UNIVERSITY OF MINNESOTA EXTENSION

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Economic Impact of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit: Fiscal Year 2020

A REPORT OF THE ECONOMIC IMPACT ANALYSIS PROGRAM

Authored by Brigid Tuck

PROGRAM SPONSOR: MINNESOTA DEPARTMENT OF ADMINISTRATION, STATE HISTORIC PRESERVATION OFFICE; PHOTO: CATHEDRAL HILLS HOMES

DEPARTMENT OF ADMINISTRATION
STATE HISTORIC PRESERVATION OFFICE

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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 Statues, 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 $4,500.

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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 2020

Established in 2010, the Minnesota Historic Rehabilitation Tax Credit encourages investment in historic preservation in the state. Historic preservation offers a multitude of potential benefits, including providing a sense of place and continuity, efficiently using resources, preserving craftsmanship, attracting private investment, improving aging neighborhoods and assets, and encouraging creative new uses of existing spaces. The state credit works in concert with the Federal Historic Preservation Tax Incentives Program.

The Minnesota Historic Rehabilitation Tax Credit provides either a state income tax credit or a grant in lieu of the credit. The income tax credit allows a credit of up to 20 percent of qualifying expenses if a property meets eligibility requirements. A grant in lieu of a credit (equal to 90 percent of allowable credit) is available to property owners as an alternative option. Unless reauthorized, the credit will sunset at the end of fiscal year 2021.

To qualify for and receive the historic tax credit, property developers must meet several federal and state guidelines and obtain the appropriate approvals. In Minnesota, the State Historic Preservation Office and the Department of Revenue administer the credit. Property owners only receive the state tax credit by applying for the federal tax credit. This report focuses on the state credit.

University of Minnesota Extension has evaluated the economic impact of the tax credit each year since its beginning. The reports have covered the impact of the credit during the most recent fiscal year and the cumulative effect of the credit. Reports in recent years have also included case studies of completed projects. Since this is the 10th year of the report, Extension included two additional items—an exploration of the impact of the credit on property tax values of the case studies and a survey of project developers to gather insight on their experiences with the credit.

Direct Effect FY 2020: Eleven properties received approval for the historic tax credit between July 1, 2019 and June 30, 2020. Almost half (five) of these projects were located in Greater Minnesota (Duluth, Fergus Falls, Mankato, Owatonna, and Winona); the others were in the Twin Cities. Developers report planning to invest $119.1 million to complete their rehabilitation projects, including site improvements, roofing, and upgrades to interior work.

Total Economic Impact FY 2020: In total, projects planned with support from the Minnesota Historic Rehabilitation Tax Credit will generate an estimated $176.5 million in economic activity in FY2020. This includes $49.8 million in labor income. It will also support 720 jobs. Rehabilitation projects receiving the tax credit also generate tax collections. When completed, FY20 projects will generate an estimated $5.5 million in state and local tax receipts.

During October 2020, construction was the industry with the highest percent of continuing unemployment claims as a percent of total jobs in the state, indicating construction may be lagging in the COVID-19 recovery. Thirty percent of construction jobs in Hennepin and Ramsey Counties are filled by workers from outside the two counties.

Tax Credits: When completed, the projects are set to be awarded $18.5 million in tax credits. Therefore, for every dollar of Minnesota Historic Rehabilitation Tax Credit, there will be $9.52 in economic activity created in Minnesota. With the taxes generated from projects, approximately one-third of the credit will be returned to state and local governments immediately upon completion of the projects.

Economic Impact Fiscal Years 2011-2020: During the 10 years of the credit, developers have invested $1.9 billion in projects that receive it. This has spurred a total of $3.5 billion of economic activity in the state. The tax credit has supported 18,650 jobs in Minnesota.

Developer Insights into the Credit: A survey of project developers underscores the role of the credit in spurring economic development. The survey had 18 responses, representing 22 percent of developers.

The Minnesota Historic Rehabilitation Tax Credit plays a critical role in spurring the rehabilitation of historic buildings in Minnesota. Eighty-nine percent of developers indicated they would not have developed the project in the absence of the credit. Given these results, it is not surprising that all respondents indicated the credit was somewhat important (one response) or very important (17 responses) in their decision to undertake the project.

Developers largely view the tax credit as an economic stimulus tool. Ten developers cited this as the largest community impact from the credit. Several respondents noted job creation and property tax increases. However, one respondent also elaborated on the credit's role in overall economic development strategies, noting, "Revitalization of our downtown district, which is leading to further economic development. The cost of rehabilitating old buildings and bringing them up to current standards is too high to be able to do it without the tax credits."

Multiple developers also indicated historic preservation is a benefit. One developer summed it up this way: "People are drawn to areas that are layered with character and they derive identity for themselves and their city from it. Economic activity and property taxes flow from that, but the tax-credit is really about place-making and cultural renewal as much as anything."

Eighty-two percent of developers indicated an extension of the tax credit would spur additional projects. One developer commented, "Unlike some economic development tools, it is a very efficient tool."

Finally, developers provided input on potential ways to increase the impact of the Minnesota Historic Rehabilitation Tax Credit. Five developers recommended extending or making the credit permanent. Other suggestions included reverting to allowing the credit to be reimbursed at one time, speeding up the time for reviewing and approving applications, and increasing the tax credit to 30 percent.

Case Studies: This report features six case studies—First National Bank-Soo Line Building, Cathedral Hill Homes, Lowry and Morrison Block, LaSalle Apartments, The Grand Hotel, and Munger Terrace. Collectively, the projects generated an estimated $214 million in economic activity and supported 1,275 jobs. The projects were awarded $16.4 million in Minnesota State Rehabilitation Tax Credits. Thus, for every tax credit dollar invested, $13.04 was generated in Minnesota's economy.

Extension's analysis estimates the rehabilitation construction of these projects generated $8.6 million in state and local taxes, meaning 53 percent of the credit was repaid in state and local taxes by construction alone. In addition, annual property taxes increased by $1.0 million. Thus, within five years, state and local governments received more income from the properties than initially invested in the credit.

INTRODUCTION

Since the mid-1960s, the United States has recognized and celebrated the value of historic preservation. Enacted in 1966, the National Historic Preservation Act (the Act) noted the cultural, educational, and economic benefits of preservation. The Act further established a role for national leadership of preservation efforts, encouraged stewardship of historic properties, and allowed for public investment in 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*

The Act provided for several tools to promote investment in historic preservation. One of the key tools was the Federal Historic Preservation Tax Credit. The credit provides a 20 percent income tax credit to developers. Two primary criteria need to be met to qualify—the property must be listed on the National Register of Historic Places and its use must be income producing. The National Park Service and the Internal Revenue Service jointly administer the national credit along with State Historic Preservation Offices.

The national credit started in 1977 and became a permanent program in 1986. Many states have opted to further encourage historic preservation by offering a state historic tax credit. Minnesota enacted the Minnesota Historic Rehabilitation Tax Credit in 2010. Unless reauthorized, the state credit will sunset at the end of fiscal year 2021. In Minnesota, the State Historic Preservation Office (SHPO) and the Department of Revenue administer the credit.

Written in the authorizing language is a requirement for the SHPO to "annually determine the economic impact to the state from the rehabilitation of property for which credits or grants are provided."[2] Since 2011, University of Minnesota Extension has completed an annual economic impact study of the state historic tax credit.

With time, researchers and practitioners have identified a variety of benefits from historic preservation. These benefits include providing a sense of place and continuity, efficiently using resources, preserving craftsmanship, attracting private investment, improving aging neighborhoods and assets, and encouraging creative new uses of existing spaces.[3] Measuring the economic value of these benefits, however, can be difficult. Certain components of the measurement, such as direct investment by developers and increases in property values, are relatively easy to quantify. Other parts, like sense of place and craftsmanship, are much more difficult. Methods for measuring the impact of the efficient uses of resources—including environmental sustainability derived from combining the design principles of historic buildings with modern energy efficiencies—are in development. Evidence indicates rehabbing existing buildings also meets climate goals by keeping building demolition materials out of landfills and reducing carbon.

Extension's annual analysis focuses on direct investments by developers and the economic activity generated from construction. These values can be calculated within the timeframe specified in the tax credit law. The analysis also includes case studies. Case studies showcase how the projects

[1] https://www.nps.gov/history/local-law/nhpa1966.htm
[2] https://www.revisor.mn.gov/statutes/cite/290.0681
[3] https://ctb.ku.edu/en/table-of-contents/implement/physical-social-environment/historic-preservation/main

provide additional benefits (for example, property tax increases and contribution to community character).

This report describes the economic impact of the Minnesota Historic Rehabilitation Tax Credit for fiscal year 2020. It also highlights six case studies from completed projects that used the tax credit. Finally, the report contains a summary of the tax credit's economic impact throughout its history in the state.

This report marks Extension's 10th analysis of the credit. In an attempt to expand understanding of the credit, Extension added two new components that were not included in previous studies. First, Extension conducted an analysis of the credit's effect on property taxes of the case studies. Second, Extension surveyed developers who received the credit. The results provide insight into how the credit is used, its influence on investments, and the future of the credit.

Implementing the Credit in Minnesota

The Minnesota Historic Rehabilitation Tax Credit allows for either 1) a state income tax credit or 2) a grant in lieu of the credit. The income tax credit allows a credit of up to 20 percent of qualifying expenses if a property meets eligibility requirements. A grant in lieu of a credit (equal to 90 percent of allowable credit) is available to property owners as an alternative option.

To qualify for and receive the historic tax credit, property developers must meet several federal and state guidelines and obtain the appropriate approvals. The National Park Service (NPS) provides federal approvals known as Part I, II, and III. The Part I approval process ensures the property meets the requirements of being historically significant. It does not have a corresponding SHPO approval. The Part II application details the rehabilitation plans. As part of this process, developers submit the budgeted project costs to SHPO in the Part A application. Finally, the Part III approval process certifies the completion of work. As part of this step, developers file the SHPO Part B and submit their final costs.

ECONOMIC IMPACT IN FISCAL YEAR 2020

Economic contribution is comprised of direct, indirect, and induced effects. Direct effects are the initial activity generated in an economy. In this analysis, the direct effect is spending by the project developers to rehabilitate the projects. To quantify the direct effect of the Minnesota Historic Rehabilitation Tax Credit, the SHPO provided Extension with the Part A applications (and thus the project budgets) for each of the projects planned between July 1, 2019 and June 30, 2020.

Indirect and induced effects are the multiplier, or ripple effects, generated by the direct spending. Indirect effects are those tied to the supply chain. For example, when a construction company purchases supplies such as nails, lumber, and cement, this spurs the suppliers of those items to produce more, triggering activity on those supply chains. Induced effects are those tied to spending by households derived from income earned on the projects. When a construction company pays its employees, they use their paychecks to purchase groceries and pay rent.

Extension used the input-output model IMPLAN to calculate the indirect and induced effects in this analysis. Input-output models quantify the flow of goods and services within an economy. Once the flow is established, the model can estimate how a change in one area of the economy will affect other areas. For more on the methods and terminology of economic impact analysis, please see Appendix 1. Input-output models are the most appropriate and accepted models for measuring economic impact.

Direct Effect

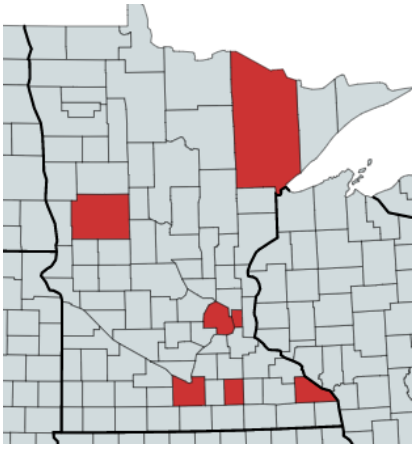
Eleven properties received Part A approval for the historic tax credit between July 1, 2019 and June 30, 2020 (Table 1). Projects included residential, mixed use, and commercial.

Table 1: Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between July 1, 2019 and June 30, 2020 (FY 2020)

Historic Property Name	Proposed Use	Location
Farmers Union Grain Terminal Association Headquarters	Residential	Falcon Heights
Fergus Falls State Hospital, Nurses College	Senior Housing	Fergus Falls
Fitzpatrick Building	Mixed Use	Saint Paul
Fort Snelling, Administrative Facilities	Residential	Saint Paul
Hunt House	Bed & Breakfast	Mankato
Lindsay Brothers Warehouse	Mixed Use	Minneapolis
Madison Elementary School	Residential	Winona
Rosebrock Furniture	Retail	Owatonna
Saint Louis County Jail	Residential	Duluth
United States Bedding Company	Office/Residential	Saint Paul
Warehouse Building	Residential	Minneapolis

Almost half (five) of the projects were located in Greater Minnesota, including Duluth, Fergus Falls, Mankato, Owatonna, and Winona (Map 1).

Map 1: Location of Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between July 1, 2019 and June 30, 2020 (FY 2020)



In their Part A applications, developers reported planning to invest $119.1 million to complete their rehabilitation projects (Table 2). Planned investments include everything from site improvements to roofing upgrades to interior work. It is the total amount developers anticipate spending. Only certain expenditures, however, qualify under the historic tax credit law. Therefore, while the tax credit is for 20 percent, the tax credit awarded—based on qualified expenses—is $18.5 million. For every dollar of tax credit awarded, developers plan to invest $6.43 of their own funds.

There is one nuance to factor into an economic impact analysis related to construction. Acquisition of property (land and/or building) does not create economic activity, as it is simply an exchange of assets. Essentially, nothing new is created, and therefore, there are no supply chain implications. Developers reported spending $108.1 million when acquisitions costs were removed.

Table 2: Direct Impact of Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between July 1, 2019 and June 30, 2020 (FY 2020)

Total Estimated Costs	Estimated Costs, Acquisition Removed	Estimated Minnesota Historic Rehabilitation Tax Credit	Private Dollars Leveraged per $1 of Tax Credit
$119,057,555	$108,075,027	$18,519,737	$6.43

Source: State Historic Preservation Office, Part A applications

Total Impact

In total, projects completed with support from the Minnesota Historic Rehabilitation Tax Credit will generate an estimated $176.5 million in economic activity in FY2020. This includes $49.8 million in labor income. The credit will also support 720 jobs (Table 3).

Directly, developers report planning to spend $108.1 million on rehabilitation projects. The model estimates construction companies will hire 330 full-time equivalent workers (primarily construction workers) and pay $25.5 million to these workers to complete the work. This is the direct effect in Table 3.

$9.52

Of economic activity generated for every dollar of Minnesota Historic Rehabilitation Tax Credit awarded in FY 2020

The state plans on awarding $18.5 million in tax credits, and the projects will generate an estimated $176.5 million in economic activity. Therefore, for every dollar of Minnesota Historic Rehabilitation Tax Credit, there will be $9.52 in economic activity created in Minnesota.

Table 3: Total Economic Impact of Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between July 1, 2019 and June 30, 2020 (FY 2020)

Effect	Output (millions)	Employment (FTEs)	Labor Income (millions)
Direct	$108.1	330	$25.5
Indirect	$32.9	180	$12.0
Induced	$35.5	210	$12.3
Total	$176.5	720	$49.8

Source: University of Minnesota Extension estimates, IMPLAN

The credit also supports construction jobs across the state. The projects planned in Fiscal Year 2020 will support an estimated 330 construction jobs. During the life of the credit, historic tax credit projects have created more than 9,200 construction-related jobs. The credit contributes to one of Minnesota's main industries—construction accounts for 5 percent of jobs in the state. Construction jobs also pay relatively well, with average annual wages of $69,370.[4]

In 2020, COVID-19 caused severe disruptions to Minnesota's economy. The construction industry was one of the industries most impacted by the pandemic. In October 2020, construction was the industry with the highest percent of continuing unemployment claims as a percent of total jobs in Minnesota, indicating construction may be struggling to recover. Thus, jobs created through the credit can play an important role in helping Minnesota's economy move forward from COVID-19.

The tax credit supports construction jobs in both the Twin Cities and Greater Minnesota. As mentioned, nearly half the FY 2020 projects were located in Greater Minnesota and likely employed crews from the area. Evidence also indicates construction projects in the Twin Cities draw crews and

[4] Source: Quarterly Census of Wages and Employment from Department of Employment and Economic Development, 2019

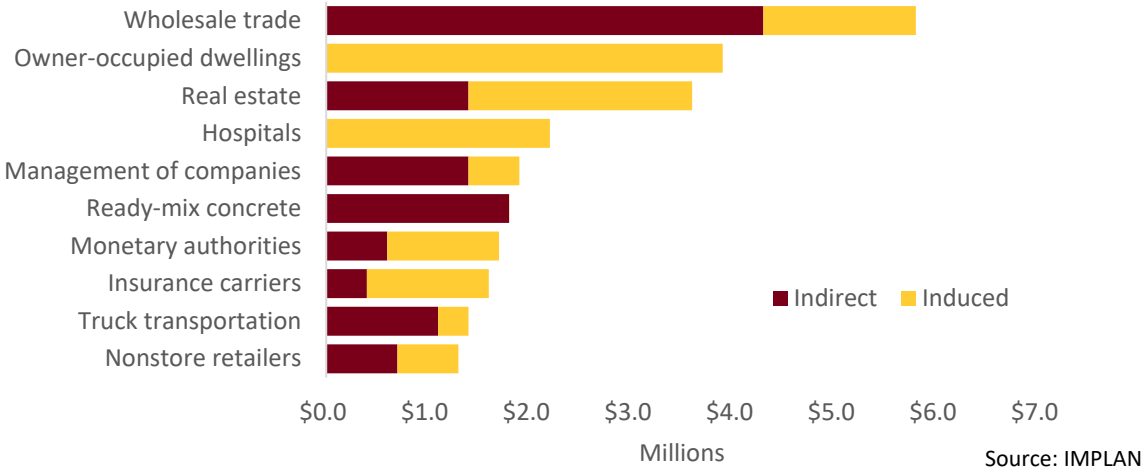
workers from outstate. Data from the Department of Employment and Economic Development indicates workers from outside the two counties fill 30 percent of construction jobs in them.

Top Sectors Impacted

The top industries to be impacted by the historic tax credit include wholesale trade, owner-occupied dwellings, and real estate (Chart 1). Indirect (business-to-business) impacts are highest in wholesale trade, concrete, and management of companies. Wholesale trade is the industry in which companies make bulk purchases from suppliers. For example, when installing a heating system in a large building, typically the construction company will buy directly from a supplier, as opposed to retail.

Induced (consumer-to-business) impacts are highest in owner-occupied dwellings (housing), hospitals, and real estate.

Chart 1: Top Industries Impacted by the Minnesota Historic Rehabilitation Tax Credit, FY 2020, Sorted by Output



Source: IMPLAN

State and Local Tax Collections

Rehabilitation projects receiving the tax credit also generate tax collections. The projects completed in FY20 will generate an estimated $5.5 million in state and local tax collections (Table 4). This includes $1.8 million in sales taxes and $1.5 million in both income and property taxes. Meanwhile, the projects were awarded $18.5 million in tax credits. Thus, upon completion of the projects, nearly one-third of the credit amount will be repaid in the form of state and local taxes.

Table 4: State and Local Tax Collections from Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between July 1, 2019 and June 30, 2020 (FY 2020)

Tax	Estimated Collections (millions)
Income	$1.5
Sales	$1.8
Property	$1.5
Other	$0.7
Total	$5.5

Source: University of Minnesota Extension estimates, IMPLAN

ECONOMIC IMPACT FISCAL YEARS 2011-2020

Extension annually calculates the economic impact of the Minnesota Historic Rehabilitation Tax Credit. This section of the report explores its cumulative impact. This information is valuable as a reflection on the 10 years of the tax credit.

Total Impacts: Fiscal Years 2011-2020

During the 10 years of the credit, developers have invested $1.9 billion in projects that received it (Table 5). This has spurred a total of $3.5 billion of economic activity in the state. The tax credit has also supported 18,660 jobs in Minnesota.

Table 5: Total Economic Impact of Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between FY 2011 to 2020 (Adjusted to 2020 Dollars)

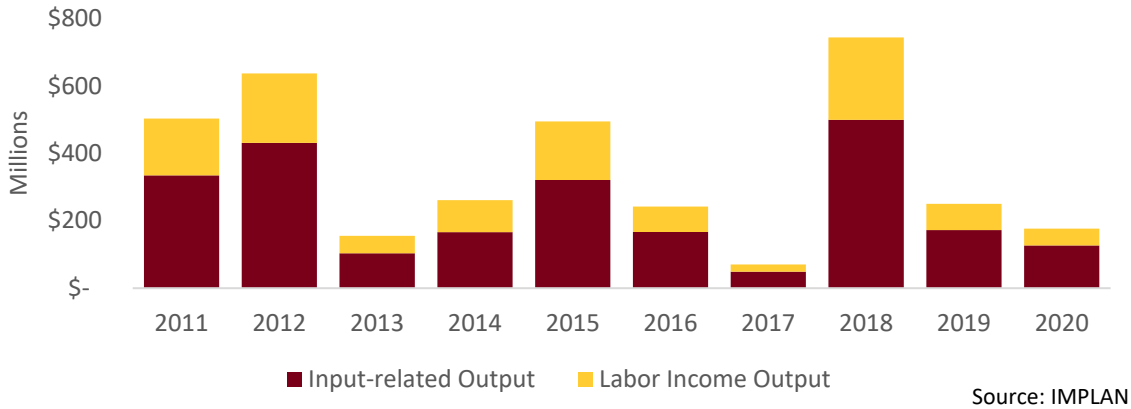
Effect	Output (millions)	Employment (FTEs)	Labor Income (millions)
Direct	$1,956.2	9,250	$614.7
Indirect	$748.7	4,220	$269.0
Induced	$829.0	5,190	$279.6
Total	$3,533.9	18,660	$1,163.3

Source: University of Minnesota Extension estimates, IMPLAN

Total Impacts by Fiscal Year

The impact of the tax credit varies by year (Chart 2). Two major factors influence the annual impact—the number of projects awarded the credit and the size of the projects. In FY 2015, for example, 23 projects received Part A approval compared to 16 in 2018. However, due to larger scale projects, the total project investment was higher in 2018.

Chart 2: Total Economic Impact of Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between FY 2011 and FY 2020



Source: IMPLAN

Table 6 shows the economic impact by year. Changes in the impact on output, employment, and labor income reflect the number and size of projects in any given year.

Table 6: Total Economic Impact of Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between FY 2011 and FY 2020

	Output (millions, 2020 $)	Employment (FTEs)	Labor Income (millions, 2020 $)
FY 2011	$503.0	2,880	$168.2
FY 2012	$636.9	3,500	$205.8
FY 2013	$155.5	1,200	$52.1
FY 2014	$260.9	1,340	$94.6
FY 2015	$494.3	2,605	$173.6
FY 2016	$242.1	1,115	$75.5
FY 2017	$70.4	290	$21.2
FY 2018	$743.8	3,910	$244.6
FY 2019	$250.4	1,100	$77.9
FY 2020	$176.5	720	$49.8
Total	$3,533.8	18,660	$1,163.3

Estimates by the University of Minnesota Extension Center for Community Vitality

DEVELOPER INSIGHTS REGARDING THE CREDIT

To further understand the credit's use and role in project development, Extension surveyed developers who received the credit between FY 2011 and 2019.[5] In total, Extension emailed 92 developers a link to an online survey via the Qualtrics software. Of those, nine emails bounced back. Thus, the total number of surveys sent was 83.

Extension received 14 responses from the original Qualtrics email notice. To boost responses, Extension randomly selected 20 additional developers and sent direct emails. This approach yielded an additional four responses. In total, the survey had 18 responses, a 22 percent response rate. This is a fairly typical response rate for online surveys.

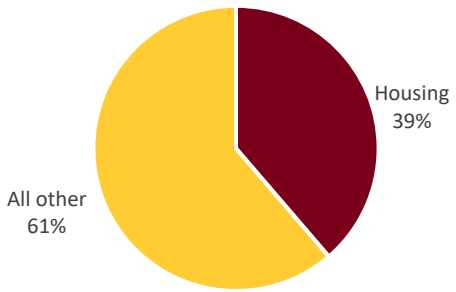
General Use of the Credit

Developers have used the Minnesota Historic Rehabilitation Tax Credit for a variety of purposes (Table 7). Housing is a major use of the properties, accounting for 39 percent of projects (Chart 3). A third of the properties are being used for commercial/retail purposes. Some properties have multiple purposes (for example, retail on the ground level and housing on upper floors).

Table 7: Current Use of Projects, 18 Respondents

Type of Use	Number of Responses
Housing	12
Housing, low income	5
Housing, moderate income	4
Housing, high income	3
Commercial/retail	6
Office space	5
Hotel/lodging	3
Assembly/special events	2
Educational	1
Other	2

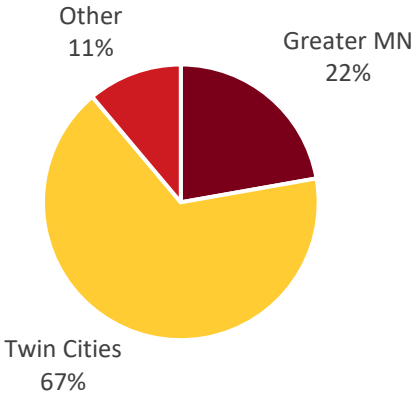
Chart 3: Current Use of Projects, 18 Respondents



The tax credit's design is to spur investment in Minnesota and create economic activity. Therefore, all of the project developers were either Minnesota residents (16) or Minnesota taxpayers (1). They also primarily used Minnesota-based construction contractors (Chart 4). Two-thirds of the primary contractors were based in the Twin Cities and 22 percent in Greater Minnesota. The "other" category included one response of "I do not know" and one response of "Another state." Thirteen respondents indicated their sub-contractors were mostly from the Twin Cities. Five reported using sub-contractors primarily from Greater Minnesota.

[5] FY 2020 was excluded from the survey, since projects have only recently started.

Chart 4: Base Location of Primary Construction Contractor, 18 Responses

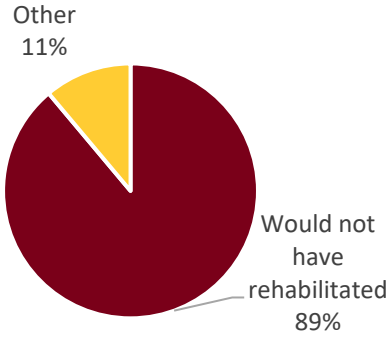


Role of Credit in Project Decisions

The Minnesota Historic Rehabilitation Tax Credit is playing a critical role in spurring the rehabilitation of historic buildings in Minnesota. Eighty-nine percent of developers indicated they would not have developed the project in the absence of the credit (Chart 5).

Given these results, it is not surprising that all respondents indicated the credit was somewhat important (one response) or very important (17 responses) in their decision to undertake the project.

Chart 5: Influence of Minnesota Historic Rehabilitation Tax Credit in Decision to Undertake Project, 18 Responses



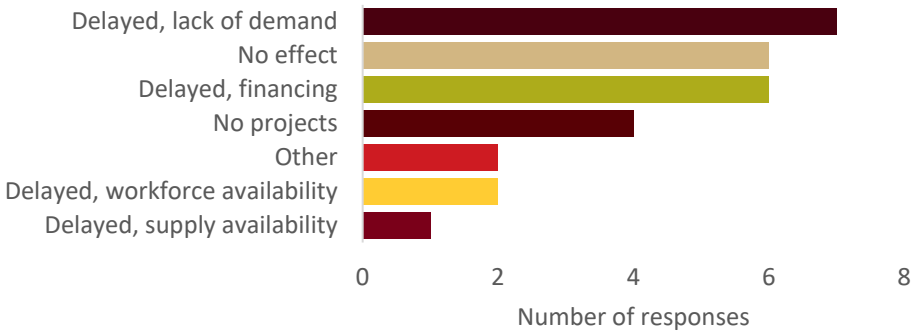
Developers largely view the tax credit as an economic stimulus tool. Ten developers cited economic stimulus as the largest community impact from the credit. Several respondents noted job creation and property tax increases. However, one respondent also elaborated on the tax credit's role in overall economic development strategies, commenting, "Revitalization of our downtown district, which is leading to further economic development. The cost of rehabilitating old buildings and bringing them up to current standards is too high to be able to do it without the tax credits."

Multiple developers indicated historic preservation is a benefit. One developer summed it up this way, "People are drawn to areas that are layered with character, and they derive identity for themselves and their city from it. Economic activity and property taxes flow from that, but the tax credit is really about placemaking and cultural renewal as much as anything."

Future of the Credit

In March 2020, COVID-19 caused significant economic disruption in Minnesota's economy, and developers are feeling the effect of the pandemic on their project plans. Seven developers reported delaying projects due to lack of demand, and six delayed due to financing constraints. Eighty-two percent of developers indicated an extension of the tax credit would spur additional projects (Chart 6). One developer commented, "Unlike some economic development tools, [the tax credit] is a very efficient tool."

Chart 6: Effect of COVID-19 on Historic Preservation Projects in Minnesota, Current and Future Projects (select all that apply), 18 Responses



Finally, developers provided input on potential ways to increase the impact of the Minnesota Historic Rehabilitation Tax Credit. Five developers recommended extending or making the credit permanent. Other suggestions included reverting to allowing the credit to be reimbursed at one time, speeding up the time for reviewing and approving applications, and increasing the tax credit to 30 percent. One developer argued in favor of expanding the program, saying, "Not every building is historic, but there are many, many old and underutilized buildings, I think we should also have a tax incentive for reusing existing buildings—maybe [ones] that are 25 years or older and based on their calculated embodied energy."

CASE STUDIES OF COMPLETED PROJECTS

Since the inception of the Minnesota Historic Rehabilitation Tax Credit, 144 projects have received Part A approval from the State Historic Preservation Office. The majority of these projects have completed rehabilitation and are being used for income producing use. This section of the report highlights six completed projects.

LaSalle Apartments

201 North Fifth Avenue, Virginia

Built: 1924

Rehabilitated: 2016-2017

Developer: Ivy Manor Limited Partnership

Original Use: Apartments

Current Use: Affordable Housing

Photo: D.W. Jones Management

In 2016, the Arrowhead Economic Opportunity Agency (AEOA) purchased the LaSalle Apartments in an effort to preserve history and provide affordable housing in Virginia, Minnesota.

The LaSalle Apartments, now known as Ivy Manor, is located one block from Virginia's key intersection of Fifth Avenue and Chestnut Street. The location reflects the history of the building. Chestnut Avenue's role as a commercial thoroughfare dates back to the city's incorporation. It was the first street in Virginia to have wood sidewalks and lamps. Meanwhile, Fifth Avenue developed into a civic center, which is home to many of Virginia's public buildings, such as the library, public schools, and a district courthouse.

Built in 1924, the LaSalle Apartments was one of the first apartment buildings in Virginia specifically marketed for the middle class. In the late 1800s and early 1900s, Virginia experienced rapid population growth due to the burgeoning mining and timber industries in the region. As the population tripled between 1895 and 1920, there was often a shortage in housing. Prior to the building of the LaSalle Apartments, many middle class workers, including teachers, business owners, and railroad, mining, and timber managers, rented rooms in private residences or "apartment" hotels.

When it opened, LaSalle Apartments was proclaimed for its modern features and amenities not found elsewhere on the Iron Range. The U-shaped building included 46 units arranged around an interior courtyard. Individual units featured hardwood floors, baseboards, and crown molding, as well as cast iron tubs, sinks, and tile floors—many of which are still intact today.[6]

[6] Lucas, A. (2017, June 12). National Register of Historic Places Registration Form: LaSalle Apartments. National Park Service.

In addition to the Minnesota Historic Rehabilitation Tax Credit, the project also received the Low Income Housing Tax Credit. The rehabilitated property has 41 units. AEOA partnered with service providers, ensuring the rental units are not only affordable but also offer rental assistance and other critical services for low-income households.[7]

Ivy Manor Limited Partnership, the project developer, reported spending $7.4 million to rehabilitate the property (Table 8). Of this, $6.5 million qualified for the historic tax credit. The project generated an estimated $14.2 million in economic activity, or $10.90 in economic activity for each dollar of state tax credit.

Table 8: Project Financing and Economic Impact of the LaSalle Apartments

Project Details	
Total Final Project Costs (millions)	$7.4
Total Qualifying Rehabilitation Costs (millions)	$6.5
State Historic Tax Credit (millions)	$1.3
Federal Historic Tax Credit (millions)	$1.3
Economic Impact	
Economic Impact of Construction (millions)	$14.2
Total Economic Activity Per Dollar of State Tax Credit	$10.90
Jobs Supported During Construction	85
State and Local Taxes From Construction (millions)	$0.6
Impact on Property Values	
Property Value 2018	$382,200
Property Value 2020[8]	$793,500
Annual increase in Property Tax Collections	$7,240

Source: State Historic Preservation Office, Part B applications; University of Minnesota Extension estimates

[7] https://www.aeoa.org/en/history-of-aeoa
[8] Property value is estimated market value. Property tax value for parcel 090-029-0010-02070 accessed via St. Louis County Beacon property search.

First National Bank – Soo Line Building

501 Marquette Avenue, Minneapolis

Built: 1914-1915

Rehabilitated: 2012-2014

Developer: Soo Line Building City Apartments LLC

Original Use: Corporate offices

Current Use: Mixed-Use (apartments and retail)

Photo: Mulad (public domain)

The First National Bank-Soo Line Building was rehabilitated for mixed-use, including apartments and retail space. The project managers and construction firm "salvaged much of the historic material that had been damaged in the Soo Line Building, including marble flooring, wood trim, and cornice work, a coffered ceiling on the second floor, and terrazzo floors within the main lobby areas."[9]

When the First National Bank-Soo Line Building first graced Minnesota's skyline, it was the tallest building in Minnesota. Its opening on March 1, 1915 attracted 5,000 visitors. Most of the crowd rode the elevators to view Minneapolis from the 19th floor. Other major attractions included the Soo Line ticket office on the first floor and a grand banking hall on the second floor. [10]

The building's name reflects its first tenants. The First National Bank began operating in Minneapolis in 1857. The bank grew throughout the late 1800s, and by 1906, the bank had relocated to the corner of Marquette and Fifth Street. During this era, two prominent Minnesota bankers—Frank Moody Prince and Clive Talbot Jaffray—stepped up to lead the bank through a period of transition and growth.

During this time, Minneapolis' flour millers found themselves frustrated with their shipping options. Chicago railroads charged steep rates, James J. Hill's railroad was buying wheat supplies and controlling prices, and steamships faced obstacles from the river's shallow and rocky course. In 1888, with the support of William Washburn, four railroads consolidated to form the Minneapolis, Saint Paul, and Sault Ste. Marie Railway Company—better known as the Soo Line Company.[11] Clive Talbot Jaffray eventually served as president of the Soo Line Company.

The companies hired Robert Gibson, an architect from New York City, to design their new joint headquarters. It is Italian Renaissance in the style of New York skyscrapers of the late 19th and early 20th centuries. The first three floors form the base of a column. On the fourth floor, the building

[9] https://finance-commerce.com/2014/09/top-projects-soo-line-building-city-apartments/
[10] http://www.placeography.org/index.php/Soo_Line_Building,_501_Marquette,_Minneapolis,_Minnesota
[11] https://npgallery.nps.gov/AssetDetail/NRIS/08000402

divides into a U-shape. The building originally had a large banking hall on the second and third floors, with the third floor wrapping around the hall as a mezzanine.

The First National Bank-Soo Line Building is now home to the Soo Line Building City Apartments. There are 254 luxury apartment units. Features include a lobby with a floating staircase, a rooftop pool and hot tub, a yoga deck, and fire pit.

The project developer reported investing $76.4 million to rehabilitate the building (Table 9). Of this, $57.7 million qualified for the tax credit. The project generated an estimated $146.2 million in economic activity, or $12.70 in economic activity for each dollar of state tax credit.

The project was awarded $11.5 million in state tax credits. The rehabilitation construction generated an estimated $5.7 million in state and local taxes. In addition, property tax collections increased by an estimated $896,950 from pre- to-post rehabilitation. Within seven years, the project will have generated more tax revenue than awarded in credits.

Table 9: Project Financing and Economic Impact of the First National Bank-Soo Line Building

Project Details	
Total Final Project Costs (millions)	$76.4
Total Qualifying Rehabilitation Costs (millions)	$57.7
State Historic Tax Credit (millions)	$11.5
Federal Historic Tax Credit (millions)	$11.5
Economic Impact	
Economic Impact of Construction (millions)	$146.2
Total Economic Activity Per Dollar of State Tax Credit	$12.70
Jobs Supported During Construction	870
State and Local Taxes From Construction (millions)	$5.7
Impact on Property Values	
Property Value 2011, sale price (millions)	$11.3
Property Value 2020 (millions)[12]	$50.7
Annual increase in Property Tax Collections (estimated)	$896,950

Source: State Historic Preservation Office, Part B applications; University of Minnesota Extension estimates

[12] Property value is estimated market value. Property tax value for parcel 2202924440064 accessed via Hennepin County property search.

Cathedral Hill Homes

Dayton and Selby Avenues, Saint Paul

Built: 1902-1908

Rehabilitated: 2015-2016

Developer: CB Cathedral Hill Limited Partnership

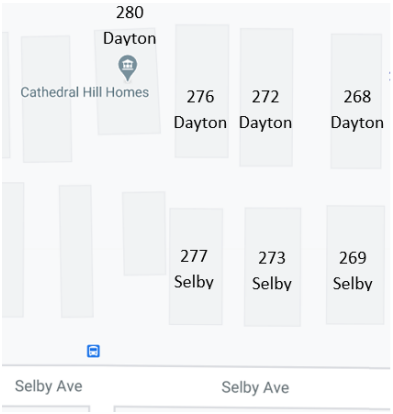
Original Use: Apartments

Current Use: Housing

Photo: Cathedral Hill Homes

Cathedral Hills Homes is a complex of seven properties located in the Historic Hill District of Saint Paul. Four of the properties face Dayton Avenue while three are located on Selby Avenue (Map 2). The properties were rehabilitated for use as affordable housing, with residents paying 30 percent of adjusted gross income in rent.

Map 2: Cathedral Hill Homes, Saint Paul



The Historic Hill District was listed on the National Register of Historic Places in August 1976. Its designation came from the area's role in the early formation of Saint Paul. Located on a bluff above the early commercial district of the city, the residential neighborhood sprang up along two major overland routes leading into Saint Paul. The area attracted social and civic leaders who hired architects, engineers, and builders specializing in state-of-the art architecture of the late 19th and early 20th centuries. In addition to the substantial structures along Summit Avenue, there were more modest homes sprinkled within the district.

The Cathedral Hill Homes' neighborhood is one of the oldest in the Historic Hill District and was one of earliest platted sections of Saint Paul. Structures generally date from the mid-1860s to the late 1880s.[13]

Cathedral Hill Homes, a CommonBond community, currently owns the seven properties on Dayton and Selby Avenues. CommonBond is a nonprofit that provides affordable housing in Minnesota, Wisconsin, and Iowa. CommonBond communities, in addition to providing individuals and families with stable housing, also offers on-site programs and services.

The Cathedral Hill Homes project developer reported spending $14.3 million to rehabilitate the property (Table 10). Of this, $7.9 million qualified for the historic tax credit. The project generated

[13] https://npgallery.nps.gov/GetAsset/a8ab70fe-59a3-4d80-b71f-181710588c01

an estimated $27.4 million in economic activity, or $17.10 in economic activity for each dollar of state tax credit.

The project was awarded $1.6 million in state tax credits. The rehabilitation construction generated an estimated $1.1 million in state and local taxes. In addition, property tax collections increased by $35,580 from pre- to-post rehabilitation. Within 15 years, the project will have generated more tax revenue than awarded in credits.

Table 10: Project Financing and Economic Impact of the Cathedral Hill Homes

Project Details	
Total Final Project Costs (millions)	$14.3
Total Qualifying Rehabilitation Costs (millions)	$7.9
State Historic Tax Credit (millions)	$1.6
Federal Historic Tax Credit (millions)	$1.6
Economic Impact	
Economic Impact of Construction (millions)	$27.4
Total Economic Activity Per Dollar of State Tax Credit	$17.10
Jobs Supported During Construction	160
State and Local Taxes From Construction (millions)	$1.1
Impact on Property Values (268 Dayton)	
Property Value 2017 (millions)	$5.8
Property Value 2020 (millions)[14]	$8.6
Annual increase in Property Tax Collections	$35,580

Source: State Historic Preservation Office, Part B applications; University of Minnesota Extension estimates

[14] Property value is estimated market value. Property tax value for parcel 012823120035 accessed via Ramsey County Beacon.

Lowry and Morrison Block

200-204 Washington Avenue North, Minneapolis

Built: 1879

Rehabilitated: 2017-2018

Developer: John Rimarcik

Original Use: Commercial/Wholesale trade

Current Use: Retail and Office

Photo: Element, Inc.

The Lowry and Morrison Block building was rehabilitated from a mostly vacant space with a crumbing façade into retail and office space.

The Lowry and Morrison Block building is located in Minneapolis' North Loop neighborhood. Constructed in 1879, it is one of the oldest buildings in the Warehouse Historic District. The property was originally the product of a business partnership between Minneapolis businessmen, Thomas Lowry and Clinton Morrison. Thomas Lowry would go on to be president of the St. Paul, Minneapolis, and Sault St. Marie Railway (Soo Line). He was also instrumental in the development of Minneapolis' street car system. Clinton Morrison, meanwhile, became vice-president of Minneapolis Harvester Works and the president of Farmers and Mechanics Savings Bank.[15]

Throughout the years, the building was rented out to a variety of wholesale companies. One early tenant was the North Star Boot and Shoe Company. Other tenants included tobacco wholesale, mill supplies, fish merchants, and a liquor wholesaler. However, in the years before the rehabilitation, the Lowry and Morrison Block building was mostly vacant.

Rehabilitation work on the three-story, commercial Italianate-style building include masonry and window work to preserve the appearance of three distinct storefronts, as well as cast iron columns and a secondary cornice. The building now features retail space on the main floor and office space on the second floor.

The Lowry Morrison Block project developer reported spending $5.9 million to rehabilitate the property (Table 11). Of this, $4.1 million qualified for the historic tax credit. The project generated an estimated $11.3 million in economic activity, or $13.70 in economic activity for each dollar of state tax credit.

The project was awarded $825,350 in state tax credits. The rehabilitation construction generated an estimated $442,300 in state and local taxes. In addition, property tax collections increased by $82,050 from pre- to-post rehabilitation. Within five years, the project will have generated more tax revenue than awarded in credits.

[15] https://npgallery.nps.gov/pdfhost/docs/NRHP/Text/89001937.pdf

Table 11: Project Financing and Economic Impact of the Lowry Morrison Block

Project Details	
Total Final Project Costs (millions)	$5.9
Total Qualifying Rehabilitation Costs (millions)	$4.1
State Historic Tax Credit	$825,350
Federal Historic Tax Credit	$825,350
Economic Impact	
Economic Impact of Construction (millions)	$11.3
Total Economic Activity Per Dollar of State Tax Credit	$13.70
Jobs Supported During Construction	70
State and Local Taxes From Construction	$442,300
Impact on Property Values	
Property Value 2019	$960,000
Property Value 2021 (millions)[16]	$3.6
Annual increase in Property Tax Collections	$82,050

Source: State Historic Preservation Office, Part B applications; University of Minnesota Extension estimates

[16] Property value is estimated market value. Property tax value for parcel 22-029-24-41-0042 accessed via Hennepin County property search.

The Grand Hotel

210 North Minnesota Street, New Ulm

Built:	1876
Rehabilitated:	2012-2013
Developer:	The Grand New Limited Partnership
Original Use:	Hotel
Current Use:	Arts and Culture Center
Photo:	Ryan Nosbush

The Grand Hotel property was rehabilitated into the Grand Center for Arts and Culture. It features the Grand Kabaret, a live-music venue, art gallery, and artist space.

The Grand Hotel traces its history back to the founding and settlement of New Ulm. In the mid-1800s, German immigrants came to the area near New Ulm. The town was unique in that it was selected for its agricultural land and location on the Minnesota River rather than a railway. The lack of a railroad and the poor road conditions made travel in south central Minnesota difficult, and weary travelers needed a break once arriving in New Ulm. Thus, the growing settlement proved a prosperous place for a hotel.[17]

In 1856, a German immigrant named Phillip Gross opened the Minnesota Haus, a new hotel in New Ulm. While the hotel proved financially successful, a fire destroyed it in 1860. Gross immediately rebuilt on the same site, changing the building's name to the Union Hotel. The Union Hotel served as a hospital during the Dakota Conflict of 1862. Dr. William Morral Mayo, one of the founders of the Mayo Clinic, was also a physician working there during this period.

A fire once again destroyed the structure in 1875. Gross rebuilt in 1876, this time using a brick structure. The architect for the rebuild was Julius Berndt, known for his design of the "Herman the German" statue in New Ulm.[18] Gross operated the hotel until the late 1800s when he sold it to a new owner. The new owner added a third floor, modernized the lighting and heating, and renamed it the Grand Hotel.

Architecturally, the Grand Hotel represents the mid-Victorian period of commercial design in the Minnesota River Valley. Its Italianate style is reflected in the façade, windows, moldings, and quoins. It is also fairly remarkable the style has retained much of its historical integrity. It predates most of the historical buildings in downtown New Ulm and is most representative of its original design.[19]

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[17] Hoisington, D. (2008, September 16). *Grand Hotel, New Ulm, Minnesota.* [Video file]. Retrieved from https://www.youtube.com/watch?v=taG99qduPkM

[18] The Grand New Ulm. (n.d.). Retrieved from https://www.thegrandnewulm.com/history

[19] Koop, M. (1989). *Grand Hotel: National Register of Historic Places form* (NPS form 10-900). Washington D.C.: United States Department of Interior. Retrieved from http://www.mnhs.org/preserve/nrhp/nomination/90000986.pdf

In 2000, the great-granddaughter of Phillip Gross purchased the Grand Hotel and began restoring the property. In 2009, the hotel transferred ownership to a nonprofit that now operates it as the Grand Center for Arts and Culture. The first floor is home to the Grand Kabaret, a live-music venue, along with a kitchen, bar, and gift shop. The second floor is home to 4 Pillars Gallery and nonprofit office space. The third floor is artist space.

The family of Phillip Gross paid $240,000 to purchase the Grand Hotel in 2000. In 2019, following its historical rehabilitation, the property was valued at $589,900, an increase of 146 percent in 19 years (Table 12).

In total, the developer invested $2.4 million into the rehabilitation of the Grand Hotel. Of this, $1.4 million was for expenses that qualified for the historic tax credit. Project developers were awarded $277,500 in credits. Rehabilitation of the Grand Hotel in New Ulm generated an estimated $4.6 million of economic activity. The project also supported 30 jobs. For each dollar of historic tax credit awarded, $16.60 in economic activity was generated in Minnesota. [20]

Table 12: Project Financing and Economic Impact of the Grand Hotel

Project Details	
Total Final Project Costs (millions)	$2.4
Total Qualifying Rehabilitation Costs (millions)	$1.4
State Historic Tax Credit	$277,500
Federal Historic Tax Credit	$277,500
Economic Impact	
Economic Impact of Construction (millions)	$4.6
Total Economic Activity Per Dollar of State Tax Credit	$16.60
Jobs Supported During Construction	30
State and Local Taxes From Construction (millions)	$0.4
Impact on Property Values	
Property Value 2000, sale price	$240,000
Property Value 2019 [21]	$589,900
Annual increase in Property Tax Collections (estimated)	$6,200

Source: State Historic Preservation Office, Part B applications; University of Minnesota Extension estimates

[20] This case study is reprinted with permission. It appears in the report titled "Economic Impact of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit: Fiscal Year 2019" by Brigid Tuck.
[21] Property value is estimated market value. Property tax value retrieved from Brown County Beacon.

Munger Terrace

405 Mesaba Avenue, Duluth

Built: 1891-1892

Rehabilitated: 2012-2013

Developer: SNM Development Company

Original Use: Residential

Current Use: Residential

Photo: Hess, Roise, and Company

Munger Terrace is a historic apartment complex in Duluth, Minnesota. Using historic tax credits, the developer rehabilitated the entire building following a fire that destroyed a portion of the building. Munger Terrace is now affordable housing where residents pay 30 percent of their adjusted gross income in rent.

Designed in 1891 by Duluth architects Oliver Traphagen and Francis Fitzpatrick, Munger Terrace was constructed at 405 Mesaba Avenue in Duluth. Completed in 1892, the building is an excellent example of the Chateauesque style and is considered one of Duluth's most architecturally significant apartment buildings.

Munger Terrace is a massive, four-story, stone and brick structure with an asymmetrical primary façade. Circular towers with dormered, conical roofs anchor the corners of the building. Between them, a series of highly individualized, elaborately ornamented, projecting pavilions, towers, and arched recesses form the front façade.

Originally, Munger Terrace comprised eight spacious apartments of 16 rooms each. Sacred Heart Academy rented and occupied the building until 1895. During the remainder of the 1890s and into the 20th century, Munger Terrace was one of the most fashionable addresses in Duluth. In 1915, the interior of the building was remodeled to accommodate 32 apartments.

During FY 2013, SNM Development Company received initial approval to begin the Munger Terrace project. In the Part A application, the developers estimated project costs at $6.4 million. Based on this, the potential state tax credit was estimated at $0.9 million (Table 13).

The project ended on December 31, 2013, when the Munger Terrace building was placed into service. Upon project completion, the developer reported spending $5.9 million, of which $4.7 million was for qualifying costs for the tax credit. SNM Development Company was awarded $0.9 million in state tax credits.

Based on these final reported expenditures, the project generated an estimated $10.3 million in economic activity during the rehabilitation phase. For every one dollar of tax credit invested, the project generated $10.90 of economic activity. [22]

Property values also increased as a result of rehabilitation. Prior to the project, the property value was $0.96 million. Upon project completion, however, the property value increased by 13 percent to $1.1 million.[23]

Table 13: Project Financing and Economic Impact of Munger Terrace

Project Details	
Total Final Project Costs (millions)	$5.9
Total Qualifying Rehabilitation Costs (millions)	$4.7
State Historic Tax Credit (millions)	$0.9
Federal Historic Tax Credit (millions)	$0.9
Economic Impact	
Economic Impact of Construction (millions)	$10.3
Total Economic Activity Per Dollar of State Tax Credit	$10.90
Jobs Supported During Construction	60
State and Local Taxes From Construction (millions)	$0.4
Impact on Property Values	
Property Value 2011 (millions)	$0.96
Property Value 2020 (millions)[24]	$1.7
Annual Increase in Property Tax Collections (estimated)	$9,620

Source: State Historic Preservation Office, Part B applications; University of Minnesota Extension estimates

[22] The ratio of total economic activity per dollar of tax credit includes private developer investment, as well as the indirect and induced effects.
[23] This case study is reprinted with permission. It appears in the report titled "Economic Impact of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit: Fiscal Year 2016" by Brigid Tuck.
[24] Property value is estimated market value. Property tax value from St. Louis County auditor.

Impact on Property Tax Collections

In addition to tax collections spurred immediately by the rehabilitation work, the tax credit prompts annual increases in collections due to increases in property values. Higher property values translate into higher property taxes paid.

To measure this impact, Extension examined the property tax records for the six case studies. On average, the value of the six properties grew by 236 percent, from $19.6 million prior to rehabilitation to $66.0 million post-rehabilitation (Table 14). By comparison, property values statewide increased 19 percent. Commercial property values (most of the projects are classified as commercial) increased by 13 percent in the state.

As a result of property value increases, annual property taxes also increased. Assuming a 3.3 percent effective tax rate[25], property tax revenues on the six properties went from $648,193 to $2,177,452.

Table 14: Property Value Changes, FY20 Case Study Properties Receiving the Minnesota Historic Rehabilitation Tax Credit

Category	Pre-rehabilitation	Post-rehabilitation	Percent Change
Estimated market value, Case study projects receiving tax credit (6 properties)	$19,642,200	$65,983,400	236%
Estimated market value, Statewide, 2016-2020	$645,103,695,372	$770,411,728,081	19%
Estimated annual property tax collections, Case study projects receiving tax credit (6 properties)	$648,193	$2,177,452	236%

Sources: Minnesota Department of Revenue, individual county property tax records, and University of Minnesota Extension estimates

The six case study projects were awarded $16.3 million in tax credits (Table 15). Extension's analysis estimates the rehabilitation construction of these projects generated $8.6 million in state and local taxes, meaning 53 percent of the credit was repaid in state and local taxes by construction alone. In addition, annual property tax collections increased by $1.0 million. Thus, within five years, state and local governments received more income from the properties than initially invested in the credit (Chart 7).

[25] The effective tax rate for commercial property in Minnesota was 3.31 percent in 2020.

Table 15: Analysis of Tax Collections, FY20 Case Study Properties Receiving the Minnesota Historic Rehabilitation Tax Credit

Tax credits awarded	$16,281,805
State and local taxes generated from construction	$8,649,584
Annual increase in property tax collections	$1,037,640
Number of years after which tax collections from projects exceeded investment	5

Source: SHPO, University of Minnesota Extension estimates

Chart 7: Analysis of Tax Collections, Six Case Study Projects

Source: Extension estimates

APPENDIX 1: DEFINITIONS 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

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 (e.g., lumber, cement, equipment) and construction-related services (e.g., 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.

APPENDIX 2: DEVELOPER SURVEY QUESTIONNAIRE

- How is the rehabilitated building being used now (select all that apply)?
  - Housing, rents are targeted for low income
  - Housing, rents are targeted for moderate income
  - Housing, rents are targeted for high income
  - Office space
  - Commercial/Retail space
  - Industrial
  - Hotel/lodging
  - Educational
  - Assembly/special event
  - Other (please list)
- Total square footage of project
- Was your primary construction contractor
  - Based in the Twin Cities
  - Based in Greater Minnesota
  - Based in another state
- Were your construction subcontractors **mostly**
  - Based in the Twin Cities
  - Based in Greater Minnesota
  - Based in another state
- How important was the state historic tax credit in your decision to undertake the project?
  - Very important
  - Somewhat important
  - Not too important
  - Not important at all
  - Don't know
- How did the state historic tax credit influence your investment in the project?
  - Would not have rehabilitated the project without the credit
  - Would have rehabilitated the project without the credit and would have invested the same amount
  - Would have rehabilitated the project without the credit, but would have invested less into the project
    - If yes, can you provide the amount of additional investment due to the credit?
  - Other, please explain
- Are you (the project lead)
  - A resident of Minnesota?
  - A Minnesota taxpayer?
- How has COVID-19 affected your historic preservation projects **currently in the process** (select all that apply)?
  - No affect
  - Delayed, due to supply availability
  - Delayed, due to workforce availability
  - Delayed, due to lack of demand
  - Delayed, due to financing
  - Cancelled
  - Other, please explain
- How has COVID-19 affected **planning for any future** historic preservation projects (select all that apply)?
  - No affect
  - Delayed, due to supply availability
  - Delayed, due to workforce availability
  - Delayed, due to lack of demand
  - Delayed, due to financing
  - Cancelled

    - Other, please explain
- Would an extension of the historic tax credit enable you to complete projects that might otherwise be delayed or canceled?
    - Yes
    - No
- As a developer, what do you view as the largest impact on the community from the tax credit (ex. Public safety, property taxes, economic stimulus, etc.) Please explain.
- How, if at all, can the tax credit be made more impactful in the future?