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PLACEMAKING: VALUING HISTORY, CULTURE AND ENVIRONMENT IN YOUR COMMUNITY



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HISTORIC PRESERVATION TAX CREDITS

By Dawn McCarthy and Jeff Bentoff

The concept of “place” invokes in many of us pictures of bucolic Wisconsin small-town main streets, like those found in Marshfield, Evansville, Cedarburg, La Crosse and so many other municipalities across the state.

That sense of place and authenticity comes in part from historic buildings that reflect and help define each of our communities’ unique heritages.

Despite successful renovations of numerous historic buildings across Wisconsin towns, villages and cities, many have fallen into various states of underuse, disrepair or abandonment. Without restoration to reverse years of neglect, these historic structures can contribute to a sense of decay instead of the sense of vibrancy we all desire.

Thoughtful municipal officials, skilled developers, dedicated owners and expert craftsmen often work together to give historic buildings productive second lives, jump-starting a community’s efforts at placemaking.

But such renovations can be financially challenging due to the high cost of reversing years of neglect.

Fortunately, needed financial assistance is available in the form of federal and state historic preservation tax credits for revenue-producing buildings. Many Wisconsin development projects became possible because of these credits.

Since 1981, the federal 20 percent historic preservation tax credit has been leveraging millions of dollars of investment in Wisconsin’s historic buildings. Between 2001 and 2013, 150 Wisconsin commercial development projects were assisted with the 20 percent federal and 5 percent Wisconsin credits. Investment on those projects totaled \$621 million into Wisconsin’s economy and resulted in 5,921 permanent jobs and 3,469 construction jobs.

To encourage more of this type of redevelopment, the Wisconsin credit, which was 5 percent since it began in 1987, was increased to 20 percent starting in January 2014 for certified rehabilitations of qualifying historic buildings.

IT’S WORKING

In La Crosse, historic preservation tax credits helped make revitalization of

the mostly empty and deteriorating Doerflinger building possible.

Construction of the once-thriving, four-story store at the heart of La Crosse’s downtown was completed in 1904. Over the years, the building became largely vacant, and deferred maintenance left it in poor condition.

Developer and building owner Mike Keil, president of Doerflinger’s Second Century, Inc., saw the potential for bringing the building back and for the building to bring new vitality to La Crosse. He bought the building from the City of La Crosse in 2004, 100 years after the original construction was completed. “I told my all my contractors, ‘This building has been here for 100 years; it’s our job to make sure it’s here for another 100.’”

“It’s a wonderful building,” Keil said. “It’s on a prime corner in Downtown La Crosse. I felt that if it was a restored building, we could get tenants on the upper floors, and that’s what happened.”

Due to years of neglect, the building required a costly \$2.4 million restoration. It needed a new roof, rebuilding of the original monumental stairway, floor-by-floor renovations, new electrical, an elevator upgrade and new HVAC.

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CONTRIBUTE TO MAKING WISCONSIN PLACES

Given these major improvements, Keil said, the 20 percent federal historic preservation tax credit, which provided \$480,000 to the project, and the 5 percent Wisconsin credit, which brought in another \$120,000, were essential to making the development viable.

“I would not have taken on the Doerflinger Building without tax credits,” Keil said. “I knew the restoration was going to be expensive, but I was not sure if I would be able to lease the upper floors at market rates. The tax credits made my worst-case scenario palatable.”

The Doerflinger Building restoration was completed in 2010. Employment jumped from a handful of jobs in small ground-floor stores when Keil bought the building to, with new tenants, around 160 people, including 100 workers at Authenticom Inc., a data services business, and 40 at Michaels Energy, an energy consulting firm.

Keil is just one of many Wisconsin building owners and developers who relied on the federal and state historic preservation tax credits to make their renovation projects a reality.

A major spike in historic redevelopments followed last year’s increase in Wisconsin’s historic preservation tax credit from 5 percent to 20 percent. The new level mirrors the federal 20 percent tax credit and matches

or comes close to the 20 percent to 25 percent in credits available in Illinois, Indiana, Iowa, Kansas, Minnesota, Nebraska and Ohio.

The new policy worked, and within a few months, the incentive had doubled the amount of proposed rehabilitation activity in Wisconsin over what had been completed the previous year.

In 2013, the state processed applications for approximately \$45 million in rehabilitation projects. In January 2014, the state saw applications for more than \$90 million worth of projects. The owners say many of these rehabilitation projects would not have been possible without the higher level of state credit.

But the unexpected number of requests received early last year after the credit went into place was well above the \$4 million a year originally estimated. As a result, the Wisconsin Economic Development Corporation placed a



Longfellow School interior, Madison, WI.

moratorium on the credits for a few weeks but then reestablished the program after realizing how many jobs were created and how many revitalization efforts were affected.

The first completed project to take advantage of the 20 percent state credit was conversion of Madison’s Longfellow School, built in phases from 1917 to 1938, into high-quality, market-rate apartments. The developer said the 20 percent state credit was necessary to making the major repairs needed to reuse the building, which ceased being used as a school in the 1990s and had become largely vacant. The units began renting in 2014.

“But for the State of Wisconsin’s increase in the state historic tax credit, our project to renovate and repurpose the Longfellow School in Madison would not have been possible,” said Joseph Alexander, president of The Alexander Company, Inc., which developed the school. “The project saved an important part of the community’s fabric, provided for more than 200 construction jobs, increased the tax



Doerflinger exterior by Lewis Kuhlman, La Crosse, WI.

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base and created more than 40 unique apartment homes, attracting new residents to downtown Madison. Support by Governor Scott Walker and large bipartisan majorities in the legislature created this vital economic development tool, and success has been immediate – a great outcome for the state and communities throughout.”

Such historic preservation and adaptive reuse projects, made possible by tax credits, are helping municipalities across Wisconsin create places. These places bring pride to their communities and attract new residents, businesses, employees and tourists.

In La Crosse, Mayor Tim Kabat values the state’s historic tax credits, especially the new 20 percent level, and how they help in development and placemaking.

“The tax credits are very important, and they’ve really taken on a momentum now that the state offers 20 percent,” Kabat said. “We were very happy that the tax credit got expanded, because that is going to drive more growth and economic development here in our city.”

Kabat said the Doerflinger Building’s restoration and reuse was a “huge positive” for downtown La Crosse, where historic preservation has been a major ingredient in creating a sense of place.

He said downtown La Crosse is becoming more attractive as workers, bars, music venues and arts establishments move in, and that “the foundation of that has been historic preservation. It’s really been the focus of why I think La Crosse has such a successful downtown.”



As we go to Print:

On February 3, 2015 Governor Walker introduced his 2015-2017 state budget, which proposes major changes to the Historic Preservation Tax Credit. The budget retains the 20% credit level put in place last year, but limits annual awards to \$10 million. The Governor also recommends that credits be awarded on a competitive basis with several criteria, including job creation potential, to determine which applicants receive the credit. These changes begin with the 2016 tax year. The Governor also recommends repealing the related credit for non-historic buildings built prior to 1936. The Legislature will spend the next several months preparing its version of the 2015-2017 state budget. The League will be lobbying in support of retaining an effective historic tax credit. For updates, see the League’s website <http://www.lwm-info.org/> Click on the Legislative Tab at the top.