

COUNTY COUNCIL OF BEAUFORT COUNTY
ADMINISTRATION BUILDING
100 RIBAUT ROAD
POST OFFICE DRAWER 1228
BEAUFORT, SOUTH CAROLINA 29901-1228

TELEPHONE: (843) 255-1000
FAX: (843) 255-9401
www.bcgov.net

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AGENDA
FINANCE COMMITTEE
Monday, January 27, 2014
1:00 p.m.
Executive Conference Room
Administration Building

Committee Members:

Rick Caporale, Chairman
Steve Fobes, Vice Chairman
Brian Flewelling
William McBride
Stu Rodman
Jerry Stewart

Staff Support

Alicia Holland, Chief Financial Officer

1. CALL TO ORDER – 1:00 P.M.
2. PRESENTATION / TREASURER’S COMPENSATION (backup)
3. PRESENTATION / BAILEY BILL (backup)
4. DISCUSSION / REAPPOINTMENTS AND APPOINTMENTS
 - A. Airports Board
5. ADJOURNMENT

Open Item

Establish General Fund Reserve Policy



SOUTH CAROLINA COUNTY COMPARISONS

COUNTY	POPULATION	POP RANK	POPULATION % CHANGE 2011 - 2012	POP % CHANGE RANK	ASSESSED PROPERTY VALUE 2010	EMPLOYEE HEAD COUNT FOR TREASURER'S OFFICE	EMPLOYEE WORK WEEK	COUNTY PERFORMS TAX COLLECTION FOR LOCAL MUNICIPALITIES	JOINT TAX COLLECTION FEE ASSESSED
Aiken *	162,812	11	0.5%	14	550,259,888	9 FT 1 PT	37.5	YES	NO
Anderson	189,355	9	0.5%	16	665,216,610	16 FT	37.5	YES	NO
Beaufort	168,049	10	2.2%	3	1,833,355,095	20 FT	40	YES	NO
Berkeley *	189,781	8	3.0%	1	778,129,117	8 FT 1 PT	37.5	YES	NO
Dorchester *	142,496	12	1.8%	8	495,860,614	14 FT 1 PT	40	YES	NO
Florence	137,948	13	0.4%	17	493,575,353	15 FT 3 PT	37.5	YES	\$5 - 10/REPT & \$0.001/RECORD; \$0.97/TAX NOTICE
Pickens *	119,670	14	0.2%	22	442,023,365	6 FT	40	YES	\$1.50/MO/TAX NOTICE
Sumter	108,052	15	0.7%	13	296,552,020	9 FT	37.5	YES	\$1.92/MO/TAX NOTICE

* Treasurer's offices without responsibility for delinquent tax collection.

COUNTY FINANCE & EMPLOYMENT DATA

	TOTAL REVENUE FY2010	GENERAL FUND BUDGET FY2012	F-T EMPLOYEES FY 2012	P-T EMPLOYEES FY 2012
Aiken	\$93,280,970	\$52,359,442	812	58
Anderson	\$80,954,734	\$56,832,045	837	135
Beaufort	\$170,148,348	\$96,100,000	1,144	140
Berkeley	\$110,073,679	\$54,790,523	1,037	46
Dorchester	\$66,217,928	\$41,595,808	761	1,077 * includes all election workers
Florence	\$91,861,117	\$48,229,641	736	41
Pickens	\$49,398,404	\$35,500,000	492	123
Sumter	\$142,578,606	\$38,876,299	553	92



MEMORANDUM

TO: Councilman Rick Caporale, Chairman, Finance Committee
FROM: Anthony Criscitiello, Planning Director *Tc,*
DATE: January 23, 2014
SUBJECT: Bailey Bill Summary and Advantages

The City of Beaufort plans to adopt the Bailey Bill and has requested that County Council consider joining The City and other municipalities in adopting the bill as well. Lauren Kelly, the City of Beaufort Project Development Planner, will make a presentation regarding the bill.

Bill Summary: This bill - Sections 4-9-195 & 5-21-140, a.k.a the Bailey Bill - was adopted by SC state legislature in 1990, and amended in 2004, to permit municipalities and local governments to offer special property tax assessments for rehabilitated historic structures, as well as low and moderate income rental properties. The special assessment can essentially freeze taxes at the pre-rehabilitated rate for a given amount of time, offering an incentive for a property owner to invest in their house while keeping their tax rates the same.

With regards to the rehabilitated historic structures, the Bailey Bill allows municipalities to set certain criteria including:

- **Qualification for Historic Structures** – properties but must meet one or more of the following:
 - (a) the property is listed in the National Register of Historic Places;
 - (b) the property is designated as a historic property by the county governing body based upon criteria established by the county governing body and is at least fifty years old; or
 - (c) the property is at least fifty years old and is located in a historic district designated by the county governing body at any location within the geographical area of the county.
- **Rehabilitation expenditure minimums** – can be set between 20% -100% of Fair Market Value
- **Duration of special assessment period** – can up to 20 years. Special assessment can keep tax liability the same, and/or increase it incrementally over a given period of time

The city is proposing to adopt the bill as it applies to rehabilitating historic structures, and suggests that the county and other municipalities also adopt it, and work towards common standards to make this as effective and easy to administer as possible, from both an individual perspective as well as a governmental perspective. The portion of the bill pertaining to rehabilitating Low and Moderate Income Rental Properties needs more study. The city will work with the Beaufort Housing Authority to see if this would benefit them and Section 8 housing rehabilitations. The rest of the conditions may not apply, as Beaufort does not have any "Low and Moderate Housing Rehabilitation Districts," as required by the bill.

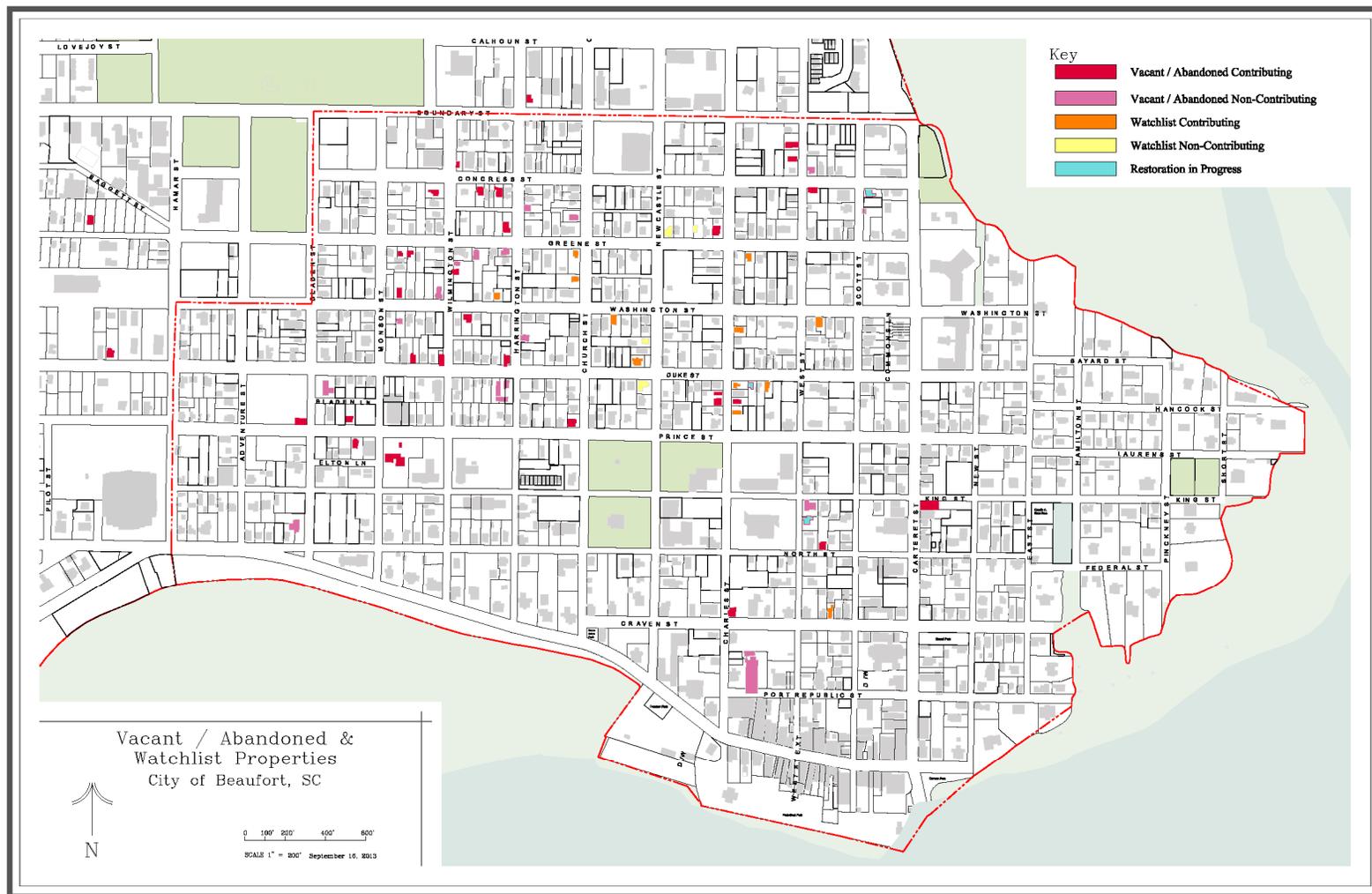
Advantages: This is a tool in the tool box to encourage restoration and preservation of historic buildings in our city, county and other municipalities. Currently, many properties that could take advantage of this bill either sit vacant or are in various states of disrepair. This directly affects government revenue, as the values of the buildings are low, and thus they are taxed at a low rate. This indirectly affects revenue and general character of the area, as it detracts investment in close proximity to these properties. Adopting this bill comprehensively throughout the county would incentivize redevelopment on an individual and neighborhood-wide level. Then once the special assessment period is over property taxes would increase to fair market value, and provide another direct benefit for all local governments involved. There is no direct loss to the municipalities, as the tax rate would not change from its current amount. Conversely, if no action is taken to improve these properties, the county and municipalities could start losing tax revenue as the property values continue to decline. Ultimately, this can result in a demolition by neglect situation, which not only nets a tax loss, but a loss of significant historic resources which cannot be replaced.

City of Beaufort Planning Department

Tax Incentives for Rehabilitating Vacant / Abandoned Buildings in the Historic District

Current Status
Current Tax Incentives
Proposed Tax Incentive
Value of Preservation
Conclusion & Recommendations

HISTORIC DISTRICT VACANT BUILDINGS | MAP



VACANT BUILDINGS | CURRENT STATUS

50: The City currently has 50 properties on the Vacant/Abandoned list.

38: Of those 50 properties, 38 are listed as “contributing” to the historic district and would be eligible for tax incentives.

On these 38, the city annually receives **\$12,440** in tax dollars, from these properties, an average of **\$327/property**. The county/school district receives **\$34,627**, an average of **\$911/property**.

25: An additional 25 properties in the district are on an internal “watchlist.” This signifies that the property is occupied, but not well maintained.

<2: Over the past 10 years, the city has averaged less than 2 substantially rehabilitated vacant buildings/year

VACANT BUILDINGS | REHABILITATIONS: 2003 - 2013

Completed or In Progress

- 702 Bladen Street (HBF)
- 1215 Boundary Street
- 1800 Boundary Street
- 710 Carteret Street
- 802 Carteret Street
- 1006 Church Street
- 907 Craven Street
- 912 Duke Street
- 1405 Duke Street
- 1003 Greene Street
- 1212 Greene Street
- 1307 Greene Street
- 810 Harrington Street
- 807 North Street
- 915 Port Republic Street
- 1311 Prince Street

Pending Projects

- 1407 Duke Street
- 507 West Street
- 605 West Street – Phase I Grant
- 712 Congress Street

Working with Lowcountry Housing Trust

- 710/712 Charles Street – Duplex + Workshop
- 511 West Street (4 plex)
- 915 Craven Street – Tabernacle Baptist

VACANT BUILDINGS | DEMOLITIONS: 2009 - 2013

Demolished

- 802 Bladen Street Accessory
- 904 Boundary Street
- 212 Burroughs Ave
- 1012 Charles Street
- 1105 Charles Street
- 1010 Church Street
- 1012 Congress Street
- 1008 Duke Street
- 1303 Duke Street
- 1411 Duke Street
- 1703 Duke Street
- 1811 Duke Street
- 1932 Duke Street
- 1915 Duke Street

- 914 Emmons Street
- 2305 Lafayette Street
- 1105 Greene Street
- 1110 Green Street
- 1111 Green Street
- 803 North Street
- 1411 Palmetto Drive
- 100 Pine Cove Street
- 905/907 Prince Street
- 1214 Prince Street
- 1170/1179 Ribaut Road
- 2801 Waddell Road
- 912 Washington Street

Pending Demolition

- 814 Newcastle
- 505 Prince (fire)

demolitions as a result of code enforcement actions – items in green signify location within the historic district

VACANT BUILDINGS | COMMERCIAL STRUCTURES

509 Carteret Street



1401 Duke Street



VACANT BUILDINGS | MULTI-UNIT STRUCTURES

810/812 Congress-Duplex



915 Craven Street – 4plex



VACANT BUILDINGS | 1 STORY COTTAGES

1408 Greene Street



1408 Greene Street



VACANT BUILDINGS | 2 STORY HOUSES

1203 Prince Street



1108 West Street



VACANT BUILDINGS | CURRENT TAX INCENTIVES

The screenshot shows a web page from the City of Beaufort. At the top left is the logo for 'BEAUFORT SOUTH CAROLINA TRICENTENNIAL 1711-2011' with a large '300' graphic. To the right are links for 'News' and 'Employment', and a search bar. Below the logo is a navigation menu with buttons for 'Departments', 'City Hall', 'Projects', 'Residents', 'Visitors', and 'Business'. The main content area has a breadcrumb trail: 'Home > Departments > Planning > Historic District > Tax Credits for Historic Preservation'. The page title is 'Tax Credits for Historic Preservation'. The text explains that one of the first questions people have is 'What kind of help is out there for this project?' and lists three key questions: 1. Is the property considered a 'certified historic structure.'? 2. Is the property going to be owner-occupied, or income producing (eg. commercial or rental)? 3. Has this property been vacant and abandoned and for how long? Below this, it mentions research done by the National Park Service and the South Carolina State Historic Preservation Office. A section titled 'Federal, State & Local Incentives' lists resources for each level: Federal (National Park Service website, NPS Tax Incentives brochure), State (Chart to help identify the type of credits you may qualify for - Preservation Hotline #11, Incentives for Owner Occupied properties, Incentives for Income Producing properties, SC Abandoned Buildings Revitalization Act), and Local (Occupancy of empty/vacant commercial buildings, Rehabilitation of vacant or abandoned structures, View entire redevelopment incentives program). On the right side, there is a 'Historic District' sidebar with links to '1997 BC Above Ground Historic Sites Survey' and 'Tax Credits for Historic Preservation'.

VACANT BUILDINGS | CURRENT TAX INCENTIVES

Federal: incentives for income producing properties

20% income tax credit on rehab expenditures.

State: incentives for income producing properties

1. 10% income tax credit on rehab expenditures (uses same application as federal tax credit)
2. SC Abandoned Buildings Revitalization Act – Adopted in 2013 - must spend >\$150,000 on property vacant for at least 5 years; can apply for either:
 - State Income Tax Credit – up to 25% of expenses, not to exceed \$500,000
 - Local Property Tax Credit – could apply to both city and county for credit on 25% of expenses times the taxing entity ratio (6%), not to exceed 75% of total tax liability, for up to 8 years.
 1. File “Notice of Intent to Rehabilitate”
 2. Council would determine Eligibility
 3. Public Hearing required, and credit is approved by ordinance

VACANT BUILDINGS | CURRENT TAX INCENTIVES

State: incentives for owner-occupied properties

25% income tax credit on rehab expenditures

Local: incentives for income producing & owner occupied properties

1. Beaufort Redevelopment Incentive Program – offer 3 years of tax refunds for the difference in the taxes between pre- and post-rehabilitation. This is done directly through the city and applies to:
 - Occupancy of Empty/Vacant Commercial Buildings
 - New Construction in Downtown and Redevelopment Corridors (double if rental housing is created)
 - Development of Student Housing
 - Development of Accessory Dwelling Units
 - Rehabilitation of Vacant or Abandoned Structures
2. Relief from review board and permit fees is offered for buildings on the vacant/abandoned list

VACANT BUILDINGS | PROPOSED TAX INCENTIVE

State Enabling Legislation for Local Municipalities:
SC Special Property Tax Assessment for
Rehabilitated Historic Buildings and Low
and Moderate Income Rental Properties
a.k.a. The Bailey Bill

- Sections 4-9-195 & 5-21-140

VACANT BUILDINGS | PROPOSED TAX INCENTIVE

SC Special Property Tax Assessment

What is it? Special Assessment based on the tax liability at pre-rehabilitation Fair Market Value, for projects that meet certain standards.

- Qualification can be set by municipality, but must meet one or more of the following criteria .
 - (a) the property is listed in the National Register of Historic Places;
 - (b) the property is designated as a historic property by the county governing body based upon criteria established by the county governing body and is at least fifty years old; or
 - (c) the property is at least fifty years old and is located in a historic district designated by the county governing body at any location within the geographical area of the county.
- Rehabilitation expenditure minimums must be set by municipality, between 20% -100% of Fair Market Value
- Duration of special assessment period, up to 20 years, must be set by municipality. Special assessment can keep tax liability the same, or increase it incrementally over a given period of time.

VACANT BUILDINGS | PROPOSED TAX INCENTIVE

SC Special Property Tax Assessment

How many properties are we talking about?

That's really dependent on the criteria established by the respective councils.

- The stricter the standards, the less properties would qualify
 - This law does not require buildings to be vacant to qualify, so
 - There may be more buildings than the 38-50 on the city's vacant abandoned and watchlists that qualify depending on how stringent or flexible the council wants to make the qualifying standards.
 - In the city, there could be as many as 150-200 buildings that could qualify. However, the goal of the legislation would be to set the standards to encourage primarily those properties that are vacant, or in serious disrepair to rehabilitate their properties.

Issue: There are two taxing jurisdictions. For the most tax benefit for the property owner, both the city and county would have to adopt this legislation.

VACANT BUILDINGS | PROPOSED TAX INCENTIVE

Comparison between Special Assessment & Redevelopment Incentives

	SC Special Assessment	Redevelopment Incentives
Timeframe	Up to 20 years – decided by council	3 Years
Must be Vacant	No	Yes
Must have Historic Significance	Not necessarily – up to council; must be in the historic district	No
Minimum Rehab Investment	20-100% of fair market value – council decision	none
# of qualifying properties	38-200* *there are about 500 contributing structures. # of qualifying properties will depend on minimum rehab investment req'd & historic designation req's.	50* *buildings must be on Vacant/Abandoned list to qualify

VACANT BUILDINGS | PROPOSED TAX INCENTIVE

History of Similar Tax Incentives in the Country & State

- These have been popular since the mid-80s. By the 1990s over 22 states had similar legislation, with two states (GA & OR) having mandatory legislation for these incentives as opposed to enabling legislation that can be adopted if a municipality so chooses.
- This legislation was adopted in SC in 1990, and amended in 2004 to make it simpler and easier to use.

VACANT BUILDINGS | PROPOSED TAX INCENTIVE

History of Similar Tax Incentives South Carolina

- This legislation has been adopted by:
Aiken, *Columbia, Greenville, Greer, *Richland
County, Seneca, Sumter County
- On average, the term of the special assessment is 10 years. Some municipalities choose to gradually increase the rate towards the end of the term, while others simply end the special assessment all at once.

VACANT BUILDINGS | PROPOSED TAX INCENTIVE

Impact of Similar Tax Incentives in the Country & State

According to a 1999 paper titled State and Local Real Property Tax Incentives for Historic Preservation by Harry K. Schwartz (former Director of the Center for Preservation Policy Studies of the National Trust for Historic Preservation) in the Preservation Law Reporter:

“It should be noted that it is often difficult to determine whether a particular incentive scheme does in fact result in a loss of tax revenues, even over the near term. Since most incentives have the effect of freezing tax revenues on a historic building for a period of years, when a property owner makes use of the incentive, the taxing authority is left in the same position it was in before the rehabilitation activity took place, it is receiving the same, low tax yield as it did from the unimproved building. If, in the absence of the incentive, the rehabilitation would not have taken place, it is hard to see how the taxing authority has lost anything by granting the abatement.”

VACANT BUILDINGS | PROPOSED TAX INCENTIVE

Sample Calculation of a Subsidy-to-Rehabilitation Ratio

Example Property: 1408 Greene Street

1. Assumptions –

- assessed value = \$96,100
- (tax cap value= \$70,646)
- Rehab added value = \$70,000
- Value including rehab \$169,100
- Incentive duration 10 years



2. Calculation of taxes due over life of incentive

- Base city tax (6% market value at 66.61 mills [.06661])
 - Pre-rehab: $\$70,646 \times .06 = \$4,238 \times .06661 = \$282/\text{yr} \times 10 \text{ years}^* = \$2,820$
*assumes no depreciation due to increased deterioration
 - Post-rehab: $\$169,100 \times .06 = \$10,146 \times .06661 = \$675/\text{yr} \times 10 \text{ years} = \$6,750$

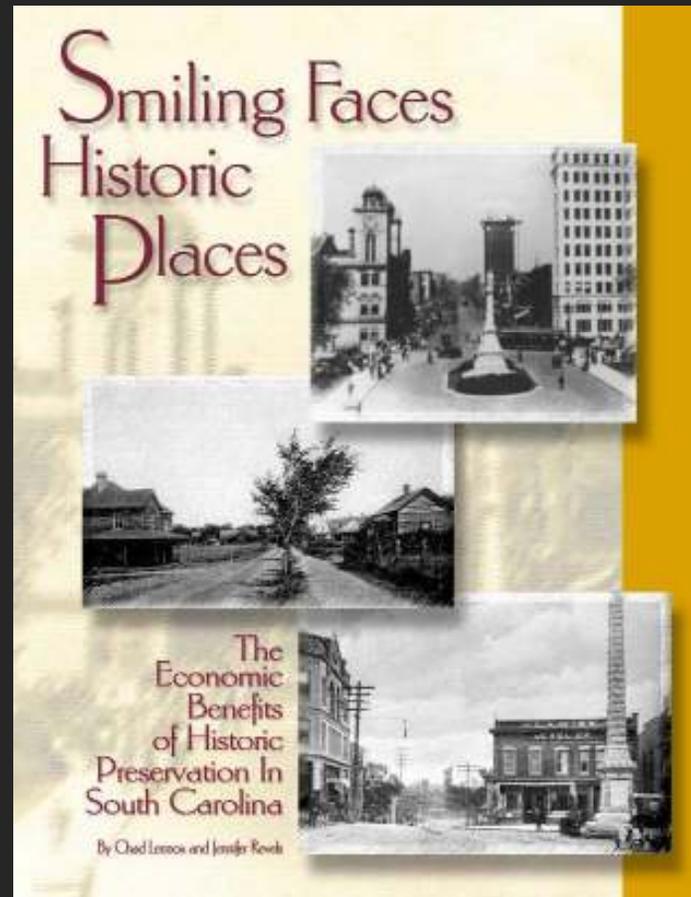
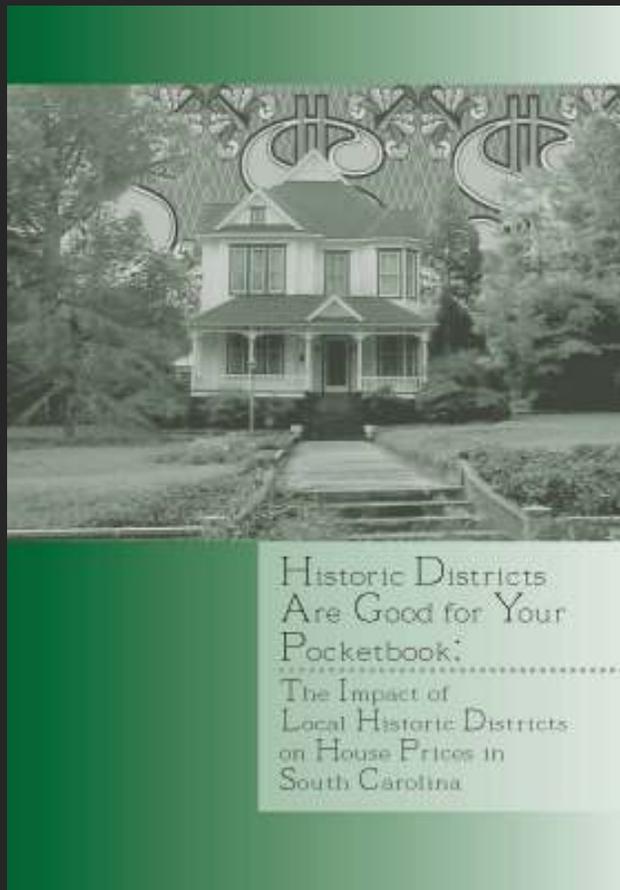
3. Calculation of savings attributable to use of incentive: $\$6,750 - \$2,820 = \$3,930$

4. Calculation of subsidy-to-rehabilitation ratio:

- Taxes saved (\$3,930) / Value of Rehab (\$70,000) = 5.6%
- If adopted by the county, this ratio (using full millage) increases to 27.7%

VACANT BUILDINGS | VALUE OF PRESERVATION

South Carolina has commissioned multiple studies on the financial impact of preservation on municipalities



VACANT BUILDINGS | VALUE OF PRESERVATION

According to “Historic Districts are Good for Your Pocketbook”:

The average house price in Beaufort’s HD is 21% higher than a comparable house outside the district (c. 2000)

According to “Smiling Faces Historic Places” in South Carolina:

- For each residential rehab project there is an average of \$180,000 in direct and indirect construction costs
- For each commercial rehab project there is an average of \$1,000,000 in direct and indirect construction costs

VACANT BUILDINGS | CONCLUSIONS

Conclusions

1. This incentive appears to have little to no negative effect on the current tax revenue in the city in the short term
2. In the long term, this incentive could have a positive effect on city and county tax revenue.
3. For the maximum impact possible, both the City AND County should adopt this incentive.
4. The public impact of adopting this legislation is very beneficial to the city and county, as it reiterates how both jurisdictions are working together to support the restoration of historic properties within the community.

VACANT BUILDINGS | RECOMMENDATIONS

Recommendations

1. Consider adopting this legislation with a Sunset period of 5 years.
2. Work with the County Council to encourage the county to adopt this legislation as well.
 - County should consider adopting legislation with same terms as the city
 - County should consider automatic approval for any project approved by the city, similar to Richland County
3. Preliminary recommendations for standards: At first blush, the city, after a discussion with the town of Bluffton, is considering:
 - Allowing properties which meet any of the 3 criteria to be eligible;
 - Setting the minimum expenditure requirement between 70-80% of the assessed value; and
 - Setting the duration at 10 years, with a fixed rate through year 7, a 25% increase year 8, 50% increase year 9, and 75% increase year 10. On year 11, the property owner would pay taxes on the full assessed value.

ADD-ONS

The document(s) herein were provided to Council for information and/or discussion after release of the official agenda and backup items.

Topic: Treasurer's Salaries (excluding state stipends) August 2013
Date Submitted: January 27, 2014
Submitted By: Jerry Stewart
Venue: Finance Committee

Treasurer's Salaries (excluding state stipends) August, 2013

<u>County</u>	<u>Salary (excluding state stipend)</u>	<u>Population Estimate</u>
Aiken County	\$61,160	160,099
Anderson County	\$64,621	187,126
Beaufort County	\$64,326	162,233
Berkeley County	\$58,803	177,843
Dorchester County	\$53,085	136,555
Florence County	\$61,000	136,885

State stipend just under \$20,000.00

21,637.⁰⁰

*11/4/2014 or 2015
Base Salary*

Topic: State Code Section 4-9-195
Grant of special property tax assessments to "rehabilitated
historic property" or "low and moderate income
rental property"

Date Submitted: January 27, 2014

Submitted By: Lauren Kelly

Venue: Finance Committee

as otherwise provided for by the general law and the Constitution, but this authority shall not extend to school districts, special purpose districts or other political subdivisions created by the General Assembly; provided, however, that beginning January 1, 1980, the council shall provide by ordinance for the appointment of all county boards, committees and commissions whose appointment is not provided for by the general law or the Constitution, but this authority shall not extend to school districts, special purpose districts or other political subdivisions created by the General Assembly.

HISTORY: 1962 Code Section 14-3714; 1975 (59) 692.

SECTION 4-9-175. Per diem, travel, and other expenses authorized for travel by board or commission members outside county.

The governing body of a county may pay per diem, travel, or any other expenses, in an amount it considers necessary, to any member of a county board or commission when the member travels outside of the county and incurs expenses relating to his duties while serving on the board.

HISTORY: 1993 Act No. 147, Section 1, eff. June 14, 1993.

SECTION 4-9-180. Officers and employees shall disclose personal interests in county business and refrain from voting on or participating in such matters.

Any county officer or employee who has a substantial financial interest in any business which contracts with the county for sale or lease of land, materials, supplies, equipment or services or who personally engages in such matters shall make known that interest and refrain from voting upon or otherwise participating in his capacity as a county officer or employee in matters related thereto.

Any county officer or employee who willfully violates the requirements of this section shall be deemed guilty of malfeasance in office and upon conviction shall forfeit his office or position. Violation of this section with the knowledge express or implied of the person or corporation contracting with or making a sale to the county shall render the contract or sale voidable by the county governing body.

HISTORY: 1962 Code Section 14-3715; 1975 (59) 692.

SECTION 4-9-190. Certain provisions inapplicable to board of commissioners form of government.

The sections of this article, except Sections 4-9-10 and 4-9-20 shall not apply to the board of commissioners form of government provided for in Article 11.

HISTORY: 1962 Code Section 14-3716; 1975 (59) 692.

SECTION 4-9-195. Grant of special property tax assessments to "rehabilitated historic property" or "low and moderate income rental property".

(A) The governing body of any county by ordinance may grant the special property tax assessments authorized by this section to real property which qualifies as either "rehabilitated historic property" or as "low and moderate income rental property" in the manner provided in this section. A county governing body may designate, in its discretion, an agency or a department to perform its functions and duties pursuant to the provisions of this section in its discretion.

(1) All qualifying property may receive preliminary certification from the county governing body and upon this preliminary certification, the property must be assessed for two years on the fair market value of the property at the time the preliminary certification was made. If the project is not complete after two years, but the minimum expenditures for rehabilitation have been incurred, the property continues to receive the special assessment until the project is completed.

(2) Upon completion of a project, the project must receive final certification from the county governing body in order to be eligible for the special assessment. Upon final certification, the property must be assessed for the remainder of the special assessment period on the fair market value of the property at the time the preliminary certification was made or the final certification was made, whichever occurred earlier. If a completed project does not comply with all requirements for final certification, final certification must not be granted and any monies not collected by the county due to the special assessment must be returned to the county.

(3) The special assessment only begins in the current or future tax years as provided for in this section. In no instance may the special assessment be applied retroactively.

(B) As used in this section:

(1) "Historic designation" means the owner of the property applies for and is granted historic designation by the county governing body for the purpose of the special property tax assessment based on one or more of the following reasons:

(a) the property is listed in the National Register of Historic Places;

(b) the property is designated as a historic property by the county governing body based upon criteria established by the county governing body and is at least fifty years old; or

(c) the property is at least fifty years old and is located in a historic district designated by the county governing body at any location within the geographical area of the county.

(2) "Approval of rehabilitation work" means the proposed and completed rehabilitation work is approved by the reviewing authority as appropriate for the historic building and the historic district in which it is located.

(3) "Minimum expenditures for rehabilitation" means the owner or his estate rehabilitates the building, with expenditures for rehabilitation exceeding the minimum percentage of the fair market value of the building established by the county in its ordinance. The county governing body may set different minimum percentages for owner-occupied property and income producing real property, between twenty percent and one hundred percent.

(4) "Special assessment period" means the county governing body shall set the length of the special assessment in its ordinance of not more than twenty years.

(5) "Preliminary certification" means a property has met the following conditions:

(a) the owner of the property applies for and is granted historic designation by the county governing body; and

(b) the proposed rehabilitation receives approval of rehabilitation work from the reviewing authority.

A county governing body may require that an owner applies for preliminary certification before any project work begins.

(6) "Final certification" means a property has met the following conditions:

(a) the owner of the property applies for and is granted historic designation by the county governing body;

(b) the completed rehabilitation receives approval of rehabilitation work from the reviewing authority; and

(c) the minimum expenditures for rehabilitation were incurred and paid.

(7) "Reviewing authority" for approval of rehabilitation work pursuant to this section is defined as:

(a) the board of architectural review in counties with a board of architectural review with jurisdiction over historic properties operating pursuant to Section 6-29-870;

(b) in counties without a board of architectural review with jurisdiction over historic properties, the county governing body may designate another qualified entity with historic preservation expertise to review the rehabilitation work; or

(c) if the county governing body does not designate another qualified entity, the Department of Archives and History shall review the rehabilitation work. No separate application to the department is required for properties receiving preliminary and final approval for the federal income tax credit allowed pursuant to Section 47 of the Internal Revenue Code or the state income tax credit allowed pursuant to Section 12-6-3535.

(8) "Rehabilitated historic property" means the property has met all the criteria for final certification.

(C) "Low and moderate income rental property" is eligible for certification if:

(1) the property provides accommodations under the Section 8 Program as defined in the United States Housing Act of 1937 and amended by the Housing and Community Act of 1974 for low and moderate income families and persons as defined by Section 31-13-170(p); or

(2) in the case of income-producing real property, the expenditures for rehabilitation exceed the appraised value of the property; and

(3) if the low and moderate income housing rehabilitation is located in an area designated by the local government as a Low and Moderate Housing Rehabilitation District; and

(4) the owner or estate of any property certified as "low and moderate income rental property" takes no actions which cause the property to be unsuitable for such a designation. The county governing body granting the initial certification has the authority to decertify property in these cases, and the property becomes immediately ineligible for the special tax assessments provided for this type of property; and

(5) if the property qualifies as "historic" as defined in subsection (B)(1), then the rehabilitation work must be approved by the appropriate reviewing authority as provided in subsections (B) and (D).

(D) The Department of Archives and History may provide training and technical assistance to counties and procedures for application, consideration, and appeal through appropriate regulations for "rehabilitated historic property" provisions of the law. The governing body may establish fees for applications for preliminary or final certification, or both, through the ordinance or regulations.

(E) When property has received final certification and is assessed as rehabilitated historic property, or low or moderate income rental property, it remains so certified and must be granted the special assessment until the property becomes disqualified by any one of the following:

(1) written notice by the owner to the county to remove the preferential assessment;

(2) removal of the historic designation by the county governing body;

(3) decertification of the property by the local governing body as low or moderate income rental property for persons and families of moderate to low income as defined by Section 31-13-170(p);

(4) rescission of the approval of rehabilitation work by the reviewing authority because of alterations or renovations by the owner or his estate which cause the property to no longer possess the qualities and features which made it eligible for final certification.

Under no circumstances shall the sale or transfer of ownership of real property certified and assessed in accordance with this section and any ordinance in effect at the time disqualify the property from receiving the special property tax assessment under this section. This provision shall be applicable and given full force and effect to any special property tax assessment granted prior to the effective date of this paragraph notwithstanding any ordinance in effect from time to time to the contrary.

Notification of any change affecting eligibility must be given immediately to the appropriate county taxing and assessing authorities.

(F) If an application for preliminary or final certification is filed by May first or the preliminary or final certification is approved by August first, the special assessment authorized by this section is effective for that year. Otherwise it is effective beginning with the following year.

(G) Once the governing body has granted the special property tax assessments authorized by this section, the owner of the property shall make application to the auditor for the special assessment provided for by this section.

(H) A property certified to receive the special property tax assessment under the existing law continues to receive the special assessment in effect at the time certification was made.

HISTORY: 1990 Act No. 474, Section 1, eff May 14, 1990; 1992 Act No. 375, Sections 1-4, eff May 19, 1992; 2004 Act No. 292, Section 1, eff August 16, 2004; 2010 Act No. 182, Section 5, eff May 28, 2010.

ARTICLE 3.

COUNCIL FORM OF COUNTY GOVERNMENT (FORM NO. 1)

SECTION 4-9-310. Responsibility for policy making and administration; membership of council; applicability of Article 1.

In those counties adopting the council form of government provided for in this article, the responsibility for policy making and administration of county government shall be vested in the county council which shall consist of not less than three nor more than twelve members who are qualified electors of the county. The structure, organization, powers, duties, functions and responsibilities of county government under the council form shall be as prescribed in Article 1 of this chapter.

HISTORY: 1962 Code Section 14-3720; 1975 (59) 692.

ARTICLE 5.

COUNCIL-SUPERVISOR FORM OF COUNTY GOVERNMENT (FORM NO. 2)

SECTION 4-9-410. Membership of council; election, term, and compensation of supervisor.

The council in those counties adopting the council-supervisor form of government provided for in this article shall consist of not less than two nor more than twelve members who are qualified electors of the county. The supervisor shall serve as chairman and vote only to break tie votes. The supervisor shall be a qualified elector of the county, elected at large from the county in the general election for a term of two or four years.

The compensation for the supervisor shall be prescribed by the council by ordinance. The council shall not reduce or increase the compensation of the supervisor during the term of office for which he was elected.

HISTORY: 1962 Code Section 14-3730; 1975 (59) 692.

SECTION 4-9-420. Powers and duties of supervisor.

The powers and duties of the supervisor shall include, but not be limited to, the following:

(1) to serve as the chief administrative officer of the county government;

(2) to execute the policies and legislative actions of the council;

(3) to direct and coordinate operational agencies and administrative activities of the county government;

(4) to prepare annual operating and capital improvement budgets for submission to the council;

(5) to supervise the expenditure of funds appropriated by council;

(6) to prepare annual, monthly and other reports for council on finances and administrative activities of the county;

Topic: State and Local Real Property Tax Incentives for
Historic Preservation

Date Submitted: January 27, 2014

Submitted By: Lauren Kelly

Venue: Finance Committee

PROPERTY TAX INCENTIVES

State and Local Real Property Tax Incentives for Historic Preservation

By Harry K. Schwartz *

Nearly half of the states in this country have enacted some form of property tax incentives for historic preservation and others are likely to follow. The extent to which these incentives have successfully spurred historic rehabilitations, however, has varied. In this article, Harry K. Schwartz offers guidance on how to evaluate the effectiveness of these benefits in a particular state, and what factors should be taken into consideration in drafting new legislation.

Approximately 22 states provide some form of relief for a limited period of time from local *ad valorem* real property taxes as an incentive for the rehabilitation of buildings of historic importance. The relief may take the form of a credit against property taxes, a special assessment, a freeze of the assessment or an abatement of taxes. Regardless of the form, however, each provides a financial incentive to property owners to rehabilitate historically significant properties in a manner consistent with the historic character of the building. The most common form of incentive pursues this objective by exempting from taxation for a fixed period of time the increase in the building's value attributable to the historically appropriate rehabilitation work. Thus the owner of the building receives, as an inducement for performing the historic rehabilitation, a partial and time-limited tax holiday from local *ad valorem* real property taxes on the building.

In some jurisdictions these incentives have played a significant role in stimulating historic rehabilitation. In others their impact has been negligible. Why do real property tax incentives work well in some jurisdictions and not in others? Why do they appear to be more effective with certain building types and uses and less effective with others? In an effort to provide answers to these questions, seven jurisdictions in which varying forms of real property-based tax incentives are in effect were studied. The sample was chosen to provide a range of forms of property tax-based incentives, geographical distribution, varying levels of tax burden and varying depths of tax subsidy. The goal was to identify factors that may help to explain why some programs have succeeded, while others have not.

Data were collected from public officials and leaders of nonprofit organizations in the following seven jurisdictions: Illinois (Cook County); Maryland (Baltimore); Florida (Jacksonville); Georgia (Macon); South Carolina (Aiken); Washington (Seattle); and Texas (Dallas).

The incentives in effect in each of the jurisdictions were analyzed and the available data on the extent to which the incentives are being used were collected. Because of inconsistencies and gaps in these data, measuring the relative effectiveness of the incentives cannot be performed with mathematical precision. The data do, however, permit rough judgments to be made about the relative levels of use of the incentives described.

Two factors emerge as contributing significantly to the effectiveness of the subsidies: the relative real property tax burdens in the jurisdictions studied, and the relative depth of subsidy available in the sample localities. Localities with high tax burdens are more likely to have effective programs than localities with low tax burdens. The higher the tax bill, the greater the opportunity to provide meaningful financial incentives through substantial tax relief. Nonetheless, the data also demonstrate that localities can provide deep subsidies, and effective programs, by using creative approaches even in jurisdictions with relatively low tax burdens.

This article describes the forms of incentive in use in each of the jurisdictions studied. It also summarizes the data from each jurisdiction on the level of use of the program. It then ranks the jurisdictions by weight of property tax burden, and sets forth the methodology by which that ranking is derived. Next, it ranks the jurisdictions by depth of incentive, and explains the methodology developed to permit an "apples-to-apples" comparison of the varying systems. It then concludes with a discussion of three models based on the experience of jurisdictions with relatively low tax

* Mr. Schwartz, a former Director of the Center for Preservation Policy Studies of the National Trust for Historic Preservation, is an attorney and consultant on state and federal tax issues relating to historic preservation.

burdens in creating successful programs.

Before reading about the programs in effect in the jurisdictions in the sample, a few general observations may be helpful. Although there are some significant exceptions, the form taken by real property tax incentive programs typically involves a state statute that authorizes but does not require localities to provide tax relief to qualifying projects. These are the so-called "local option" programs. Only a few states—notably Georgia and Oregon—have mandatory statewide incentives. In those states in which the local option rule is in effect, each jurisdiction must make its own political decision about whether to implement the program. Although many communities have concluded that the benefits, fiscal and otherwise, of exercising the option and granting the tax relief outweigh the potential loss of property tax revenues in the near term, others have been reluctant to provide a form of financial incentive that they see as reducing revenues needed to support such essential local public services as schools, police and roads.

It should be noted that it is often difficult to determine whether a particular incentive scheme does in fact result in a loss of tax revenues, even over the near term. Since most incentives have the effect of freezing tax revenues on a historic building for a period of years, when a property owner makes use of the incentive, the taxing authority is left in the same position it was in before the rehabilitation activity took place: it is receiving the same, low tax yield as it did from the unimproved building. If, in the absence of the incentive, the rehabilitation would not have taken place, it is hard to see how the taxing authority has lost anything by granting the abatement.

A second preliminary observation relates to the nature and function of the building for which property tax relief is sought. As demonstrated by the programs studied, properties eligible for the federal 20 percent historic rehabilitation tax credit¹ are most likely to take advantage of the local property tax incentive. These are often larger commercial properties, including rental real estate. They are more likely to be chosen for rehabilitation using the property tax incentive for two reasons: first, since the properties are held for the production of income or used in a trade or business, they are already entitled to the federal income tax credit, which provides a substantial incentive for their rehabilitation; and second, because they are large projects, they tend to be developed by professionals who are financially sophisticated and have the advice of lawyers and accountants skilled in layering local and federal tax advantages. By contrast, under present law, owner-occupied residences are not entitled to the federal tax credit,² and they tend to be rehabilitated by their individual owners, who generally lack access to the sophisticated advice available to the professional developer. Consequently, the owners of such buildings are less likely to know about, much less take advantage of, a local real property tax incentive.

Description of Incentives and Level of Use

1. ILLINOIS (COOK COUNTY)

Description of Incentives. Illinois law provides authority to localities to establish special property tax assessment incentive classifications. In addition, Illinois has adopted a statewide property tax assessment freeze program for owner-occupants of historic residential properties who rehabilitate their homes, with the proviso that local taxing authorities may opt out.

The Illinois ranking in depth of subsidy reflected in Table II below is based upon the use of the Class "L" property tax incentive, which is designed to encourage the preservation and rehabilitation of landmark commercial and industrial buildings. It provides for a 10-year special assessment that applies to the entire building portion of the property (including the value of existing improvements prior to rehabilitation). The Class L incentive is not a tax-freeze program; the property continues to be reassessed, but at the lower assessment levels. Instead of being assessed at 38% of fair market value (normally applicable to commercial buildings), the building is assessed at 16% of fair market value for years 1 through 8, 23% in year 9 and 30% in year 10. The building must be an individually-designated landmark and the City Council must grant approval of the special assessment for each project claiming the incentive. (It is possible to obtain reduced assessments at these levels for the land portion of the property as well if the building has been vacant or unused continuously for the previous two years. This additional subsidy, however, has been used only on one project thus far and is not reflected in the table.) For purposes of establishing the ranking in Table II, it has been arbitrarily assumed that the pre-rehabilitation value of the building is divided evenly between land and building, *i.e.*, \$50,000 for land and \$50,000 for building. (As a practical matter, land value tends to exceed building value in downtown areas,

¹ Federal law presently provides a 20 percent tax credit for the substantial rehabilitation of historic buildings for commercial, industrial or rental residential purposes. 26 U.S.C. § 47 (1986).

² However, such a credit would be provided by enactment of the Historic Homeownership Assistance Act, H.R.1172, 106th Cong., 1st Sess. (1999); S. 664, 106th Cong., 1st Sess. (1999).

such as North Chicago township.)

Cook County also has in effect within certain townships the statewide property tax assessment freeze program for homeowners. This program differs from the Class L incentive in a number of particulars. It is limited to owner-occupied residences, which are normally assessed at 16% of fair market value. Under this program, qualifying historic homes that are substantially rehabilitated in accordance with the Secretary of the Interior's *Standards for Rehabilitation*³ are entitled to have their assessment frozen for 8 years at the level in effect in the year rehabilitation was begun. The assessment is then brought back to market level over a period of four years.

To qualify, the structure must be listed in the National Register of Historic Places, be designated by an approved local historic preservation ordinance, or be a structure within a historic district that contributes to the historic significance of the district. The project must be approved by the Illinois Historic Preservation Agency, but not by the local city council. Data from the statewide owner-occupied residence program have not been reflected in the tables, because of the difficulty in calculating tax burdens and depth of subsidies across Cook County. Of the 38 townships within Cook County, 18 are participating in the freeze program. A different millage⁴ applies in each of those participating townships. In addition, Illinois caps annual increases in assessments for owner-occupied residences at 5% per year, which dilutes the economic benefit of a freeze conditioned on rehabilitating properties in accordance with historic standards.

Level of Use. From its adoption in 1997 through 1998, the Class L special assessment incentive for commercial and industrial properties was used by 5 projects, 4 of which are in the range of \$34 million to \$45 million in construction costs. One project involves the rehabilitation of an art deco skyscraper into a 370-room hotel. The smallest project is a three-story mansion that has been rehabilitated as a bed and breakfast.

Chicago authorities are enthusiastic about the performance of the incentive to date. They note that most of the projects using the special assessment are also eligible for the federal 20% historic rehabilitation tax credit, but they believe that the special assessment is essential to the economic viability of the projects that are making use of it. Local preservationists believe that the aggregate subsidies to the project must be rich enough to permit the project to obtain financing. As a rule of thumb, they advise that such subsidies, discounted to present value, must aggregate between 15% and 25% of total project cost. In their view, subsidies that aggregate under 15% are insufficient to produce financial viability, and subsidies in excess of 25% constitute a windfall to the developer. They also believe that expediting clearances and providing waivers of permit fees constitute important incentives to developers.

The Cook County Assessor's Office reports that the state incentive for owner-occupied residences is working well, notwithstanding the 5% cap on annual increases in assessments for such properties, particularly in affluent areas. They state that only a trickle of applications has come in from blighted areas. Approximately 1,000 files have been opened, of which 700 to 750 are active. Wealthy communities such as New Trier, located north of the city, are active users; communities in Chicago's Southside are not using the program.

2. MARYLAND (BALTIMORE CITY)

Description of Incentives. Maryland law enables localities to enact ordinances providing a property tax credit for up to 10 years equal to 100% of the tax assessment increase on an eligible historic property (either owner-occupied residential or commercial property) which has been rehabilitated in accordance with the guidelines of the local governing body. Baltimore City provides a 10-year credit, and projects must be pre-approved by the Baltimore City Commission for Historical and Architectural Preservation. The program operates, in effect, as a 10-year freeze on the tax assessed on the rehabilitated property. If the property is sold within 10 years, the remaining term of the credit is transferred to the purchaser. The ranking in Table II reflects this incentive.

In 1997 the Baltimore ordinance was amended to permit the use of the credit for projects exceeding \$3.5 million in construction costs, which had previously been ineligible. Property tax credits for projects of this magnitude are on a sliding scale, commencing at 80% of the property tax that would otherwise be payable on the qualified improvements for the first five years, and then phasing down to 30% in year 10, after which time the credit would no longer be available.

Level of Use. From the time of the adoption of the Baltimore ordinance in 1996 through 1998, 104 applications had been received and 35 projects had been completed and certified. Approximately one-fourth of the applications were for commercial projects. As of November 1998, over \$5.5 million had been invested in qualifying improvements to

³ The Secretary's Standards are codified at 36 C.F.R. § 67.7. They are available on the National Park Service's web site at "www2.cr.nps.gov".

⁴ One mill equals one-one thousandth of one dollar. Millage is frequently expressed as a tax rate of one dollar on each one thousand dollars of the taxable portion of the assessed value of the property.

projects completed as of that date. In February 1999 an additional project, the American Can Company plant, was certified as completed under the 1997 amendment to the ordinance. That single project involved almost \$19 million in rehabilitation expenditures. It is estimated that approximately 21,000 properties in the City of Baltimore are eligible for the property tax credit.

3. GEORGIA (MACON)

Description of Incentives. Since 1989, Georgia has had a statewide preferential property tax assessment program for rehabilitated historic property. Unlike most real property incentives, the Georgia program does not require the exercise of a local option; it is automatically in effect throughout the state. Under the Georgia law, which applies both to owner-occupied residential and commercial properties, eligible properties are entitled to an eight-year freeze on property tax assessments. For the ninth year, the assessment increases by 50% of the difference between the base year assessment and the current fair market value. In the tenth year, the assessment increases to fair market value.

Level of Use. The Historic Preservation Division of the Georgia Department of Natural Resources reports that it has seen steady growth in both the number of projects reviewed and the estimated rehabilitation expenditures on an annual basis. In fiscal year 1995 the Division reviewed 151 projects with an aggregate estimated rehabilitation expenditure of \$65 million. In fiscal year 1998, the number of projects reviewed increased to 182, representing over \$114 million in proposed expenditures. In fiscal year 1999, the number of projects reviewed rose again to 363 applications, representing over \$176 million in proposed expenditures.

Although Macon, Georgia ranks fourth in tax burden and third in depth of subsidy in the sample, it has achieved an admirable record in stimulating the rehabilitation of homeownership properties. That success is attributable, at least in part, to the role played by the Macon Heritage Foundation, a citywide nonprofit organization.

Despite the fact that homeownership properties are regarded as harder to work with in some of the jurisdictions studied, Macon Heritage reports that most of its activity has involved the rehabilitation of residences. It serves as a facilitator for property owners, preparing the paperwork for its clients and negotiating assessed values with the assessor's office. It currently charges a service fee of \$550 per property to process the necessary application for the Georgia property tax freeze, and it finds that charge not to be a deterrent. In recent years, its clients have tended to be middle income, and their projects typically involve rehabilitation expenditures in excess of \$125,000. In addition, the organization has acted as a developer, rehabilitating and selling over 15 houses. Macon has thus benefited from the combination of a relatively generous subsidy and the presence of an active and sophisticated nonprofit organization that has stimulated investment in the rehabilitation of the city's historic properties.

4. TEXAS (DALLAS)

Description of Incentives. Pursuant to authority granted under state law, the City of Dallas has adopted a multi-tiered targeted program offering abatement of city real property taxes. Historic properties located within a radius of approximately one mile of the central business district are granted Tier One status, and properties within the freeway loop are granted Tier Two status. Under the ordinance in effect prior to April 1998, for properties having Tier One or Tier Two status, the city grants a 10-year exemption from city real property taxes for 100% of the value of the land and structure, as rehabilitated, if the rehabilitation expenditures exceed 75% of the structure's pre-restoration value. (Although the ordinance was amended in 1998 to reduce this level of subsidy, Table II reflects the pre-1998 ordinance.) An additional five years of abatement on the structure itself may be obtained if more than half of a historic structure is converted to residential use. (This additional abatement is not reflected in Table II.) A similar level of abatement has been provided for eight specified endangered neighborhoods, but with a lower threshold; rehabilitation expenses need only exceed 50% of the structure's pre-restoration value. In other parts of the city, taxes are abated on the added value for 10 years when renovation expenses exceed 50% of the structure's pre-restoration value. Abatements over \$50,000 must be reviewed by the Dallas City Council.

Level of Use. Incentives approved in all classes from 1994 to 1997 reflected in excess of \$85 million in historic rehabilitation investments in more than 130 residential and commercial projects. Only one of the eight endangered neighborhoods, Peak's Suburban Addition, has experienced significant use of the tax abatement, with 56 houses in that area rehabilitated through private investment of approximately \$1.6 million. Much of the activity has involved downtown loft and office conversions for residential use. A number of projects have benefited from city-administered low-cost housing loans. However, local preservationists have asserted that many, if not most of the rehabilitations using the abatement would not have been financially feasible without the abatement.

5. WASHINGTON (SEATTLE)

Description of Incentives. Washington law authorizes localities to adopt ordinances establishing a special valuation that excludes from assessed value for a 10-year period the costs of approved rehabilitation made to an eligible historic building. In order to keep the special valuation in force, the property owner must agree to maintain the property in good condition and to obtain approval for any further improvements. The property must be visible from a public right of way or be available to public view once every year. The special valuation program applies to both commercial and owner-occupied residential properties. Implementing ordinances have been adopted in approximately 30 Washington towns and cities, among them the City of Seattle.

Level of Use. The Seattle incentive has been heavily used since the inception of the program in 1985, but the users have been predominantly large commercial projects. For example, in 1985, 11 projects were approved with an aggregate rehabilitation cost of more than \$50 million. Projects tend to exceed \$1 million in rehab costs, with one, the Nordstrom project, representing more than \$48 million in 1996 and an additional \$38 million in 1997. In 1997, eight projects were approved, of which only two were for less than \$1 million.

Seattle officials estimate that from 1985 through 1998, 104 properties had been rehabilitated with the use of the special assessment, representing more than \$150 million of private investment in rehabilitation, out of an estimated 700 eligible properties. The city asserts that it is aggressively marketing the special assessment. The marketing activities include: (i) outreach by city staff at community meetings, such as those held by Rotary and Lions Clubs, to inform property owners of the availability of the program, (ii) distribution of brochures that explain the benefits of the program and requirements for eligibility, and (iii) ensuring that any property owner contemplating modifications to an eligible building is made aware of the special assessment program. State officials believe that the aggregate value of subsidies provided to a commercial project (which may also include the 20% federal historic rehabilitation tax credit) needs to be sufficient to provide a 15% return on equity to the investor in order to make the project financially feasible.

In Spokane, also an aggressive user of the program, it was similarly reported that commercial developers have been best able to take advantage of the special assessment. Homeowners using the incentive have tended to be upper income. Because the program has a low threshold for eligibility (the qualified rehabilitation costs need only equal or exceed 25% of the structure's assessed value prior to rehabilitation), it has been used for such projects as the modernization of kitchens and bathrooms, and may be worth only several hundred dollars a year.

6. FLORIDA (JACKSONVILLE)

Description of Incentives. Pursuant to a 1992 referendum amending the Florida Constitution to authorize localities to provide a partial exemption from local *ad valorem* property tax as an incentive for historic preservation, the City of Jacksonville adopted an implementing ordinance in 1994 that authorizes, on approval by the City Council, a 10-year exemption equal to 100% of the increase in assessed value resulting from the qualified improvement of the property. To qualify, the cost of the improvement must equal or exceed 25% of the assessed value of the property in the year in which the improvement was initiated. The lesser of \$2,500, or 15% of the cost of the improvement, must be expended on the exterior of the historic structure. The property owner is required to enter into a covenant agreeing to maintain the property so as to preserve its historic integrity during the exemption period.

Florida law imposes a 3% limit on the amount by which the assessment of an owner-occupied residence can be increased each year. As a result, the value of the incentive afforded by the exemption is substantially less than it would be if the full increase in the value of the property attributable to the historic rehabilitation were subject to tax. (The effect of the 3% cap is reflected in Table II. It explains why Jacksonville ranks seventh in subsidy-to-rehabilitation ratio, although the city ranks third in tax burden (see Table I).)

Level of Use. The Jacksonville City Council has designated 80 local landmarks and three local historic districts with approximately 8,000 contributing properties as eligible for the incentive. From the inception of the program through 1998, the city received approximately 70 applications for the exemption, 23 of which were received in the 1998-1999 fiscal year. The great preponderance of applications were for properties in the Springfield Historic District, a deteriorating urban neighborhood with a housing stock made up largely of modest frame single-family dwellings constructed in the late 1800's and early 1900's with pre-rehabilitation values in the \$20,000 to \$40,000 range. However, a number of small commercial properties (approximately \$500,000 and under) have been rehabilitated under the program, as have some larger and more expensive residential properties, some of which are individual landmarks, outside the Springfield District.

The burst of activity in the Springfield District appears to be the result of aggressive involvement by the city government, which may have contributed to, and is certainly reinforced by, the brisk and growing market for historically rehabilitated older urban housing in the Jacksonville metropolitan area. In order to induce buyers to purchase and rehabilitate homes in the Springfield District (of which 200 to 300 are vacant), the city acquired property

from non-resident owners through negotiated purchase, secured waivers of IRS and municipal liens (which would otherwise have presented an insurmountable obstacle to the program), targeted municipal improvements to the area, prepared Part I applications, pre-approved a list of qualified contractors, assembled a pool of mortgage lenders and arranged for the pre-qualification of prospective purchasers for mortgage financing, and provided gap financing from general funds and HUD block grant funds, utilizing the "slum and blight" provisions in the law to avoid the need to set income limits.

In addition, as a way of raising the profile of the area for marketing purposes, the city conducted an auction in June 1998 of 27 homes it had acquired in one quadrant of the Springfield District, 17 of which were promptly sold. These transactions were followed by more than 120 privately negotiated home sales in the Springfield District. Out-of-state developers also have begun to acquire deteriorated multifamily rental properties with a view to their historic rehabilitation.

Although the exemption incentive is available, the officials administering the program believe that the property tax relief "is not really driving it at all," and that tax abatement "is the icing on the cake." The high level of rehabilitation of owner-occupied residences in Jacksonville appears to be the result of an extremely energetic and creative intervention by the city administration, and the existence—or perhaps, more appropriately, the creation—of a brisk market of empty-nesters and younger families who are attracted to urban living in older, historic houses located within easy proximity to downtown.

The Dade County program, by contrast, has been used only for three major projects through 1998, two of which involved the use of the federal low-income housing credit and the 20% federal historic rehabilitation tax credit. The City of Miami, which is located within Dade County, has an additional real property tax, for which it has not implemented an exemption program. The county property tax exemption is believed by Miami officials to be "not helpful for smaller projects; there is not enough financial reward to warrant the effort."

7. SOUTH CAROLINA (AIKEN)

Description of Incentives. In 1990 the South Carolina legislature enacted a law, amended in 1992, enabling local governments to provide financial incentives for the rehabilitation of historic properties through a system of special assessments for local real property tax purposes. Under the law, a local government that adopts an implementing ordinance will freeze the tax assessment for two years on a qualifying historic property if the property is substantially rehabilitated in accordance with standards adopted by the South Carolina Department of Archives and History. Then, for the next eight years, it will tax the property based on the greater of 100% of the pre-rehabilitation assessment or 40% of the post-rehabilitation assessment.

The incentive applies both to income producing property (which is taxed at 6% of fair market value) and to owner-occupied residences (which are taxed at 4% of fair market value). The buildings must be "substantially rehabilitated" during the two-year freeze. For owner-occupied buildings, the cost of a "substantial rehabilitation" must exceed 50% of the appraised value of the building; for income producing property, the cost must exceed 100% of the appraised value of the building.

Level of Use. Through 1998 it appeared that eleven South Carolina jurisdictions had adopted enabling ordinances. In the period from enactment of the law through 1998, ten projects had been approved, seven of which had been completed. Five of the approved projects are located in Aiken. Five of the ten projects are commercial buildings, and five are private residences.

Principal Contributing Factors to Effectiveness of Tax Incentive

Any conclusions regarding the effectiveness of incentives for historic rehabilitation are subject to the qualification that all real estate development—including historic preservation—is subject to local and national market forces. However, based on these data, two major factors emerge as contributing significantly to the effectiveness of a local real property tax incentive for historic rehabilitation:

1. Relative size of the real property tax burden.
2. Depth of subsidy provided under the state and local incentives.

The following table sets forth in rank order the relative tax burdens in each of the jurisdictions surveyed:

TABLE I
Annual Real Property Tax Burden By Rank¹
 (Assumes tax assessment of \$100,000)

1. Illinois (Cook County/North Chicago) ²	\$7,221
2. Maryland (Baltimore City) ³	2,328
3. Florida (Jacksonville) ⁴	2,130
4. Georgia (Macon) ⁵	1,652
5. Washington (Seattle) ⁶	1,215
6. Texas (Dallas) ⁷	649
7. South Carolina (Aiken) ⁸ (commercial (private residence))	474 316

NOTES TO TABLE I:

¹ **General.** The tax burden data set forth above reflect only those *ad valorem* real property taxes that are subject to an incentive for historic rehabilitation. Homestead exemptions (which, as used here, include credits and other benefits typically designed to afford tax relief to low-income or elderly homeowners) have not been taken into account.

² **Illinois (Cook County).** Cook County has a multi-tiered assessment scheme. Commercial property is assessed at 38% of market value, industrial property is assessed at 36% of market value, and owner-occupied residences are assessed at 16% of market value. The Cook County data in Table I are based on projects involving the rehabilitation of commercial property. The burden has been calculated using the current millage applicable in North Chicago township, where the projects are located, which is 88.43. In addition, there is a statewide multiplier of 2.1489. Thus, the burden has been calculated as follows: \$100,000 x 0.38 x 2.1489 x 0.08843.

³ **Maryland (Baltimore City).** All real property in Maryland is assessed at 40% of fair market value. The applicable millage in Baltimore City is 58.2.

⁴ **Florida (City of Jacksonville).** All real property is assessed at 100% of fair market value. The current millage for the General Service Area of the city is 21.3008.

⁵ **Georgia (City of Macon).** All real property is assessed at 40% of fair market value. The current millage is 41.3.

⁶ **Washington State (City of Seattle).** All real property is assessed at 100% of fair market value. The current millage for the City of Seattle is 12.15814.

⁷ **Texas (City of Dallas).** All real property is assessed at 100% of fair market value. The current millage for the City of Dallas is 6.491. County and Hospital District taxes are not reflected in the table, although a partial abatement from these taxes is available for historic rehabilitation for certain larger projects. The current millage for County and Hospital District taxes is 3.8307.

⁸ **South Carolina (Aiken).** South Carolina has a two-tiered assessment scheme. Income-producing property is assessed at 6% of fair market value, while owner-occupied property is assessed at 4% of fair market value. The current millage for Aiken is 79.0. Millages for other South Carolina participating in the program range from 99.9 (Greenville) to 50.0 (Seneca).

Depth of Incentive

In order to perform an “apples to apples” comparison of the various incentive programs in the jurisdictions studied, it was necessary to construct a methodology that fairly measures the relative financial benefits afforded under each of the programs. The “Subsidy-to-Rehabilitation Ratio,” as shown in Table II below, is intended to reflect the depth of the financial incentive afforded by each of the real property incentive programs studied. It is the expression in percentage form of a fraction, the numerator of which is the aggregate dollar value over the life of the incentive of local *ad valorem* real property taxes saved because of the use of the incentive, and the denominator of which is the dollar value of qualified rehabilitation expenditures made on the qualifying project. Taxes saved have been determined by calculating the amount of taxes that would have been paid on the property as rehabilitated over the term of the incentive if the incentive had not been used, and subtracting the amount of taxes paid over the term of the incentive using the incentive. An example demonstrating the calculation of the subsidy-to-rehabilitation ratio is set forth in Appendix A.

TABLE II
Subsidy-to-Rehabilitation Ratio by Rank

1. Illinois (Cook County/North Chicago)	56.72%
2. Maryland (Baltimore City)	23.28%
3. Georgia (Macon)	14.04%
4. Texas (Dallas)	12.98%
5. Washington (Seattle)	12.16%
6. South Carolina (Aiken - commercial)	4.74%
7. Florida (Jacksonville)	3.85%
8. South Carolina (Aiken - residential)	3.16%

NOTE TO TABLE II:

Assumes \$100,000 in pre-rehabilitation value and \$100,000 in qualified rehabilitation expenditures. Assumptions do not reflect anticipated increases in fair market and assessed value over the life of the abatement/special assessment. The methodology arbitrarily assumes that assessed value will fully reflect the pre-rehabilitation value plus the full cost of the qualified rehabilitation expenditures, and will remain flat over the life of the incentive. The dollar value of out-year incentives has not been discounted to present value. Incentives have not been discounted to reflect loss of federal tax deductions for property taxes saved. Where more than one level of property tax-based incentive is available in a given jurisdiction, use of the one which produces the deepest subsidy has generally been assumed.

Discussion of Findings

The data inescapably demonstrate that in the absence of a significant real property tax burden, it is virtually impossible to create a substantial incentive for historic rehabilitation through real property tax relief. By and large, the jurisdictions with the highest tax burdens tend to produce the highest level of participation in the tax incentive program. Similarly, as a general rule, those projects that are large enough to realize substantial financial benefits from the use of an incentive are most likely to do so.

In those localities that tend to have significantly lower real property tax burdens, there is a viable question as to whether any legislative modification can result in a measurable increase in participation in the program. However, it may be useful to note some anomalies in the data and to consider whether they suggest models which have the potential to increase the effectiveness of real property tax incentives in jurisdictions with relatively low tax burdens.

The Jacksonville Model (Local Government Initiative). Although Florida has a relatively high tax burden, ranking third in the sample, the 3% annual cap on the amount by which assessments can be increased on owner-occupied residences effectively devalues the 10-year exemption for increases in assessed value attributable to historic rehabilitation. That is why Jacksonville ranks only seventh in subsidy-to-rehabilitation ratio. Nevertheless, the level of activity in Jacksonville, particularly in the area of owner-occupied residences, is impressively high.

Although local market forces are obviously contributing to that result, it is equally clear that the activist role assumed by the city government has been a major factor in the burst of historic rehabilitation taking place in the Springfield Historic District. What Jacksonville demonstrates is that local initiative can trigger a high level of rehabilitation activity even in the absence of a significant real property tax incentive.

The Macon Model (Local Nonprofit Organization Initiative). Unlike Jacksonville, which provides a relatively low subsidy through its property tax incentive, Macon has the benefit of the Georgia incentive, which ranks third overall in the sample in depth of subsidy. However, the role played by the Macon Heritage Foundation, a citywide nonprofit organization, has some parallels with that played by the city government in Jacksonville. As a nonprofit, Macon Heritage cannot offer subsidized city and HUD financing, as Jacksonville can; yet, because the Georgia property tax incentive is significantly richer than the Florida incentive, that disadvantage does not seem to have impaired its effectiveness. What Macon Heritage can do, and does do, is assist individual homeowners through the process of obtaining the approvals necessary to receive the state incentive.

The Dallas Model (Targeted Special Subsidy). Although the Dallas tax burden is quite low (ranking sixth on Table I, just above Aiken, South Carolina), the depth of the subsidy it can provide in targeted areas is significantly higher (fourth in the sample, and more than four times greater than that available in Aiken for residential properties). In the downtown and inner loop areas, the entire improved parcel—land, existing structure, and rehabilitation improvements—is exempted from city property taxes for a ten-year period where the renovation expenses exceed 75% of the pre-rehab value of the structure. In the eight endangered neighborhoods, the improvements need only exceed 50% of the pre-rehab value of the structure to qualify. This is a dramatically deep subsidy; it takes the property off the city's property tax rolls for 10 years. Although the impact of this incentive has been spotty in the deteriorated neighborhoods—only one of the eight has experienced significant rehabilitation activity—it has clearly resulted in a significant number of rehabilitations that would not otherwise have occurred. As such, it represents a legislative option which jurisdictions with low tax burdens may wish to consider as a way of overcoming the inherent limitations imposed by that constraint.

Appendix A

Example of Calculation of Subsidy-to-Rehabilitation Ratio Reflected in Table II

Maryland (Baltimore City)

1. Assumptions:

Pre-rehabilitation value	\$100,000
Rehab added value	100,000
Value including rehab	200,000

2. Calculation of taxes due over life of incentive:

Base Tax (40% of market value at 58.2 mills [.0582]) calculation:

Pre-rehab:

$$\$100,000 \times .40 = \$40,000 \times .0582 = \$2,328/\text{yr} \times 10 \text{ yrs.} = \$23,280$$

Post rehab:

For \$200,000, 10-year aggregate taxes would be: \$46,580

3. Calculation of savings attributable to use of incentive:

Taxes if incentive not used (based on \$200,000):	\$46,580
Deduct taxes paid using incentive:	- 23,280
Taxes saved:	\$23,280

4. Calculation of subsidy-to-rehabilitation ratio:

Taxes saved	\$23,280
Value of rehab	\$100,000

Expressed as a percentage: 23.28%