impact is equal to the summation of direct, indirect, and induced effects. The direct effect is the initial change triggered by an economic event. This could be the opening of a new business, the closing of a plant, or construction spurred on by a tax credit. The direct effect triggers additional economic activity to occur, therefore setting off ripples in the local economy. These ripples fall into two categories, indirect effects (created by business-to-business transactions) and induced effects (created by consumer-to-business transactions). In an economic impact analysis, researchers quantify the direct effects. An input-output model then measures the indirect and induced impacts. In this study, researchers “ground-truthed” the direct effect using primary data collection. The input-output model used was IMPLAN (MIG, Inc).

### **Direct Effects Fiscal Year 2012**

The direct effect of the historic tax credit program is the value of the construction activity spurred by the credit. From July 1, 2011 through June 30, 2012, 16 renovation projects received National Park Service Part II approval. This means the projects received initial approval and began making construction expenditures. They will not receive final approval and the tax credit until all work is completed and approved by the National Park Service (a process known as Part III certification).

Table 1 lists the 16 renovation projects that received Part II approval between July 1, 2011 and June 30, 2012. The historic name of the property, the current property name, and the property’s proposed use are provided in the table. The historic property name reflects the original use and designation of the building. The proposed use column indicates what the building will be used for following the renovation project. Eleven projects are planned for the Twin Cities metropolitan area and five will occur in Greater Minnesota.

**Table 1.**

**Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between July 1, 2011 and June 30, 2012**

<b>Historic Property Name</b>	<b>Current Property Name</b>	<b>Proposed Use</b>	<b>Location</b>
<b>Jacob Schmidt Brewing Company: Brew House and Bottling House</b>	Jacob Schmidt Brewing Company: Brew House and Bottling House	Mixed Use	St. Paul
<b>Pillsbury A Mill</b>	Pillsbury A Mill	Residential	Minneapolis
<b>The Buzza Company Building</b>	Florence M. Lehmann Multi-Educational Center	Residential	Minneapolis
<b>Great Northern Warehouse</b>	Precision Building	Mixed Use	Minneapolis
<b>Shepard House</b>	Shepard House	Mixed Use	St. Paul
<b>Chittenden and Eastman (C&amp;E) Building/M. Burg and Sons</b>	Chittenden and Eastman (C&E) Building/M. Burg and Sons	Residential	St. Paul
<b>Duluth City Hall</b>	Duluth Old City Hall	Commercial	Duluth
<b>Pioneer and Endicott Buildings</b>	Pioneer and Endicott Buildings	Mixed Use	St. Paul
<b>Commission House</b>	Seastedt's	Commercial	St. Paul
<b>Joseph McCardy House</b>	Joseph McCardy House	Residential	St. Paul
<b>Webster House</b>	Time Investment Inc.	Residential	Clearwater
<b>Engine House No. 1</b>	Engine House No. 1	Residential	Duluth
<b>Faribault Woolen Mill Company</b>	Faribault Woolen Mill Company	Manufacturing	Faribault
<b>River Inn</b>	River Inn	Mixed Use	Fergus Falls
<b>McCloud-Edgerton House</b>	McCloud-Edgerton House	Mixed Use	St. Paul
<b>First National Bank – Soo Line Building</b>	Soo Line Building	Mixed Use	Minneapolis

Source: Part A Applications Submitted to the Minnesota Historical Society

The direct impact of Minnesota Historic Rehabilitation Tax Credit projects in FY 2012 is shown in table 2. Total project costs are the total costs as estimated by the developer. In economic impact analysis theory, acquisition costs do not create an economic impact. This is because they are simply a transfer of wealth (cash for land and/or a building). Therefore, acquisition costs cannot be included in the economic impact. Further, not all costs associated with the rehabilitation qualify for

the tax credit. Column two in the table reflects the total qualifying project costs minus any acquisition costs.

**Table 2: Direct Impact of Fiscal Year 2012 Minnesota Historic Rehabilitation Tax Credit Projects**

<b>Total Estimated Rehabilitation Project Costs</b>	<b>Total Qualifying Rehabilitation Project Costs (Excluding Acquisition)</b>	<b>Estimated Minnesota Historic Rehabilitation Tax Credit</b>	<b>Number of Construction Employees</b>
\$406,133,268	\$324,906,614	\$69,689,377	1,480

Total estimated costs for the 16 projects total \$406 million. Excluding acquisitions and non-qualifying expenses, project costs are estimated at \$324 million. To complete these projects, developers anticipate hiring 1,480 construction workers. These employment estimates are for construction crew members only and do not account for architects, lawyers, and other professionals working for firms contracted by the developer.<sup>1</sup> These projects are being leveraged by an estimated \$69.7 million in tax credits/grants. Given these estimates, for every dollar of the Minnesota Historic Rehabilitation Tax Credit, private developers will be investing \$5 of their own funds.

The total project costs, excluding acquisitions and non-qualifying expenses, are the direct effect of the Minnesota Historic Rehabilitation Tax Credit. The study area for this project is the state of Minnesota. Only construction spending that occurs in Minnesota can be entered into the model. Since the state is a diverse economy, it is assumed that the majority (90 percent) of construction-related purchases can be made in-state.<sup>2</sup> Therefore, the direct impact of the credit entered into the model is \$292 million.

**Indirect and Induced Effects Fiscal Year 2012**

Using the direct impacts from above (table 2), \$292 million in direct impact was entered into an input-output model. Input-output models trace the flow of dollars throughout a local economy and can capture the indirect and induced, or ripple effects, of an economic activity. The input-output modeling software and data from IMPLAN (MIG, Inc) was used in this report.

Indirect effects are those associated with a change in economic activity due to business spending for goods and services. In this case, these are the changes in the local economy occurring because developers need to purchase construction materials (lumber, cement, equipment, for example) and construction-related services (architectural, law, engineering, etc.). These are business-to-business impacts.

Induced effects are those associated with a change in economic activity due to spending by the employees of businesses (labor) and by households. Primarily, in this study, these are economic

<sup>1</sup> Estimates of employment created in architectural/engineering and law firms are indirect effects and are generated by the model. See the discussion of total impacts.

<sup>2</sup> The 90 percent local spending assumption is an estimate based on the knowledge and experience of the analyst. Any further specificity would require primary data collection. It is unlikely 100 percent of construction spending occurs in the State of Minnesota. However, given the size of the study area economy, it appears reasonable the large majority of spending does occur in-state.

changes related to spending by construction workers hired to perform the rehabilitation work. These are business-to-consumer impacts.

### Total Impact Fiscal Year 2012

The total economic impact of projects leveraged by the Minnesota Historic Rehabilitation Tax Credit in FY 2012 is *\$559 million dollars*. To produce \$559 million in output, *3,502 workers were employed and \$181 million in payments were made those employees*. Total economic impact is comprised of direct, indirect, and induced impacts. These are each detailed in Table 3.

- Direct impacts, determined using the process outlined here-to-fore, include \$292 million in new construction-related sales (output), 1,480 new construction jobs, and \$85.7 million in payments to construction workers.
- Spending on construction-related materials creates indirect impacts. Indirect impacts from the tax credit total \$127.4 million in sales (output), including 935 jobs in all sectors of the economy and \$47.4 million in payments to those workers.
- Finally, labor spending creates induced impacts. Induced impacts from the tax credit total \$138.9 million in sales (output), including 1,087 jobs in all sectors of the economy and \$47.4 million in payments to those workers.

Provided the projects are completed as planned, the Minnesota Historic Rehabilitation Tax Credit granted to the FY 2012 projects will total \$69.7 million. Therefore, for every state dollar of tax credit or grant allowed, \$8.00 in economic activity is generated in the state of Minnesota. This activity is mostly driven by additional investments by project developers, but also includes the ripple effects of construction-related spending.

**Table 3: Total Economic Impact of Projects Leveraged by the Fiscal Year 2012 Minnesota Historic Rehabilitation Tax Credit**

	Direct	Indirect	Induced	Total
<b>Output (Sales)</b>	\$292,400,000	\$127,442,258	\$138,856,381	\$558,678,577
<b>Employment (FTE's)</b>	1,480	935	1,087	3,502
<b>Labor Income</b>	\$85,730,517	\$47,416,767	\$47,386,866	\$180,534,150

Estimates by the University of Minnesota Extension Center for Community Vitality

The top five industries impacted by projects of the FY 2012 Minnesota Historic Rehabilitation Tax Credit are shown in tables 4 and 5. Table 4 lists the top five industries sorted by output and table 5 sorted by employment. Renovation projects have large impacts for the construction sectors. These are primarily direct impacts. Renovation projects also have impacts on output in the wholesale trade industry (suppliers), housing and retail sectors, and banking. The top five industries impacted account for 61 percent of total output (sales) generated by tax credit projects.

**Table 4: Top Five Industries Impacted by the Fiscal Year 2012 Minnesota Historic Rehabilitation Tax Credit, Sorted by Output**

<b>Industry</b>	<b>Total Output</b>
Construction of new residential permanent site single- and multi-family structures	\$289,201,017
Imputed rental activity for owner-occupied dwellings (housing market)	\$14,249,108
Wholesale trade businesses	\$12,900,206
Real estate establishments	\$12,272,990
Monetary authorities and depository credit intermediation activities (banking)	\$11,534,151
<b>Top Five Total</b>	<b>\$340,157,472</b>
<b>Total</b>	<b>\$558,678,577</b>

Estimates by the University of Minnesota Extension Center for Community Vitality

For employment, the construction industry is again significantly impacted (table 5). These are the direct construction jobs created by the projects. The food service and beverage industry will see 135 new jobs as a result of the construction projects. This reflects the wages being paid to the construction workers. Industries such as architecture, engineering, and other related services, which support the construction industry, will also see increased employment. Finally, workers will be spending wages in local retail establishments, creating more jobs. The top five industries impacted account for 54 percent of total employment supported by tax credit projects. In the model, one job equals one job, regardless is the job is full-time, part-time, or seasonal.

**Table 5: Top Five Industries Impacted by the Fiscal Year 2012 Minnesota Historic Rehabilitation Tax Credit, Sorted by Employment**

<b>Industry</b>	<b>Employment</b>
Construction of new residential permanent site single- and multi-family structures	1,587
Food services and beverages	135
Retail Stores - General merchandise	84
Retail Stores - Food and beverage	78
Real estate establishments	76
<b>Top Five Total</b>	<b>1,960</b>
<b>Total</b>	<b>3,631</b>

Estimates by the University of Minnesota Extension Center for Community Vitality

## Total Impacts Fiscal Year 2011

As mentioned, University of Minnesota Extension conducted an analysis of the economic impact of the fiscal year 2011 Minnesota Historic Rehabilitation Tax Credit. Fourteen projects were included in the FY 2011 analysis. One of those projects, The Buzza Company Building, actually moved into FY 2012. The numbers shown in this report have been adjusted to reflect this change and are different from the previously published report.

The analysis showed project managers in fiscal year 2011 anticipated spending \$244 million locally to implement their projects, as shown in table 6. This includes hiring 1,500 construction and related workers and paying \$79.8 million in labor income. As a result of this direct spending triggered by the fiscal year 2011 Minnesota Historic Rehabilitation Tax Credit, total output in the state economy increased by \$430 million, including 2,880 jobs and \$144 million in labor income.

Provided the projects are completed as planned, the Minnesota Historic Rehabilitation Tax Credit granted to these projects will total \$49.1 million. Therefore, for every state dollar of tax credit or grant allowed, \$8.75 in economic activity is generated in the State of Minnesota. This activity is mostly driven by additional investments by project developers, but also includes the ripple effects of construction-related spending.

**Table 6: Total Economic Impact of Projects Leveraged by the Fiscal Year 2011 Minnesota Historic Rehabilitation Tax Credit**

	Direct	Indirect	Induced	Total
<b>Output (Sales)</b>	\$244,115,698	\$88,312,228	\$97,472,355	\$429,900,281
<b>Employment (FTE's)</b>	1,500	632	747	2,880
<b>Labor Income</b>	\$79,753,130	\$31,868,749	\$32,078,655	\$143,700,534

Estimates by the University of Minnesota Extension Center for Community Vitality

Note: Due to change an incorrect classification of one project (Buzza Building), these numbers have changed since publication of the initial report.

## Total Impacts Fiscal Years 2011 and 2012

In the two years of the Minnesota Historic Rehabilitation Tax Credit, the credit has leveraged \$536 million in construction activity, including 3,110 jobs and \$165 million in payments to labor, the direct impacts shown in table 7. As a result of the spending on renovation projects, the tax credit has generated \$989 million in output in the state's economy, 6,512 jobs, and \$324 million in labor income. Projects receiving Part II approval from NPS in fiscal years 2011 and 2012 requested credits and grants totaling \$118.8 million, which will be paid out over several years. Therefore, for every state dollar of tax credit or grant allowed in the two years, \$8.32 in economic activity was generated in the State of Minnesota.

**Table 7: Total Economic Impact of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit, Fiscal Years 2011 and 2012**

	<b>Direct</b>	<b>Indirect</b>	<b>Induced</b>	<b>Total</b>
<b>Output (Sales)</b>	\$536,495,636	\$215,754,486	\$236,328,736	\$988,578,858
<b>Employment</b>	3,110	1,568	1,834	6,512
<b>Labor Income</b>	\$165,483,647	\$79,285,516	\$79,465,521	\$324,234,684

Estimates by the University of Minnesota Extension Center for Community Vitality

## METHODOLOGY

Special models, called input-output models, exist to conduct economic impact analysis. There are several input-output models available. IMPLAN (Impact Analysis for PLANning, Minnesota IMPLAN Group)<sup>3</sup> is one such model. Many economists use IMPLAN for economic contribution analysis because it can measure output and employment impacts, is available on a county-by-county basis, and is flexible for the user. IMPLAN has some limitations and qualifications, but it is one of the best tools available to economists for input-output modeling. Understanding the IMPLAN tool, its capabilities, and its limitations will help ensure the best results from the model.

One of the most critical aspects of understanding economic impact analysis is the distinction between the “local” and “non-local” economy. The local economy is identified as part of the model-building process. Either the group requesting the study or the analyst defines the local area. Typically, the study area (the local economy) is a county or a group of counties that share economic linkages. In this study, the study area is the entire State of Minnesota.

A few definitions are essential in order to properly read the results of an IMPLAN analysis. The terms and their definitions are provided below.

### Output

Output is measured in dollars and is equivalent to total sales. The output measure can include significant “double counting.” Think of corn, for example. The value of the corn is counted when it is sold to the mill, again when it is sold to the dairy farmer, again as part of the price of fluid milk, and yet again when it is sold as cheese. The value of the corn is built into the price of each of these items and then the sales of each of these items are added up to get total sales (or output).

### Employment

Employment includes full- and part-time workers and is measured in annual average jobs, not full-time equivalents (FTE’s). IMPLAN includes total wage and salaried employees, as well as the self-employed, in employment estimates. Because employment is measured in jobs and not in dollar values, it tends to be a very stable metric.

### Labor Income

Labor income measures the value added to the product by the labor component. So, in the corn example when the corn is sold to the mill, a certain percentage of the sale goes to the farmer for his/her labor. Then when the mill sells the corn as feed to the dairy farmer, it includes some markup for its labor costs in the price. When the dairy farmer sells the milk to the cheese manufacturer, he/she includes a value for his/her labor. These individual value increments for labor can be measured, which amounts to labor income. Labor income does *not* include double counting.

### Direct Impact

Direct impact is equivalent to the initial activity in the economy. In this study, it is construction spending generated by projects leveraged by the Minnesota Historic Rehabilitation Tax Credit.

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<sup>3</sup> IMPLAN Version 3.0 was used in this analysis. The trade flows model with SAM multipliers was implemented.

### **Indirect Impact**

The indirect impact is the summation of changes in the local economy that occur due to spending for inputs (goods and services) by the industry or industries directly impacted. For instance, if employment in a manufacturing plant increases by 100 jobs, this implies a corresponding increase in output by the plant. As the plant increases output, it must also purchase more inputs, such as electricity, steel, and equipment. As the plant increases purchases of these items, its suppliers must also increase production, and so forth. As these ripples move through the economy, they can be captured and measured. Ripples related to the purchase of goods and services are indirect impacts. In this study, indirect impacts are those associated with spending by the developers to purchase construction materials (lumber, cement, equipment, and so forth) and construction-related services (architectural, law, engineering, etc.).

### **Induced Impact**

The induced impact is the summation of changes in the local economy that occur due to spending by labor, that is spending by employees in the industry or industries directly impacted. For instance, if employment in a manufacturing plant increases by 100 jobs, the new employees will have more money to spend to purchase housing, buy groceries, and go out to dinner. As they spend their new income, more activity occurs in the local economy. This can be quantified and is called the induced impact. Primarily, in this study, the induced impacts are those economic changes related to spending by construction workers hired to perform the rehabilitation work.

### **Total Impact**

The total impact is the summation of the direct, indirect, and induced impacts.

## CONCLUSION

For many Minnesotans, historic preservation is valued for its creation of a sense of community, its ability to generate a personal connection with history, its economic contributions, its gifts to quality of life, and its ability to enhance cultural landscapes. In April 2010, the Minnesota Historic Rehabilitation Tax Credit was signed into law. The law promotes private investment in historic properties with the goal of stimulating job growth, increasing the tax base, and revitalizing communities. The Minnesota State Legislature has asked for an annual report answering the question “What is the economic impact of projects leveraged by the Minnesota Historic Rehabilitation Tax Credit.”

Between July 1, 2011 and June 30, 2012, 16 renovation projects have received preliminary approval under the Minnesota Historic Rehabilitation Tax Credit. Project developers anticipate spending \$292 million in local, qualified, non-acquisition related, construction expenditures. The developers will hire 1,480 workers to complete the work and pay \$85.7 million to those workers.

The total economic impact of projects currently leveraged by the Minnesota Historic Rehabilitation Tax Credit is \$559 million. This includes \$181 million payments to labor. The projects and related activity spurred by the credit will support 3,500 jobs.

Provided the projects are completed as planned and meet the requirements of the program, an estimated \$70 million will be awarded by the Minnesota Historic Rehabilitation Tax Credit to leverage these projects. Therefore, for every state dollar of tax credit or grant allowed, \$8.00 in economic activity will be generated in the State of Minnesota. This activity is mostly driven by additional investments by project developers, but also includes the ripple effects of construction-related spending.

In the two years of the Minnesota Historic Rehabilitation Tax Credit, the tax credit and grant has generated \$989 million in output in the state’s economy, 6,512 jobs, and \$324 million in labor income. Credits and grants allocated by the program in fiscal years 2011 and 2012 total \$118.8 million. Therefore, for every state dollar of tax credit or grant allowed, \$8.32 in economic activity was generated in the state of Minnesota over the two year period.

Minnesota’s construction industry will benefit most significantly from projects completed using the Minnesota Historic Rehabilitation Tax Credit. However, other construction-related industries will also benefit from the projects. These include the housing market, wholesale trade, and the architectural, engineering, and related services industry. Finally, the wages earned by construction workers will spur additional economic activity in the food service and beverage industry and the general retail industry.

This is a conservative analysis, focused primarily on construction-related spending. The economic benefit of any potential new commercial activity is not included in this study. Further, this study does not measure any non-market benefits, such as improved community atmosphere, aesthetics, or historic preservation significance.