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December 5, 2018

The Honorable Roger Chamberlain
State Senator
Chair, Senate Tax Committee
95 University Avenue W, MSB 3225
Saint Paul, MN 55155

The Honorable Greg Davids
State Representative
Chair, House Tax Committee
585 State Office Building
Saint Paul, MN 55155

The Honorable Ann Rest
State Senator
Ranking Member, Senate Tax Committee
95 University Avenue W, MSB 2217
Saint Paul, MN 55155

The Honorable Paul Marquart
State Representative
Ranking Member, House Tax Committee
261 State Office Building
Saint Paul, MN 55155

RE: Minnesota Historic Rehabilitation Tax Credit Economic Impact Report, Fiscal Year 2018

Dear Chairs and Ranking Members,

Pursuant to Minnesota Statutes Chapter 290.081, Subdivision 9, the Department of Administration's State Historic Preservation Office is pleased to submit the report "Economic Impact of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit: Fiscal Year 2018." The report determines the economic impact to the state from rehabilitations of historic properties that credits or grants are provided.

Sincerely,

A handwritten signature in black ink that reads 'Matt Massman'.

Matt Massman, Commissioner
State Historic Preservation Officer

cc: Curt Yoakum, MN Department of Administration
Amy Spong, MN State Historic Preservation Office
Katie Knutson, Legislative Director, MN Department of Administration
April Bergordis, Revenue Tax Specialist, MN Department of Revenue
David Kelliher, Legislative Director, MN Historical Society
Legislative Reference Library



Economic Impact of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit: Fiscal Year 2018

AN ECONOMIC IMPACT ANALYSIS PROGRAM REPORT

Authored by Brigid Tuck, with contributions from Denis Gardner and Ginny Way



FOR THE MINNESOTA DEPARTMENT OF ADMINISTRATION, STATE HISTORIC PRESERVATION OFFICE
PHOTO: ST. AGATHA'S CONSERVATORY; PHOTO CREDIT: HESS ROISE AND COMPANY

Economic Impact of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit: Fiscal Year 2018

AN ECONOMIC IMPACT ANALYSIS PROGRAM REPORT

November 2018

Authored by Brigid Tuck, Senior Economic Impact Analyst, Center for Community Vitality, with contributions from Denis Gardner, National Register Historian, and Ginny Way, National Register Architectural Historian, State Historic Preservation Office

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St. Agatha's Conservatory; Photo credit: Hess Roise and Company

Prepared for:

Minnesota Department of Administration, State Historic Preservation Office

Acknowledgements:

We would like to thank Denis Gardner and Ginny Way, both with the State Historic Preservation Office, for assistance in writing the history of the case studies.

Notes on the Analysis:

As part of Minnesota's historic tax credit legislation, the State Historic Preservation Office "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 State Historic Preservation Office has contracted annually with University of Minnesota Extension's economic impact analysis (EIA) program. Pursuant to Minnesota Statutes, Chapter 3.197 regarding the cost of reports, the total for this study was \$2,500.

The Minnesota State Historic Preservation Office is financed, in part, with federal funds from the National Park Service, U.S. Department of the Interior. However, the contents and opinions presented do not necessarily reflect the views or policies of the Department of the Interior, nor does the mention of trade names nor commercial products constitute endorsement or recommendation by the Department of the Interior. Regulations of the U.S. Department of Interior strictly prohibit unlawful discrimination in federally assisted programs on the basis of race, color, national origin, disability, or age. Any person who believes he or she has been discriminated against in any program, activity, or facility operated by a recipient of federal assistance should write to: Office of Equal Opportunity, National Park Service, 1849 C Street, N.W. Washington, DC, 20240.

The data, analysis, and findings described in this report are specific to the geography, time period, and project requirements of the Minnesota Historic Rehabilitation Tax Credit. Findings are not transferable to other jurisdictions. Extension neither approves nor endorses the use or application of findings and other contents in this report by other jurisdictions.



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EXECUTIVE SUMMARY: ECONOMIC IMPACT OF PROJECTS LEVERAGED BY THE MINNESOTA HISTORIC REHABILITATION TAX CREDIT IN FISCAL YEAR 2018

In April 2010, the Minnesota Historic Rehabilitation Tax Credit was signed into law. The goal of the credit is to stimulate job growth, increase local tax bases, and revitalize communities across the state. It allows either a state income tax credit or a grant in lieu of the credit. A state income tax credit up to 20 percent of qualifying expenses is available if a property meets eligibility requirements. Alternatively, a grant in lieu of the credit (equal to 90 percent of allowable credit) is available to property owners. The Federal Historic Preservation Tax Incentives Program also provides a federal historic tax credit.

Each year, the State Historic Preservation Office contracts with Extension to determine the economic impact of the state historic tax credit. This report quantifies the results of the tax credit for fiscal year 2018 and summarizes its total impact during eight years of the program. It also features six case studies, which highlight completed projects and their impact on economic activity and property values.

- **Output Effects:** In FY 2018, the total estimated economic impact of the Minnesota Historic Rehabilitation Tax Credit was \$715.2 million. Directly, through rehabilitation, the state historic tax credit created \$393.4 million of construction activity. This construction activity then generated \$321.8 million of output in other industries in Minnesota. Sectors most impacted include wholesale trade, owner-occupied housing, and real estate.
- **Employment Effects:** In FY 2018, the Minnesota Historic Rehabilitation Tax Credit supported an estimated 3,630 full-time equivalent (FTE) jobs in the state. This includes the 1,690 jobs at rehabilitation sites during the construction activity (direct effect). It also includes 1,940 jobs at supporting industries. Sectors most impacted include wholesale trade, real estate, and miscellaneous retail stores.
- **Labor Income Effects:** In FY 2018, the Minnesota Historic Rehabilitation Tax Credit generated an estimated \$235.2 million in labor income. Directly, the rehabilitation activities created \$121.5 million in labor income. Because of spending for rehabilitation, another \$113.7 million of labor income was generated across all industries in Minnesota.
- **Tax Credit:** The projects, upon completion, will be eligible for \$75.3 million of state historic tax credits. Thus, for every dollar of state historic tax credit, private developers plan to invest \$6.93 of their own funds. Given a total impact of \$715.2 million of activity, each dollar of the Minnesota Historic Rehabilitation Tax Credit generates \$9.50 of economic activity in the state.
- **Total Impact 2011-2018:** Since the state historic tax credit became available in 2011, 119 projects have received initial approval. These projects have generated an estimated \$3.0 billion of economic activity in the state. This includes \$993.5 million in labor income (dollar figures are adjusted to 2018 dollars). The state historic tax credit has supported 16,557 jobs.
- **Highlighted Completed Projects:** This study features six completed projects—the Kirch-Latsch Building, Lake Street Sash and Door Company, Maass and McAndrew Company, McCloud-Edgerton House, O'Donnell Shoe Company Factory, and Parlin and Orendorff Plow Company. Combined, the projects generated \$146.2 million in economic activity.



INTRODUCTION

In 1966, the United States Congress passed the National Historic Preservation Act (the Act). The Act established federal policy for preserving our nation's heritage and clearly stated the purpose of historic preservation in the United States. The Act also created formal mechanisms for registering historic properties (through the National Register of Historic Places and the National Historic Landmarks program), established partnerships between the federal government and states and tribes (including the State Historic Preservation Offices), and established the Advisory Council on Historic Preservation.¹

“The preservation of this irreplaceable heritage is in the public interest so that its vital legacy of cultural, educational, aesthetic, inspirational, economic, and energy benefits will be maintained and enriched for future generations of Americans.” (National Historic Preservation Act)

Beginning in 1977, federal incentives for historic preservation were offered through the Federal Historic Preservation Tax Incentives Program (the Program). The Program strives to preserve historic places that create character in America's communities.²

In 2010, Minnesota passed legislation offering a state historic tax credit. In April of that year, the Minnesota Historic Rehabilitation Tax Credit was signed into law. The goal of the historic tax credit is to stimulate job growth, increase local tax bases, and revitalize communities across the state. Unless reauthorized, the tax credit will expire after fiscal year 2021. The Minnesota historic tax credit mirrors the federal historic preservation credit.

Partnerships are critical in managing the federal and state historic tax credits. Within Minnesota, the Minnesota State Historic Preservation Office within the Department of Administration and the Minnesota Department of Revenue partner together to administer the state historic tax credit. At the national level, the National Park Service partners with the Internal Revenue Service and the state historic preservation offices to administer the federal historic tax credit.

The federal historic tax credit includes eligibility requirements. Properties must meet these requirements for the federal credit to qualify for the state credit.³ First, the property must be certified as a historic structure. To meet this requirement, the property must be listed on the National Register of Historic Places or contribute to a registered historic district. Second, the rehabilitation work needs to be for an income-producing use. Third, the project needs to meet a substantial rehabilitation test. Fourth, the project must meet the Secretary of Interior's standards for rehabilitation. Applicants for the federal and state historic tax credits must prove the property meets these requirements. The National Park Service approves applications for the historic tax credit. The historic tax credit is awarded upon approval and certified completion.

The Minnesota Historic Rehabilitation Tax Credit allows either a state income tax credit or a grant in lieu of the credit. A state income tax credit up to 20 percent of qualifying expenses is available if a property meets eligibility requirements. Alternatively, a grant in lieu of a credit (equal to 90 percent

¹ National Conference of State Historic Preservation Officers. (2018). *National Historic Preservation Act of 1966*. Retrieved from <http://ncshpo.org/resources/national-historic-preservation-act-of-1966/>

² National Park Service. (2018). *Historic Preservation Certification Application*. Retrieved from <https://www.nps.gov/tps/tax-incentives/application.htm>

³ Department of Administration State Historic Preservation Office. (2018). *Minnesota Historic Structure Rehabilitation Tax Credit*. Retrieved from <https://mn.gov/admin/shpo/incentives/state/>

of allowable credit) is available to property owners. The federal tax credit also allows an income tax credit of 20 percent for qualifying expenses.

In December 2017, the United States Congress enacted Public Law Number 115-97 to amend the Internal Revenue Code. The Public Law modifies the 20 percent historic rehabilitation tax credit and repeals the 10 percent rehabilitation tax credit for non-historical buildings. It also provides transition rules for both historic tax credits. While this change does not affect the projects within this report, it will potentially affect a taxpayer's ability to use the historic tax credit in the future.

By law, the State Historic Preservation Office "must annually determine the economic impact to the state from the rehabilitation of property for which credits or grants are provided." Since 2011, University of Minnesota Extension has analyzed and reported on the economic impact of the state historic tax credit. Although the federal and state tax credit can be paired together, the focus of this report is on the state historic tax credit, as this is the direction given by state law.

This report examines the economic impact of the Minnesota Historic Rehabilitation Tax Credit on multiple levels. First, it quantifies the impact of projects receiving initial approval in fiscal year (FY) 2018 (July 1, 2017 to June 30, 2018). Second, it presents six case studies of fully completed projects. The case studies highlight the type of projects receiving the state historic tax credit, demonstrate the economic impact of the individual projects, and show the effect of rehabilitation on estimated market values (used for establishing property taxes). Finally, the report summarizes the economic impact of the state historic tax credit during the eight years the state law has existed.

ECONOMIC IMPACT IN FISCAL YEAR 2018

Economic impact is comprised of direct, indirect, and induced effects. In this analysis, the direct effect is the construction activity occurring at properties receiving the state historic tax credit. In calculating economic impact, the first step is to quantify the direct effect.

Once quantified, the direct effect is entered into an input-output model. Input-output models trace the flow of goods and services throughout an economy. Based on this information, one can measure how a change in one part of the economy will affect other parts. Indirect and induced effects measure the change in other parts of the economy created by the direct effect. Extension used the input-output model IMPLAN to calculate the indirect and induced effects.⁴

Direct Effect in Fiscal Year 2018

The direct effect of the Minnesota Historic Rehabilitation Tax Credit is the spending occurring at the properties during the rehabilitation work. To measure the direct effect, the State Historic Preservation Office provided Extension with details on the projects approved for the state historic tax credit in FY 2018.

Property owners and developers seeking the state historic tax credit must follow procedures. The National Park Service and the State Historic Preservation Office follow a rehabilitation project from conception to completion. There are multiple points during the process where those seeking the state historic tax credit must receive approval before moving forward. The National Park Service uses numbers (Parts I, II, and III) to track the process. Minnesota's State Historic Preservation Office uses a letter (Part A and B) system. Within the system, Part II and Part A go together and Part III and Part B pair. The National Park Service does have a Part I application, but it is not required for all applicants. The other parts are mandatory for everyone.

⁴ IMPLAN software from MIG, Inc. Learn more at implan.com.



To receive the state historic tax credit, all applicants must file for Part II approval before beginning work. Once the project is complete, all applicants file for Part III certification. The National Park Service must certify all work is complete in order to award the state historic tax credit.

As part of Part II approval, all state historic tax credit applicants must complete the Minnesota State Historic Preservation Office’s Part A application. The Part A application collects information on estimated project costs. The form seeks detailed information including acquisition costs, site work, concrete, masonry, architecture and design services, legal, and consulting fees. This is the detailed information Extension used to calculate the economic impact of projects receiving Part II approval (ready to begin work) during FY 2018.

In fiscal year 2018, 16 properties received the initial Part II approval (Table 1). They filed the Part A application detailing their planned expenditures to complete the rehabilitation work.

Federal Applications:
Part I: Evaluation of significance
Part II: Approval before work begins
Part III: Certifies work is complete

State Applications:
Part A: Budgeted project costs
Part B: Actual project costs

Table 1: Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between July 1, 2017 and June 30, 2018 (FY 2018)

Historic Property Name	Current Property Name	Proposed Use	Location
Board of Trade		Office/Retail	Duluth
Boarding House		Office	Saint Paul
Commission House	Seestedt Building	Retail/Residential	Saint Paul
Dayton’s Department Store	Macy’s Department Store	Office/Retail	Minneapolis
Degree of Honor Protective Association Building		Residential	Saint Paul
Fiterman Store and Factory		Retail/Residential	Minneapolis
Hillman Mechanical Equipment Building		Retail	Minneapolis
Hope Engine Company No. 3		Retail	Saint Paul
Laurel Apartments		Residential	Minneapolis
Louise Building		Retail/Residential	Saint Paul
Merchants National Bank		Office	Saint Paul
Minnesota Mutual Life Insurance Company Building		Residential	Saint Paul
Porter Electric Warehouse #2		Office/Retail	Minneapolis
Osborn Building		Office	Saint Paul
Rand Tower		Hotel	Minneapolis
St. Agatha’s Conservatory of Music and Arts	Exchange Building	Hotel	Saint Paul

Source: Part A applications submitted to the State Historic Preservation Office

Based on the Part A applications, project developers estimated that total rehabilitation costs for the 16 projects would be \$521.5 million (Table 2). Included in this amount are costs such as property acquisition, site development and grading, demolition, construction supplies, furnishings, electrical and plumbing work, permits, and fees.

Not all the project costs, however, contribute to direct effect. Extension made two adjustments. First, under the theory of economic impact analysis, acquisition costs are not included in the direct impact. They are a transfer of wealth (cash for land and/or a building). Thus, they do not generate any indirect and induced effects. Second, not all expenditures will occur in Minnesota. This analysis assumes 90 percent of project spending is within the state.

Project costs, with these adjustments, were an estimated \$393.4 million in FY 2018. This is the direct impact of the tax credit. Project developers are expected to be awarded an estimated \$75.3 million in *state* tax credits or grants and an additional \$75.3 million in federal historic tax credits.⁵ For every dollar of the Minnesota Historic Rehabilitation Tax Credit, private developers in FY 2018 plan to invest \$6.93 of their own funds.

Table 2: Direct Impact of Fiscal Year 2018 Minnesota Historic Rehabilitation Tax Credit Projects

Total Estimated Rehabilitation Project Costs	Total Estimated Rehabilitation Project Costs (Excluding Acquisition)	Estimated Minnesota Historic Rehabilitation Tax Credit (state)
\$521,466,776	\$393,377,270	\$75,259,988

Indirect and Induced Effects

Indirect effects are associated with business spending on goods and services. In this case, these are the changes in the local economy stemming from developers purchasing construction materials (i.e., lumber, cement, or equipment) and construction-related services (i.e., architectural and engineering). These are often called business-to-business impacts.

Induced effects are associated with a change in economic activity stemming from spending by the employees of businesses (labor) and by households. In this analysis, these are primarily economic changes related to spending by construction workers and are often called business-to-consumer impacts.

Total Impact in Fiscal Year 2018

The Minnesota Historic Rehabilitation Tax Credit generated an estimated \$715.2 million of economic activity in fiscal year 2018 (Table 3). This includes \$235.2 million in labor income paid to an estimated 3,630 full-time equivalent (FTE) workers.

⁵ The estimated tax credit is not equal to 20 percent of project costs, as not all costs qualify for the tax credit.

The following are specific contributions for FY 2018:

- Direct impacts include an estimated \$393.4 million in new construction-related sales (output), 1,690 FTE construction jobs, and \$121.5 million in payments to construction workers. Direct output accounts for 55 percent of the total impact.
- Business-to-business transactions accounted for 22 percent of the state historic tax credit impact. In FY 2018, the state historic tax credit indirectly generated an estimated \$156.3 million in sales (output), including 900 FTE jobs in all sectors of the economy and \$57.1 million in payments to workers.
- Twenty-three percent of the state historic tax credit impact was via business-to-consumer transactions. Induced impacts generated an estimated \$165.5 million in sales (output) in Minnesota in FY 2018. This includes 1,040 FTE jobs in all sectors of the economy and \$56.6 million in labor income.

In FY 2018, the Minnesota Historic Rehabilitation Tax Credit supported \$715.2 million of economic activity and 3,630 jobs.

Table 3: Total Economic Impact of Projects Leveraged by Minnesota Historic Rehabilitation Tax Credit in the Fiscal Year 2018

	Direct	Indirect	Induced	Total
Output (millions)	\$393.4	\$156.3	\$165.5	\$715.2
Employment (FTE's)	1,690	900	1,040	3,630
Labor Income (millions)	\$121.5	\$57.1	\$56.6	\$235.2

Estimates by the University of Minnesota Extension Center for Community Vitality

Upon successful completion, projects with approval in FY 2018 will receive an estimated \$75.3 million in state tax credits or grants. The total economic impact of the projects will be an estimated \$715.2 million. Therefore, for every dollar of state historic tax credit or grant awarded, \$9.50 in economic activity will be generated in Minnesota. This includes the total investment by private developers, along with the indirect and induced effects.

Top Sectors Impacted

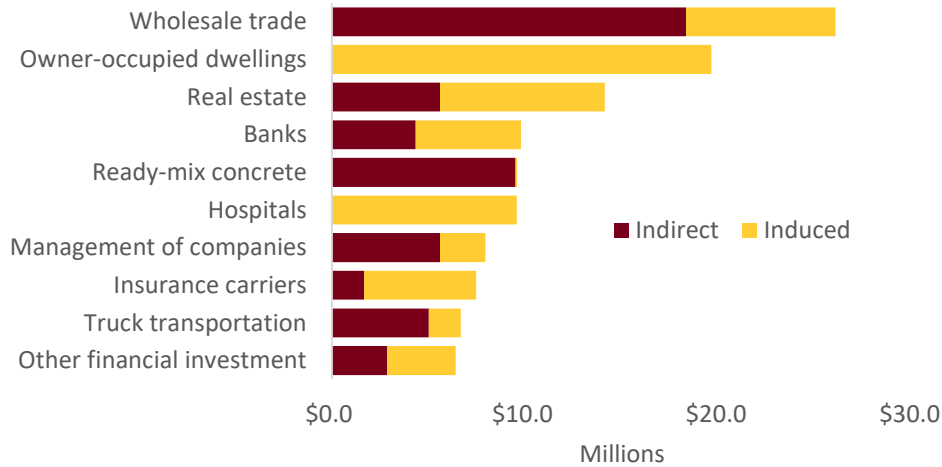
The Minnesota Historic Rehabilitation Tax Credit supported an estimated \$715.2 million of economic activity in FY 2018. Of this, 55 percent was from direct construction activity. The other 45 percent was from supporting industries. Understanding the sectors most affected by the state historic tax credit can provide useful information about its benefit. Interestingly, indirect and induced effects are roughly equal in this analysis. This indicates construction projects are fairly evenly divided in their expenditures for inputs and for labor. It may also reflect the relatively higher wages typically earned by construction workers.

The top sectors affected by the Minnesota Historic Rehabilitation Tax Credit (sorted by output) are wholesale trade, owner-occupied housing, and real estate (Chart 1). The output-related indirect effects are highest in wholesale trade, ready-mix concrete, real estate, banking, and truck

transportation sectors. These items reflect the construction supply chain. Wholesale trade businesses sell goods in large quantities to resellers, professional users, and groups, but not to final consumers. For example, a construction contractor might order a large quantity of light fixtures or lumber. Other major wholesale items might include heating and cooling systems.

The output-related induced effects are highest in owner-occupied dwellings, hospitals, and real estate. Induced effects reflect household spending. Owner-occupied dwellings impacts reflect mortgage payments while real estate effects reflect rental housing.

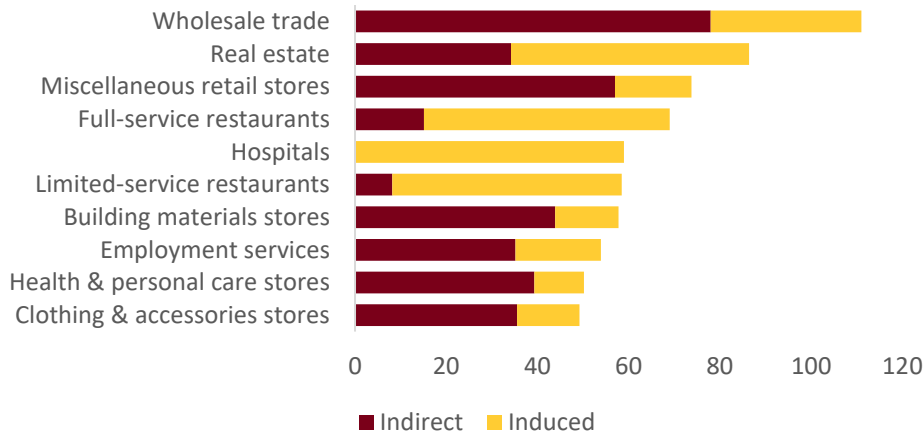
Chart 1: Top Industries Impacted by the Minnesota Historic Rehabilitation Tax Credit, FY 2018, Sorted by Output



The Minnesota Historic Rehabilitation Tax Credit supported an estimated 3,630 FTE jobs in Minnesota. The direct effect at rehabilitation sites totaled 1,690 jobs. Therefore, the state historic tax credit supported an estimated 1,940 jobs in other sectors across the state.

The top sectors affected by the Minnesota Historic Rehabilitation Tax Credit (sorted by employment) include wholesale trade, real estate, and miscellaneous retail stores (Chart 2). The indirect employment effects are highest in wholesale trade, miscellaneous retail stores, and building material and supply stores. The induced employment effects are highest in hospitals, full-service restaurants, and real estate.

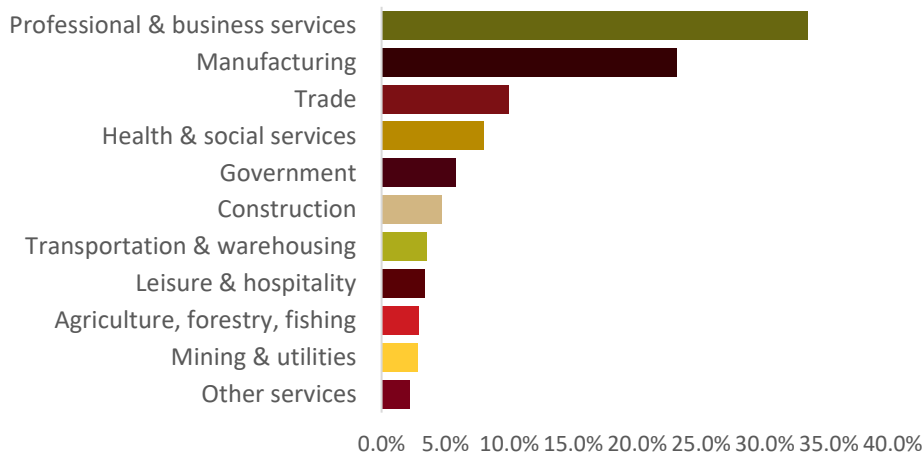
Chart 2: Top Industries Impacted by Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit, FY 2018



Fiscal Year 2018 Economic Impact in Context of Minnesota’s Economy

In fiscal year 2018, the Minnesota Historic Rehabilitation Tax Credit generated \$715.2 million of economic activity. In comparison, Minnesota’s economy produced \$627.6 billion of output.⁶ The professional and business services sector generated approximately one-third of the state’s output (Chart 3).

Chart 3: Percent of Output by Industry, Minnesota, 2016

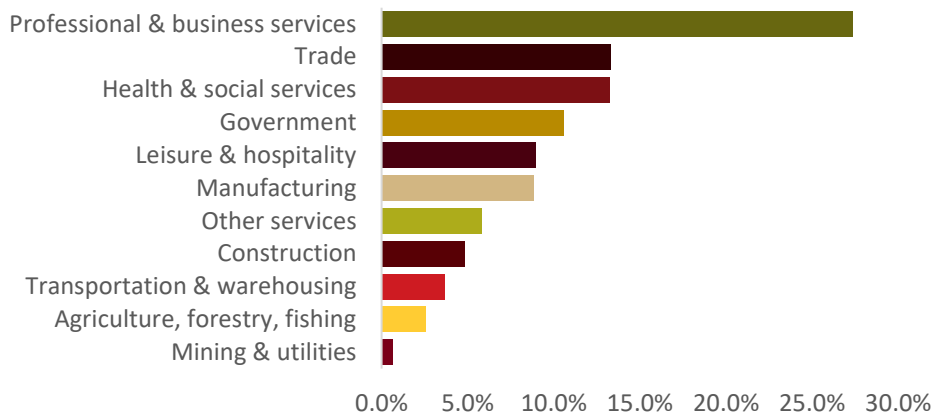


The construction industry generated around 5 percent of all output. This equates to \$29.8 billion. The state historic tax credit, through direct construction effects, supported \$393.4 million of construction activity.

⁶ Data is for 2016, the most recent IMPLAN data available.

The state historic tax credit also supported 3,630 jobs in Minnesota. In comparison, Minnesota provided 3.7 million jobs. Nearly one-third of these jobs were in the professional and business services industry (Chart 4). Other major industry employers include trade and health and social services. The construction industry employed around 5 percent of Minnesota’s workforce. There were approximately 181,500 jobs in the industry. The state historic tax credit directly supported 1,690 of those jobs.

Chart 4: Percent of Employment by Industry, Minnesota, 2016



CASE STUDIES OF COMPLETED PROJECTS

Since the Minnesota Historic Rehabilitation Tax Credit became law, 119 properties have received initial approval. During its eight-year history, many projects have moved from Part II approval to completion. This section of the report highlights six completed projects.

KIRCH-LATSCH BUILDING



Photo Credit: Matt Shortridge

ADDRESS	114-122 East 2 nd Street Winona, Minnesota
DATES BUILT	1860s-1880s
REHABILITATION	2014-2015
DEVELOPER	Latsch Building Partnership
ORIGINAL USE	Warehouse
CURRENT USE	Commercial

Background

The Kirch-Latsch building is located in historic downtown Winona. The building was constructed in stages between 1860 and 1880. J.B. Kirch and Company, a farm implement and equipment dealer, was the first occupant of the building. In the mid-1880s, Latsch and Son, a growing grocery retailer and wholesaler, purchased the building. The company was located in Winona to capitalize on river and rail connections, which helped the business thrive.⁷ Although the company owned several buildings in the historic commercial heart of Winona, this building is the only one still standing.⁸

John A. Latsch (the son) is well-known in Winona for his philanthropy. As a young adult, while enjoying an afternoon on the Mississippi River, he stepped on private land. The landowner chased him off. Because of this experience, Latsch vowed to provide additional public places for children to play. As a result, he donated nearly 20,000 acres of his personal land to public entities, including land for John A. Latsch State Park. He also donated land to Whitewater State Park, Bluffside Park, Prairie Island, Westfield Golf Course, Athletic Park, Gabrych Park, Latsch Island, and Aghaming Park in the Winona area.⁹

The Kirch-Latsch building was placed onto the National Register of Historic Places in 1975. The combination of the Gothic Revival and Italianate architecture makes it unique.¹⁰ The building highlights the transition from one style to the other during that time.

The historical name of the building is the Kirch-Latsch building, based on the early tenants of the building. However, since Latsch and Son was the more well-known occupant, it is commonly called

⁷ Wikipedia. (n.d.). Latsch Building. Retrieved from https://en.wikipedia.org/wiki/Latsch_Building

⁸ HBC Newsdesk. (2014, October 13). *New life being breathed into historic Winona building*. Retrieved from <http://www.hbci.com/tv25/news/new-life-being-breathed-into-historic-winona-building/>

⁹ Squires, S. (2014, May 30). *John A. Latsch, the man, the legacy*. Retrieved from <http://www.winonapost.com/News/ArticleID/40638/John-A-Latsch-the-man-the-legacy>

¹⁰ National Park Service. (1975). *National Registry of Historic Places inventory nomination form*. Retrieved from <https://npgallery.nps.gov/NRHP/GetAsset/b4c12551-5b11-4eb2-89fc-2c74e3a67570>

the Latsch and Son building. The Latsch and Son building houses commercial tenants, including a credit union on the main floor. Offices are located on the second floor.¹¹ While rail access is no longer available in the rear of the building, it does connect to Levy Park.



Project Financing and Economic Impact

Latsch Building Partnership received initial approval for the project in FY 2015. At the time, it estimated that project costs qualifying for the state historic tax credit would be \$3.0 million. The estimated state historic tax credit based on that investment was \$485,000.

On December 31, 2015, the project was completed when the Latsch and Son building was placed into service. Latsch Building Partnership reported spending a total of \$4.4 million, of which \$3.6 million qualified for the state historic tax credit (Table 4). In the end, the project received \$711,084 in state historic tax credits.

During rehabilitation, the Kirch-Latsch building project generated an estimated \$6.9 million of economic activity. As a result, for each dollar of state historic tax credit invested, the project created \$9.70 of activity. This includes private investments by the developer and the induced and indirect effects generated by the project.¹²

In addition to economic activity, the project also increased the property value of the building. Before rehabilitation, the property value was \$134,200. Upon project completion, the property value increased by 997 percent to \$1.5 million.

Table 4: Project Financing and Economic Impact of the Kirch-Latsch Building

Total Final Project Costs (millions)	\$4.4
Total Qualifying Rehabilitation Costs (millions)	\$3.6
State Historic Tax Credit	\$711,084
Economic Impact of Construction (millions)	\$6.9
Total Economic Activity Per Dollar of Tax Credit	\$9.70
Property Value 2014	\$134,200
Property Value 2018 (millions) ¹³	\$1.5

¹¹ The Latsch and Son Building. (2018). *Our tenants*. Retrieved from <http://www.latschbuilding.com/>

¹² The ratio of total economic activity per dollar of tax credit can vary, depending on the nature of the project. Two factors influence the ratio. One, the amount of additional investment by the developer (beyond the tax credit). Two, the nature of the project and the type of spending influence the magnitude of indirect and induced impacts.

¹³ Property value is estimated market value. Property tax value for parcel 320000500 accessed via Winona County Beacon.



Photo Credit: Tom Witta

ADDRESS	4001-4041 Hiawatha Avenue Minneapolis, Minnesota
DATES BUILT	1926-1928
REHABILITATION	2016-2017
DEVELOPER	Dominium
ORIGINAL USE	Manufacturing
CURRENT USE	Housing

Background

The Lake Street Sash and Door Company property represents Minneapolis’ history in the millwork industry (the manufacturing of blinds, sashes, doors, shingles, moldings, stairs, and carpentry). Minneapolis’ location as the center of lumber supply, sawmill capacity, millwork demand, and transportation routes made it the epicenter of the millwork industry in the 1880s. Historian Isaac Atwater commented during this period, “Minneapolis had more machinery engaged in the manufacture of sash, doors, and blinds than any other city on the continent.”¹⁴

In 1864, Minnesota Central Railway Company constructed a railroad that connected Saint Anthony Falls to Fort Snelling. This rail connection became a critical transportation corridor and helped spur development. The corridor’s location near lumber being floated downriver from Northern Minnesota and the sawmills needed to plane the wood, along with the availability of land, attracted the millwork industry to the area. Fueled by demand from new businesses being established in Minneapolis, along with population growth in the Upper Midwest, the millwork industry expanded rapidly.¹⁵

In 1916, Lake Street Sash and Door Company was founded. It quickly outgrew its original location, and in 1922, it petitioned the city to expand to 4041 Hiawatha Avenue. The company built a factory, warehouse, and lumber shed on the property. Together, it spanned an entire city block. The company moved into the new building in 1926.

The property was added to the National Register of Historic Places in 2016. Documentation for its placement reflects the good integrity of the buildings. The factory and the warehouse feature their original historic appearance, design, and material use. The building reflects Minneapolis’ history in the millwork industry and fits with the neighboring historic industrial buildings.¹⁶

¹⁴ National Park Service. (2016). *National Register of Historic Places registration form*. Retrieved from <https://www.nps.gov/nr/feature/places/pdfs/16000440.pdf>

¹⁵ Christensen, T. (n.d.). *Factory not being razed; will be made over into loft apartments*. Retrieved from <http://www.longfellownokomismessenger.com/factory-not-being-razed-will-be-made-over-into-loft-apartments/>

¹⁶ National Park Service. (2016). *National Register of Historic Places registration form*. Retrieved from <https://www.nps.gov/nr/feature/places/pdfs/16000440.pdf>



The property is now known as Millworks Lofts and provides affordable housing. The property features 55 one-bedroom apartments, 22 two-bedroom apartments, and one three-bedroom apartment. It also offers amenities, such as multiple community rooms, a fitness and yoga studio, a rooftop patio, and covered parking. The buildings maintain their historic feel, and apartments are loft style, featuring high ceilings, polished concrete floors, and timber posts and beams.

Project Financing and Economic Impact

Dominium received initial approval for the project in FY 2016. At the time, the developer estimated project costs to be \$34.3 million. Based on this, the applicable state historic tax credit was estimated at \$5.9 million.

The project ended on June 29, 2017 when Dominion placed the Lake Street Sash and Door Company building (Millworks Lofts) into service. Upon project completion, the developer reported spending a total of \$34.3 million on the project, of which \$28.8 million were costs qualifying for the state historic tax credit (Table 5). As a result, Dominion received \$5.8 million in state historic tax credits.

The project generated an estimated \$52.7 million in economic activity during the rehabilitation phase. For every one dollar of state historic tax credit invested, the project generated \$9.20 of economic activity.¹⁷ Before rehabilitation, the property value was \$1.6 million. Upon project completion, the property value increased by 585 percent to \$10.8 million.

Table 5: Project Financing and Economic Impact of the Lake Street Sash and Door Company

Total Final Project Costs (millions)	\$34.3
Total Qualifying Rehabilitation Costs (millions)	\$28.8
State Historic Tax Credit (millions)	\$5.8
Economic Impact of Construction (millions)	\$52.7
Total Economic Activity Per Dollar of Tax Credit	\$9.20
Property Value 2015 (millions)	\$1.6
Property Value 2018 (millions) ¹⁸	\$10.8

¹⁷ The ratio of total economic activity per dollar of state historic tax credit includes private developer investment, as well as the indirect and induced effects.

¹⁸ Property value is estimated market value. Property tax values accessed via City of Minneapolis PropertyInfo.

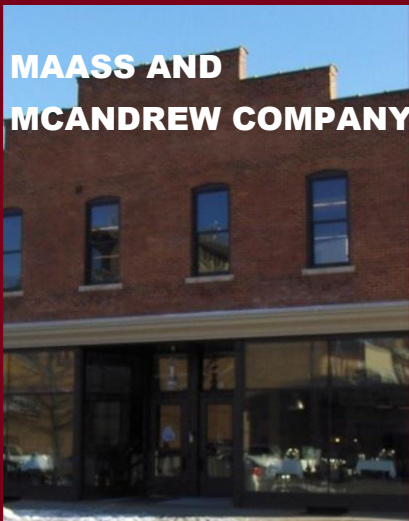


Photo Credit: Richard Wiener

ADDRESS	12-14 4th Street SW Rochester, Minnesota
DATE BUILT	1900
REHABILITATION	2015-2016
DEVELOPER	CMD Holdings
ORIGINAL USE	Woolen Mill
CURRENT USE	Office

Background

The building located at 12-14 4th Street SW in Rochester, Minnesota was commissioned in 1900 by the Rochester Woolen Manufacturing Company. In 1909, after three years as a garment factory and five years as the Conley Camera Company manufacturing plant, it became a workshop and showroom for the Maass and McAndrew Company, an early Rochester plumbing and mechanical systems contractor with strong ties to the nascent Mayo medical practice.

In 1909, the company commissioned Garfield Schwartz to design the present north entryway and display windows. This replaced the original four openings with plate glass, prismatic glass block windows, and a decorative recessed entryway that would improve visual access to the showroom from the street and help advertise the company's wares.

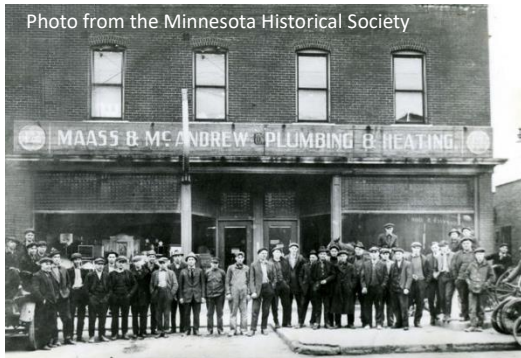
In 1910, when the building opened, Maass and McAndrew was the only firm listed under “plumbing” in Rochester’s city directory. It was also the only local business offering plumbing and heating supplies or services that was not primarily a hardware store.

At the time, the Mayo medical practice had a strong surgical focus and a growing reputation for successful outcomes. The Maass and McAndrew Company supported the Mayo brothers’ early practice of aseptic surgery by designing and fabricating sterilizers and portable operating room furnishings that could be sterilized with steam. Since some of these furnishings were adopted by physicians who observed their use in Rochester, they also contributed to a broader national movement toward universal adoption of the aseptic surgical technique. In addition, the Maass and McAndrew Company supported the Mayo medical practice’s innovations in surgery and research by fabricating specialized devices and working on the design and installation of systems for all of its offices and research facilities, as well as the hospitals it served. The Mayo medical practice presented ideas to the Maass and McAndrew Company, who supplied the design and technical assistance necessary for implementation.

By 1920, the company had sectioned off the east half of the showroom to create a separate leasable storefront, as most of the building’s east wall had been obscured by the construction of an adjacent

building. The building has been rented by various tenants since 1929 when the Maass and McAndrew Company sold the property.

The building’s new owners, Hunter and Traci Downs, rehabilitated the commercial building for use as a restaurant and office space.



Project Financing and Economic Impact

During FY 2016, CMD Holdings received approval to begin the Maass and McAndrew Company building project. In the initial application, the developer estimated project costs at \$2.3 million. Based on this, the potential state historic tax credit was estimated at \$438,500 (Table 6).

The project ended on November 28, 2016 when the Maass and McAndrew Company building was placed into service. Upon project completion, the developer reported spending \$3.3 million, of which \$2.8 million qualified for the state historic tax credit. CMD Holdings received \$561,841 in state historic tax credits.

Based on these final reported expenditures, the project generated an estimated \$6.7 million in economic activity during the rehabilitation phase. For every one dollar of state historic tax credit invested, the project generated \$11.80 of economic activity.¹⁹

Property values also increased because of rehabilitation. Prior to the project (2015), the property value was \$424,300. Upon project completion, the property value increased by 248 percent to \$1.5 million.

Table 6: Project Financing and Economic Impact of Maass and McAndrew Company Building

Total Project Cost (millions)	\$3.3
Total Qualifying Rehabilitation Costs (millions)	\$2.8
State Historic Tax Credit	\$561,841
Economic Impact of Construction (millions)	\$6.7
Total Economic Activity Per Dollar of Tax Credit	\$11.80
2015 Property Tax Value	\$424,300
2018 Property Tax Value (millions) ²⁰	\$1.5

¹⁹ The ratio of total economic activity per dollar of state historic tax credit includes private developer investment, as well as the indirect and induced effects.

²⁰ Property tax value is estimated market value. Value from Olmsted County property records search.





MC CLOUD-EDGERTON HOUSE

Photo Credit: Ruth Dantuma

ADDRESS	311 Walnut Street Saint Paul, Minnesota
DATE BUILT	1868
REHABILITATION	2012-2014
DEVELOPER	Dantuma Family
ORIGINAL USE	Housing
CURRENT USE	Housing

Background

The McCloud-Edgerton House is located in Saint Paul’s historic Irvine Park neighborhood. Irvine Park was designated as a historic district in 1973. The National Park Service granted the designation because of the house’s distinct residential reflection of each phase of Saint Paul’s 19th century economic development: the early- and mid-1850s, the post-Civil War period, and the 1890s. Further, several of Saint Paul’s influential political, economic, military, medical, and religious leaders of the era had ties to the neighborhood. Prime examples include Alexander Ramsey (the second governor of Minnesota) and John Irvine (a pioneer landlord and realtor).²¹

The McCloud-Edgerton House was constructed in 1868 on Fort Road as a rental property. The Edgerton family purchased the home in 1872. The family owned the property until 1909. In 1916, a new set of owners moved the house from Fort Road to Walnut Street where they lived until the 1940s. Ownership of the house again transitioned. The last family to occupy the house lived on one side of the duplex and operated a beauty parlor on the other side.²²

By 2011, the McCloud-Edgerton House was in significant disrepair. The City of Saint Paul classified the house as a Category 2 registered vacant building. Category 2 homes are condemned or have multiple housing violations.²³ Historic Saint Paul acquired the house with plans to sell for rehabilitation. Dirk and Ruth Dantuma purchased the house. The house was rehabilitated and is now a rental property.

²¹ National Park Service. (1973). *National Register of Historic Places inventory nomination form*. Retrieved from <https://npgallery.nps.gov/NRHP/GetAsset/d116b8aa-1296-4903-b6b9-393974bed366>

²² Historic Saint Paul. (2011). *Request for proposals: the rehabilitation of 311 Walnut Street*. Retrieved from https://www.historicsaintpaul.org/sites/default/files/311_Walnut_RFP_12.6.2011.pdf

²³ Saltzman, R. (2009, December 1). *Buying a category 2 registered vacant building in Saint Paul*. Retrieved from <https://structuretech1.com/buying-a-category-2-registered-vacant-building-in-saint-paul/>



Project Financing and Economic Impact

During FY 2012, the Dantumas received approval to begin the McCloud-Edgerton House project. In their initial application, the developers estimated project costs at \$200,000. Based on this, the potential state historic tax credit was estimated at \$30,000 (Table 7).

The project ended on January 7, 2014 when the McCloud-Edgerton House was placed into service. Upon project completion, the developers reported spending \$238,723, of which \$169,506 qualified for the state historic tax credit. The project received \$33,901 in state historic tax credits.

Based on these final reported expenditures, the project generated an estimated \$324,000 in economic activity during the rehabilitation phase. For every one dollar of state historic tax credit invested, the project generated \$9.60 of economic activity.²⁴

The value of the property also increased because of rehabilitation. Prior to the project (2012), the property value was \$23,500. Upon project completion, the property value increased by 630 percent to \$171,700.

Table 7: Project Financing and Economic Impact of McCloud-Edgerton House

Total Project Cost	\$238,723
Total Qualifying Rehabilitation Costs	\$169,506
State Historic Tax Credit	\$33,901
Economic Impact of Construction	\$324,000
Total Economic Activity Per Dollar of Tax Credit	\$9.60
2012 Property Tax Value	\$23,500
2018 Property Tax Value ²⁵	\$171,700

²⁴ The ratio of total economic activity per dollar of tax credit includes private developer investment, as well as the indirect and induced effects.

²⁵ Property tax value is estimated market value. Value from Ramsey County property records search.



Photo Credit: Minnesota Historical Society

ADDRESS	509 Sibley Street St Paul, Minnesota
DATE BUILT	1914
REHABILITATION	2010-2011
DEVELOPER	Aeon
ORIGINAL USE	Shoe Factory
NEW USE	Affordable Housing

This case study originally appeared in the “Economic Contribution of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit in Fiscal Year 2015” report.²⁶ It is reappearing here to highlight subsequent increases in the estimated market value of the property.

Background

Designed by Butler Brothers Company of Saint Paul, the O’Donnell Shoe Company Factory was constructed at 509 Sibley Street in Saint Paul. Completed in 1914, the six-story brick building was the company’s second home. The building was a reflection of the business’ success, an enterprise established in 1910 that eventually became the most successful shoe manufacturer in the state by the 1920s.

After the building’s completion, the O’Donnell Shoe Company Factory had substantial open space to house the varied mechanics required to make shoes and boots. The manufacturing process began on the upper floors and was completed on the bottom floor, where the finished product was boxed and shipped directly to stores or wholesalers.

In 1935, the O’Donnell Shoe Company Factory moved its operations to Humboldt, Tennessee. The building was subsequently filled by a number of tenants during the following decades, and by the turn of the 21st century, it was known as the “Renaissance Box.” The building was rehabilitated during 2010-2011. According to the project developer, Aeon, “The redevelopment of the Renaissance Box pays tribute to Minnesota’s heritage while meeting today’s needs for quality affordable apartment homes.” The renovations, in part spurred by the Minnesota Historic Rehabilitation Tax Credit, resulted in 70 apartment homes in the building.²⁷

²⁶ Report available at <https://conservancy.umn.edu/handle/11299/197812>

²⁷ Lucas, A. M. (March 2009). Preserving a piece of Saint Paul’s history: Redeveloping the O’Donnell Shoe Company Factory. Retrieved from http://www.aeonmn.org/wp-content/uploads/2014/10/Ren_Box_History.pdf.

Project Financing and Economic Impact

Aeon received Part A approval for the project in FY 2011 with anticipated project costs of \$16.8 million and an estimated state historic tax credit of \$2.2 million. The building was placed into service on December 23, 2011.

At project's end, Aeon reported spending \$17.9 million, of which \$11.9 million were costs qualifying for the state historic tax credit (Table 8). Aeon was awarded \$2.2 million in state historic tax credits. Based on reported final expenditures, the project generated an estimated \$33.1 million in economic activity during the rehabilitation phase. For every one dollar of state historic tax credit invested, the project generated \$15.05 of economic activity. This amount includes private investment by the developer, as well as the additional economic activity generated.²⁸

The building's property value also increased. Prior to the rehabilitation, it was \$1.6 million. Upon project completion, the property value increased by 225 percent to \$5.2 million. In comparison, the overall increase in market value for apartments in Minnesota grew by 153 percent. By 2018, the property value had increased to \$6.8 million, an overall increase of 325 percent.

Table 8: Project Financing and Economic Impact of O'Donnell Shoe Company Factory

Total Final Project Costs (millions)	\$17.9
Total Qualifying Rehabilitation Costs (millions)	\$11.9
State Historic Tax Credit (millions)	\$2.2
Economic Impact of Construction (millions)	\$33.1
Total Economic Activity Per Dollar of Tax Credit	\$15.05
Property Value 2010 (millions)	\$1.6
Property Value 2015 (millions) ²⁹	\$5.2
Property Value 2018 (millions)	\$6.8

²⁸ The ratio of total economic activity per dollar of tax credit can vary, depending on the nature of the project. Two factors influence the ratio: 1) the amount of additional investment by the developer (above and beyond the tax credit) and 2) the nature of the project and the type of spending influence the magnitude of indirect and induced impacts.

²⁹ Property value is estimated market value. Property tax values accessed via <https://www.ramseycounty.us/residents/property-home/taxes-values>





**Parlin and
Orendorff Plow
Company**

Photo Credit: Hess, Roise and Company

ADDRESS	601-607 Washington Ave N Minneapolis, Minnesota
DATES BUILT	1910/1925-1926
REHABILITATION	2010-2012
DEVELOPER	Greco Development
ORIGINAL USE	Warehouse & Offices
NEW USE	Residential & Commercial

This case study originally appeared in the “Economic Contribution of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit in Fiscal Year 2015” report.³⁰ It is reappearing here to highlight subsequent increases in the estimated market value of the property.

Background

Known today as the Copham, the Parlin and Orendorff Plow Company warehouse is part of the Minneapolis Warehouse Historic District. The district was developed on the edge of the city in the late 19th and early 20th centuries. It is a largely architecturally-cohesive expanse, historically significant as an important wholesaling district during a period of substantial development in Minneapolis.

The agricultural implement and equipment company was founded by William Parlin and William J. Orendorff. The two men constructed their warehouse on a half block along the frontage of Washington Avenue North between Sixth and Seventh Avenues North. Completed in 1910, the seven-story building was designed by local architects Emile Bertrand and Arthur Bishop Chamberlain and was formed from a reinforced-concrete frame dressed in dark red brick.

At the time, railroad lines were important in the warehouse district for bringing in and shipping out wholesale goods, and the Parlin and Orendorff Plow Company benefited from a Great Northern rail spur located behind its warehouse.

The warehouse eventually served other tenants, including International Harvester and the Holden Printing Company. The Holden Printing Company was also a long-term tenant. Many in the community still refer to the building as the Holden building (as opposed to the Parlin and Orendorff Plow Company).

³⁰ Report available at <https://conservancy.umn.edu/handle/11299/197812>

During 2010-2012, Greco Development rehabilitated the warehouse for residential and commercial use.³¹ The Copham apartments are now situated in Minneapolis' trendy and rapidly growing North Loop.

Project Financing and Economic Impact

Greco Development received Part A approval for the rehabilitation project in FY 2011 with anticipated project costs of \$25.3 million and an estimated state historic tax credit of \$3.5 million (Table 9). The building was placed into service on August 31, 2012.

At project's end, Greco Development reported spending \$25.7 million on the project, of which \$20.6 million were costs qualifying for the state historic tax credit. Greco Development was awarded \$4.1 million in tax credits. Based on final reported expenditures, the project generated an estimated \$46.5 million in economic activity during the rehabilitation phase. For every one dollar of state historic tax credit invested, the project generated \$11.34 of economic activity.

The building's property value also increased. Prior to the rehabilitation, it was \$1.2 million. Upon project completion, the property value increased by 1,308 percent to \$16.9 million. By 2018, the market value had increased to \$24.3 million, an overall increase of 1924 percent.

Table 9: Project Financing and Economic Impact of Parlin and Orendorff Plow Company Warehouse

Total Project Cost (millions)	\$25.7
Total Qualifying Rehabilitation Costs (millions)	\$20.6
State Historic Tax Credit (millions)	\$4.1
Economic Impact of Construction (millions)	\$46.5
Total Economic Activity Per Dollar of Tax Credit	\$11.34
2014 Property Tax Value (millions)	\$1.2
2015 Property Tax Value (millions) ³²	\$16.9
2018 Property Tax Value (millions)	\$24.3

³¹ Hess, Roise and Company. (December 2010). *Parlin and Orendorff Plow Company Warehouse*. Saint Paul: Minnesota Historical Society.

³² Property tax value is estimated market value. Retrieved from <http://www.hennepin.us/residents/property/property-information-search>. Value changed mid-year due to rehabilitation.

SUMMARY OF PAST RESEARCH

University of Minnesota has quantified the economic contribution of the state historic tax credit since 2011. This section compiles eight years of results for a comprehensive look at its impact.³³

Total Impacts: Fiscal Years 2011 to 2018

The Minnesota Historic Rehabilitation Tax Credit generated an estimated \$3.0 billion (in 2018 dollars) of output in the state's economy between FY 2011 and FY 2018 (Table 10). The state historic tax credit supported an estimated 16,557 FTE jobs and generated \$993.5 million in labor income. During the same period, the projects receiving approval requested state historic credits and grants totaling \$307 million.³⁴ For every state dollar of state historic tax credit or grant allowed during the eight years, \$9.70 (in 2018 dollars) in economic activity was generated in Minnesota.

The Minnesota Historic Rehabilitation Tax Credit has supported \$3.0 billion of economic activity since fiscal year 2011.

Direct effect is included in total impact. Directly, the state historic tax credit has leveraged an estimated \$1.6 billion (in 2018 dollars) in construction activity since its inception in 2010. This includes 8,364 FTE construction jobs and \$527.5 million in payments to construction workers. These are direct impacts of the state historic tax credit.

Table 10: Total Economic Impact of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit, Fiscal Years 2011 to 2018

	Direct	Indirect	Induced	Total
Output (millions 2018 dollars)	\$1,636.7	\$636.7	\$707.3	\$2,980.7
Employment (FTE's)	8,364	3,671	4,521	16,557
Labor Income (millions 2018 dollars)	\$527.5	\$228.3	\$237.8	\$993.5

Estimates by the University of Minnesota Extension Center for Community Vitality

Total Impacts by Fiscal Year

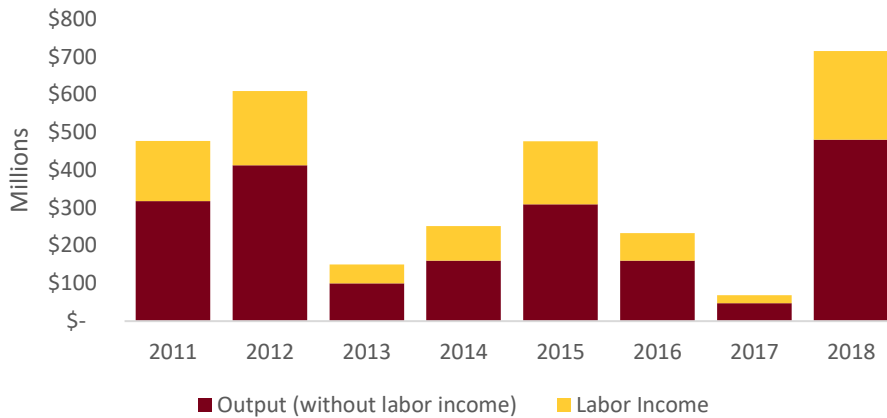
Chart 5 shows the economic impact of the Minnesota Historic Rehabilitation Tax Credit by fiscal year. The impact can vary by year, based on the proposed investments by developers. In certain years—FY 2018, for example—developers received approval for projects with direct investments of \$393.4 million. This amount leveraged a total economic impact of \$715.2 million. In contrast, during fiscal year 2017, developers received approval for projects with a direct investment of \$37.4 million, leveraging \$66.4 million in economic activity.

³³ Full reports detailing the analysis by fiscal year are available at <http://www.extension.umn.edu/community/economic-impact-analysis/reports/>.

³⁴ These are estimated tax credits and grants, given the applications submitted and are distributed over time. Final tax credits and grants are not awarded until projects are completed.



Chart 5: Total Economic Impact of Projects Leveraged Between FY 2011 and FY 2018 by the Minnesota Historic Rehabilitation Tax Credit



The differences in total direct effect can vary based on several factors. First, the number of projects being submitted matters. In fiscal year 2018, there were 16 projects receiving initial approval from the State Historic Preservation Office. Second, the size of the projects affects the direct effect. In some years, large projects receive Part A approval. And finally, timing matters. Receiving approval depends on submitting written documentation. There may be years when projects are pending but have not yet received full approval.

Table 11 shows the current, most accurate economic impact figures by fiscal year.

Table 11: Total Economic Impact of Projects Leveraged Between Fiscal Year 2011 and FY 2018 by the Minnesota Historic Rehabilitation Tax Credit

	Output (millions, 2018 \$)	Employment (FTEs)	Labor Income (millions, 2018 \$)
FY 2011	\$477.2	2,880	\$159.5
FY 2012	\$609.0	3,502	\$196.7
FY 2013	\$149.9	1,200	\$50.2
FY 2014	\$251.4	1,338	\$91.2
FY 2015	\$476.4	2,607	\$167.3
FY 2016	\$233.2	1,115	\$72.8
FY 2017	\$68.4	285	\$20.6
FY 2018	\$715.2	3,630	\$235.2
Total	\$2,980.7	16,557	\$993.5

Estimates by the University of Minnesota Extension
Center for Community Vitality

On occasion, a project shifts from one year to another. Since Extension has been analyzing the state historic tax credit, this has happened twice. In 2011, a project shifted from the 2011 project year to 2012. The figures in Table 11 reflect this (and thus do not match the 2011 report). In 2016, due to an oversight, a project was not included in the analysis. Extension has corrected this error, so the 2016 figure is higher than the number published in the original report.



APPENDIX 1: DEFINITION OF TERMS

Special models, called input-output models, exist to conduct economic impact analysis. There are several input-output models available, and IMPLAN (Impact Analysis for PLANning, MIG, Inc.) 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. While IMPLAN has some limitations and qualifications, it is one of the best tools available to economists for input-output modeling. Understanding the IMPLAN tool's capabilities and limitations helps 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 model-building process identifies the local economy. 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 report, the study area is the entire state of Minnesota.

A few definitions are essential to properly interpret the results of an IMPLAN analysis. These 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 limestone, for example. The value of limestone is counted when it is sold as a component in the manufacturing of cement, again when the cement is sold to the contractor, and yet again when the contractor charges the building owner. The value of the limestone is built into the price of each of these items, and then the sale of each item is added to determine total sales (or output).

Employment

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 limestone example, when the limestone is sold to the cement manufacturing company, a certain percentage of the sale is for the labor to quarry the limestone. Then when the cement is sold to the contractor, it includes some markup for its labor costs in the price. When the contractor charges the building owner, he/she includes a value for the labor. These individual value increments for labor can be measured, which amounts to labor income. Labor income does *not* include double counting.

Labor income includes both employee compensation and proprietor income. It is measured as wages, salaries, and benefits.

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.



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 (i.e., architectural and engineering).

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 on housing, groceries, and going 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 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.