



UNIVERSITY OF MINNESOTA EXTENSION

# **Economic Impact of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit: Fiscal Year 2022**

A report of the Economic Impact Analysis Program



Program sponsor: Minnesota Department of Administration, State Historic Preservation Office; Photo: Lewis P. and Lisbeth (Putnam) Hunt House, Mankato

# Economic Impact of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit: Fiscal Year 2022

## A report of the Economic Impact Analysis Program

January 2023

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Moulin Rouge House Bed and Breakfast

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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 Statutes, Chapter 290.0681, Subdivision 9](#)). To complete this charge, the State Historic Preservation Office has contracted annually with University of Minnesota Extension's economic impact analysis (EIA) program. Pursuant to Minnesota Statutes, Chapter 3.197 regarding the cost of reports, the total for this study was \$3,000.

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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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Figure 1: Interior of Lewis P. and Lisbeth (Putnam) Hunt House, Mankato



## Executive Summary: Economic Impact of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit: FY 2022

To encourage historic preservation, the Minnesota state legislature enacted the Minnesota Historic Rehabilitation Tax Credit in 2010. The State Historic Preservation Office (SHPO) and the Minnesota Department of Revenue jointly administered the credit. During the 2022 legislative session, the credit program was allowed to expire and sunsetted on June 30, 2022.

SHPO partners annually with University of Minnesota Extension to analyze the impact of the credit. This report is a summary of the analysis for the Fiscal Year 2022 (FY22), which covers the period of July 1, 2021 to June 30, 2022. The analysis focuses on the impact of the state credit.

### Major findings for projects submitted in FY22 include:

- Developers filed 15 applications for new projects. More than half (eight) are in Greater Minnesota.
- Project developers plan to spend \$209.9 million on their rehabilitation efforts.
- Including the ripple effects, the projects will generate an estimated \$349.8 million of economic activity in Minnesota. This includes \$95.9 million in labor income, primarily going to Minnesota workers and their families. The FY22 tax credit will support an estimated 1,250 jobs.
- For every dollar of state tax credit awarded, the projects will generate \$9.90 in economic activity.
- Construction projects generate tax revenues as they are completed. State and local tax collections from the construction phase alone will repay slightly more than a third of the tax credits awarded in FY22.

### Key Statistics: Minnesota Historic Rehabilitation Tax Credit, Economic Contribution, FY22



### Major findings for projects completed during the periods of FY11 to FY22 include:

- Projects included in this report have generated \$5.9 billion in economic activity since FY11. The credit has supported 29,570 jobs, paying \$2.2 billion in labor income.
- A mapping project shows that approximately half of the projects in Minneapolis, Saint Paul, and Duluth are in socially vulnerable neighborhoods.



## Projects Leveraged by Historic Tax Credit

### 2022 Outcomes

**\$349.8 million**

future economic activity  
generated from projects

supporting **1.3K** jobs

**15** applications filed  
by developers

Every **\$1** of tax credit  
created **\$9.90** of  
economic activity in the state

**\$209.9 million**

spending planned by  
project developers

**35%** of credit costs  
repaid immediately  
after completed  
construction

#### Economic Impact

FY2011-2022

**\$5.9B** economic activity  
generated supporting  
**29K jobs** and **\$2.2B**  
in **labor income**

**53%** of Minneapolis, St  
Paul, and Duluth  
projects **benefit**  
**socially vulnerable**  
**neighborhoods**



Program sunset on June 30, 2022.





## Introduction

Efforts to recognize history through the preservation of buildings stretch back nearly to the founding of the United States. Initial activities focused on preserving the history of early America, including Mount Vernon. With time, however, efforts expanded. In 1931, citizens in Charleston, South Carolina established the first historic district to protect against the changes associated with automobile traffic.<sup>1</sup>

A decade of economic expansion in the 1950s put intense pressure on historic preservation. Many buildings and districts were torn down for new development and transportation routes. In response, historic preservation advocates pushed for the creation of the National Historic Preservation Act (the Act) in 1966. The Act established State Historic Preservation Offices, the National Register of Historic Places, and created a set of standards to guide decisions at the state and national level.

The Act, however, did not include financial incentives to promote private development and reuse of historic properties. As historic preservation efforts continued, that need became apparent. Thus, in 1986, the Federal Historic Preservation Tax Credit was adopted and became a continuous program. The federal credit provides a 20 percent income tax credit to project developers. Projects must meet two criteria in order to qualify. First, the property must be listed in the National Register of Historic Places. Second, the final use of the property must be income producing. The National Park Service, Internal Revenue Service, and State Historic Preservation Offices partner to administer the federal credit.

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*“Old buildings are witnesses to the aesthetic and cultural history of a city, helping to give people a sense of place and connection to the past.”*  
*Norwalk Tomorrow*

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**Figure 2: In-Progress Project, Printers Exchange Minneapolis**

To further encourage historic preservation, many states enacted a matching state historic rehabilitation tax credit. The Minnesota Historic Rehabilitation Tax Credit passed in 2010. The credit was set to sunset after fiscal year 2021 but received a one-year extension in the 2021 legislative session. During the 2022 legislative session, the credit was not extended and the program sunsetted.

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<sup>1</sup> Wisconsin Historical Society. (n.d.). Beginnings of the preservation movement.  
<https://www.wisconsinhistory.org/Records/Article/CS105>

on June 30, 2022. Minnesota's credit mirrored the federal credit in that the State Historic Preservation Office (SHPO) and the Minnesota Department of Revenue jointly administered the credit. The federal credit is still an active program and did not sunset.

The Minnesota Historic Rehabilitation Tax Credit authorizing language included a provision requiring SHPO to annually assess the economic impact of the program. This report satisfies that requirement and is Extension's 12th report on this topic.

This report includes several sections. The first section includes a discussion of the current impact of the tax credit, focusing on projects approved within the fiscal year. The second section explores the impact of the tax credit during its 12-year history. Finally, the report wraps up with case studies. The case studies showcase projects that have reached completion.

This approach allows Extension to complete the annual economic impact analysis within the parameters of the legislation. However, the approach does mean certain aspects and values of historic preservation are not included in the calculations.

## Implementing the Credit in Minnesota

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

Project developers interested in securing the both the state and federal tax credit complete the application and receive approval from both state and federal agencies. At the national level, developers secure approval from the National Park Service. The National Park Service labels its approval system with numbers — Parts I, II, and III. For Minnesota developers, the Part I approval certifies that the property is historically significant. The federal Part II application describes the current condition of the building and lays out the plans for rehabilitation. The Secretary of the Interior's Standards for Rehabilitation are then used to evaluate the project plans. A Part III is submitted once the rehabilitation work was completed and certified that the project meets the Standards.<sup>2</sup> See appendix for more on the terms and application process.

As property developers move through the National Park Service approval process, they also filed for state approvals to be eligible for the state credit. In conjunction with the federal Part II form, developers also filed a state Part A application. The state Part A application required a detailed budget of anticipated costs, which Extension used to measure the economic impact of the projects. Likewise, with the Part III application, developers submitted a Part B at the



**Figure 3: SHPO, DNR and Project Team Talking During Tax Project Site Visit**

<sup>2</sup> National Park Service (n.d.). Application process. Technical Preservation Services. Retrieved from <https://www.nps.gov/tps/tax-incentives/application-process.htm>

state level. The Part B form included their final project costs, which Extension used for the case studies.

## Economic Impact in Fiscal Year 2022

There are three components to total economic impact. The first is the direct effect. The direct effect is the initial change in the economy. In terms of the historic tax credit, spending by the project developers to rehabilitate their buildings is the direct effect. The direct spending then creates additional economic activity in the economy. The economic activity is classified as either an indirect or an induced effect. Indirect effects are associated with the supply chain. When project developers buy construction supplies, this in turn causes the supply companies to purchase more of their inputs. This works up through the supply chain. Induced effects are associated with spending by workers. When those employed to work on the rehabilitation projects (including masons, electricians, engineers, and architects) get paid, they have additional income to spend. As they buy groceries, dine out, and pay their mortgages, this causes the businesses to increase their purchases, triggering additional economic activity.

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### Economic impact terms

Direct impact: initial change

Indirect impact: business-to-business impacts

Induced impact: consumer-to-business impacts

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Economic impact can be quantified using input-output models. First, the analyst must determine the direct impact. The next section explains how Extension measured this using data supplied by project developers. Second, the direct impact is entered into the model, which calculates the indirect and induced effects. Extension used the input-output model IMPLAN to conduct this analysis.

For more on input-output theory and terms, and the IMPLAN model, please see the appendix.

## Scope of the Analysis

Fifteen projects received Part A approval in FY22 (Table 1). Planned continued and reuse for the buildings include residential (including affordable housing), office, and mixed use. Several theater projects are planned for this fiscal year. Projects are planned geographically across Minnesota. Developers in Greater Minnesota submitted eight projects, with locations including Ely, Little Falls, Mankato, Moorhead, Northfield, and Winona.

**Table 1: Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between July 1, 2021 and June 30, 2022 (FY22)**

Historic Property Name	Proposed Use	Location
Berman Brothers Building	Office/retail	Minneapolis
Bjoraker Building	Residential/retail	Northfield
Brown-Jaspers Inc. Store Fixtures Company Building	Theater/office	Saint Paul
Calvary Lutheran Church	Residential	Minneapolis
Coliseum Building and Hall	Office/retail	Minneapolis
Dayton's Department Store	Office/retail	Minneapolis
Ely Community Center	Hotel	Ely



<b>Fairmont Creamery</b>	Residential	Moorhead
<b>Falls Theatre</b>	Theater	Little Falls
<b>Grain and Lumber Exchange Building</b>	Residential	Winona
<b>Hamm Building</b>	Residential	Saint Paul
<b>Manhattan Building</b>	Residential	Saint Paul
<b>Mankato Federal Courthouse and Post Office</b>	Mixed Use	Mankato
<b>Morris Building</b>	Residential/retail	Northfield
<b>Morrison County Realty Building</b>	Theater	Little Falls

## Direct Impact

Developers anticipate spending \$209.9 million to complete their in-progress projects (Table 2). They will spend money on a variety of items from site acquisition and site work to building materials and utilities. In input-output theory, acquisition costs do not generate ripple effects. This is because it is an exchange of one asset (land) for another asset (money). When land is purchased, nothing new is made, therefore, there are no supply chain effects. After removing acquisition costs, the direct impact of the in-progress projects is \$195.5 million.

Based on the submitted project costs, SHPO estimates \$35.4 million in historic rehabilitation tax credits will be awarded. One caveat is important to note, however, and that is the tax credit is for 20 percent of allowable qualified rehabilitation expenditures. Developers often invest additional dollars into the project that are not considered allowable costs. Therefore, the estimated credit does not equal 20 percent of total project development costs.

**Table 2: Direct Impact of Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between July 1, 2021 and June 30, 2022 (FY22)**

<b>Total Estimated Costs</b>	<b>Estimated Costs, Acquisition Removed</b>	<b>Estimated Minnesota Historic Rehabilitation Tax Credit</b>	<b>Additional Dollars Leveraged per \$1 of Tax Credit</b>
\$209,861,995	\$195,511,055	\$35,385,809	\$5.93

Source: State Historic Preservation Office, Part A applications

While the tax credit helps developers move their projects forward, outside investment continues to exceed the tax credit. In 2022, every dollar of state tax credit leveraged \$5.93 of additional investment by developers.

## Total Impact

Projects leveraged by the Minnesota Historic Rehabilitation Tax Credit in FY22 will generate an estimated \$349.8 million of economic activity (Table 3). This includes \$95.9 million in labor income. The credit will support 1,250 jobs.



**Table 3: Total Economic Impact of Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between July 1, 2021 and June 30, 2022 (FY22)**

Impact Type	Output (millions)	Employment (FTEs)	Labor Income (millions)
Direct	\$209.9	580	\$49.2
Indirect	\$70.6	300	\$23.4
Induced	\$69.3	370	\$23.3
Total	\$349.8	1,250	\$95.9

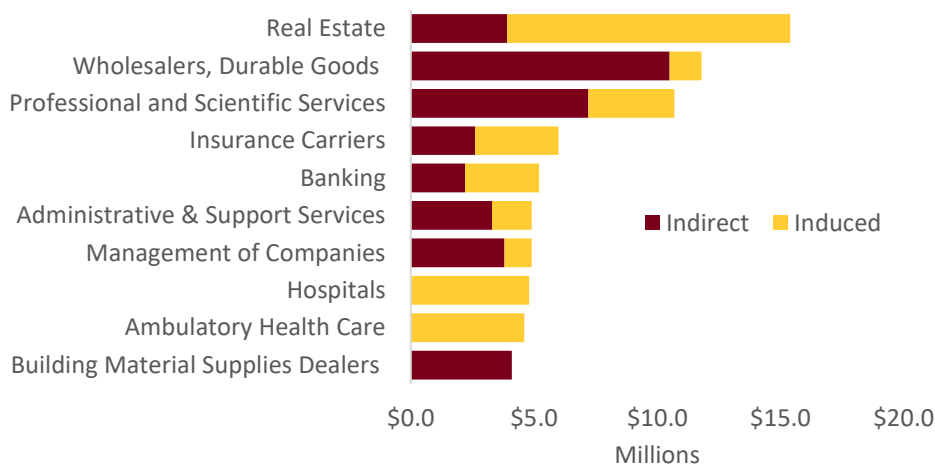
Source: University of Minnesota Extension estimates, IMPLAN

## Top Sectors Impacted

In addition to the direct impact on the construction industry, the projects will generate an estimated \$139.9 million in indirect and induced impacts. This is revenue for businesses and workers that indirectly benefit from the projects. Industries benefiting the most from the projects include real estate (housing), durable good wholesalers, and professional and scientific services (Figure 4).

The real estate industry experiences high impacts because workers employed by the construction, architectural, preservation, and other related construction businesses spend a significant portion of their income on their own mortgages.

Indirect impacts (business-to-business) are highest in durable good wholesaling, professional and scientific services, and building material supply stores. Wholesale trade is the sector through which goods are sold business to business. This is a common practice in construction where construction companies buy in bulk versus retail. Induced impacts are highest in housing, health care, and insurance carriers, reflecting that the highest expenditures for households are health care and housing.



**Figure 4: Top Industries Impacted by the Minnesota Historic Rehabilitation Tax Credit, Indirect and Induced Effects, FY22, Sorted by Output**

## State and Local Tax Collections

Minnesota Historic Rehabilitation Tax Credit projects in-progress for FY22 will generate an estimated \$12.5 million in state and local tax collections (Table 4). Income and sales taxes, which primarily go to the state, will total \$7.4 million. Property tax collections will total \$3.4 million.

**Table 4: State and Local Tax Collections from Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between July 1, 2021 and June 30, 2022 (FY22)**

Tax	Estimated Collections (millions)
Income	\$3.3
Sales	\$4.2
Property	\$3.4
Other	\$1.6
Total	\$12.5

Source: University of Minnesota Extension estimates, IMPLAN

Since the state plans to award \$35.4 million in tax credits to projects receiving initial approval in FY22, the projects themselves will repay 35 percent of the cost upon completion (Figure 5).

To summarize, the historic tax credit is projected to award \$35.4 million in tax credits for FY22 projects. As project developers complete the rehabilitation work, they will create \$349.8 million in economic activity. This translates into \$9.90 of economic activity in Minnesota for every dollar of credit awarded. As the projects are completed, developers, their suppliers, and their workers will pay taxes, including sales, property, and income taxes. Those dollars will be recovered by state and local government. Upon completion of the project, more than one-third of the tax credit funds will be recuperated by the state.



**Figure 5: Summary, Minnesota Historic Rehabilitation Tax Credit, Fiscal Year 2022**

## Economic Impact Fiscal Years 2011-2022

Extension has measured the economic impact of the Minnesota Historic Rehabilitation Tax Credit annually since 2011. During this period, the tax credit has generated an estimated \$5.9 billion in economic activity in the state (Table 5). The state credit has supported 29,570 jobs and \$2.2 billion in labor income.

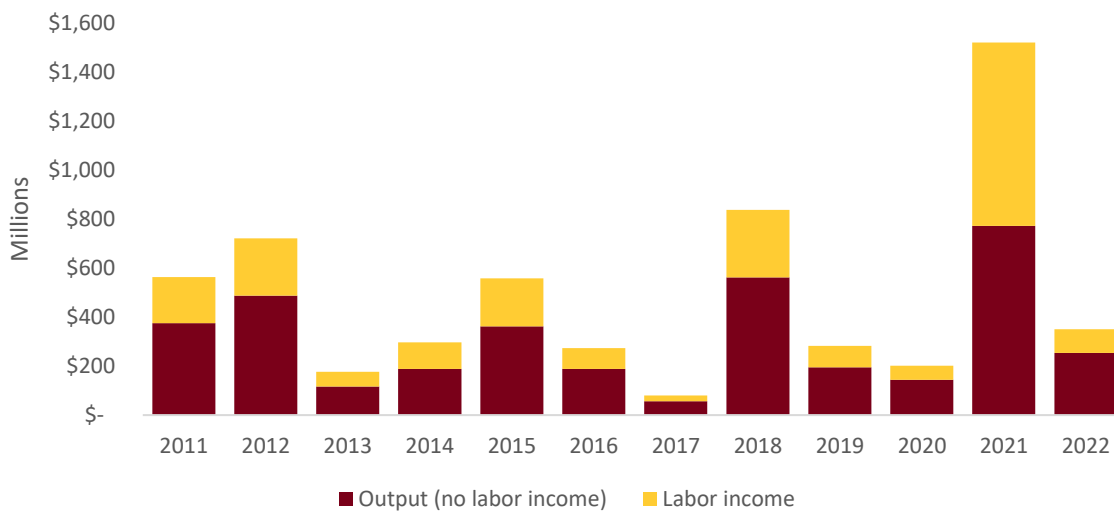
**Table 5: Total Economic Impact of Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between FY 2011 to 2022 (Adjusted to 2022 Dollars)**

Impact Type	Output (millions)	Employment (FTEs)	Labor Income (millions)
Direct	\$3,204.7	15,880	\$1,245.4
Indirect	\$1,092.9	5,320	\$386.4
Induced	\$1,560.5	8,370	\$525.6
Total	\$5,858.1	29,570	\$2,157.4

Source: University of Minnesota Extension estimates, IMPLAN

## Total Impacts by Fiscal Year

Economic impact has varied by year (Figure 6). The biggest determinate of economic impact is the direct impact. Direct impact, in turn, depends on the number of projects and the average project investment. Fiscal year 2021 had the highest number of planned projects (34). FY15 also had a high number of projects with 23. Most years the number of projects is in the range of 12 to 14. Fiscal year 2017 only had seven projects.<sup>3</sup>



**Figure 6: Total Economic Impact of Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between FY 2011 and FY 2022**

<sup>3</sup> Occasionally, a project moves fiscal years or is missed during the analysis. When this is discovered, the project is incorporated into the data for the appropriate year. Therefore, the totals here may not match the report for the individual year.

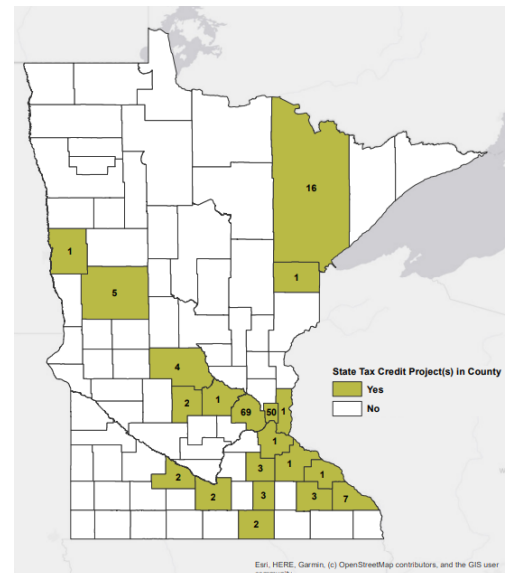
**Table 6: Total Economic Impact of Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between FY 2011 and FY 2022**

	Output (millions, 2022 \$)	Employment (FTEs)	Labor Income (millions, 2022 \$)
FY 2011	\$563.2	2,880	\$188.3
FY 2012	\$720.7	3,500	\$232.9
FY 2013	\$176.3	1,200	\$59.1
FY 2014	\$296.5	1,340	\$107.5
FY 2015	\$557.4	2,610	\$195.7
FY 2016	\$273.2	1,110	\$85.2
FY 2017	\$80.3	290	\$24.2
FY 2018	\$836.8	3,910	\$275.2
FY 2019	\$282.3	1,100	\$87.9
FY 2020	\$201.2	720	\$56.8
FY 2021	\$1,520.3	9,660	\$748.9
FY 2022	\$349.8	1,250	\$95.9
<b>Total</b>	<b>\$5,858.0</b>	<b>29,570</b>	<b>\$2,157.6</b>

Estimates by the University of Minnesota Extension Center for Community Vitality

## Location of Projects In-Progress between FY11 and FY22

Counties across Minnesota have benefited from the value generated by the historic rehabilitation tax credit. Figure 7 illustrates, by county, the location of projects awarded the credit between FY11 and FY22. While many of the projects have been in Ramsey and Hennepin Counties, 20 of Minnesota's counties have properties with historic tax credit projects. Greater Minnesota counties with the highest number of properties include St. Louis, Winona, Otter Tail, and Stearns.



**Figure 7: Location of Minnesota Historic Rehabilitation Tax Projects Receiving National Park Service Part II Approval between FY 2011 and FY 2022**



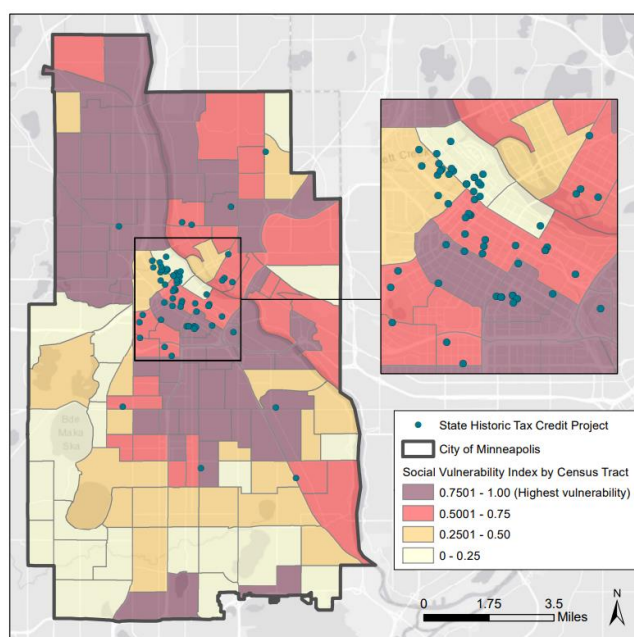
## Projects in Context of their Neighborhoods

Beyond economics, historic rehabilitation projects have additional benefits. Documented benefits include providing a sense of place, strengthening communities and continuity, efficiently using resources, preserving craftsmanship, improving aging neighborhoods and assets, diversifying housing options, and encouraging creative new uses of existing spaces.<sup>4</sup>

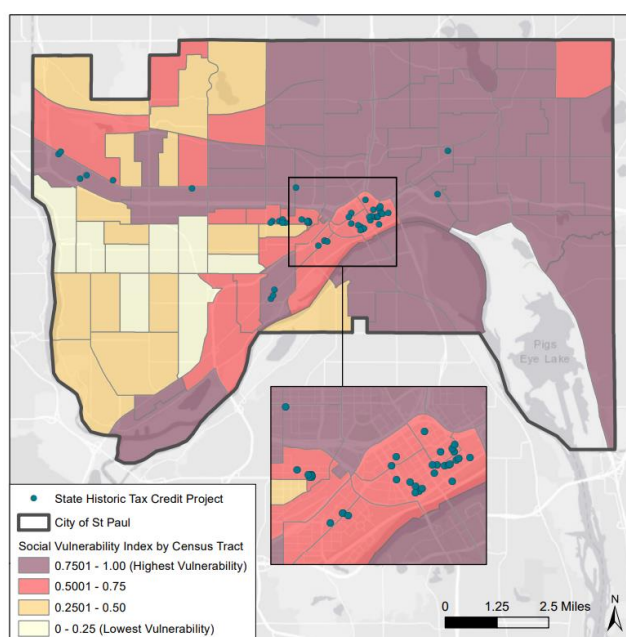
While these factors are hard to quantify, one tool for understanding the effect on neighbors is the Social Vulnerability Index (SVI). The SVI ranks a census tract's social and socioeconomic factors, including items such as unemployment, income, household composition, disability and minority status, housing type, and transportation. Percentile rankings range from 0 to 1 with higher values indicating greater vulnerability.

An analysis of the SVI for neighborhoods with Minnesota State Historic Rehabilitation Tax Credit projects reflects the diversity and flexibility of the credit. In Minneapolis (Figure 8), 45 percent of the projects were located in neighborhoods rated with higher levels of vulnerability.

Likewise, Figure 9 shows the distribution of projects in Saint Paul. Saint Paul has a higher percent (50 percent) of its projects in high vulnerability neighborhoods.



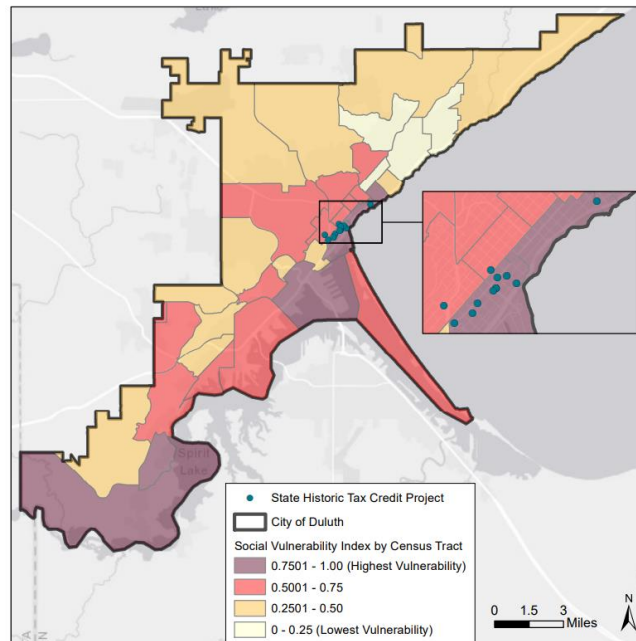
**Figure 8: Minneapolis Projects Receiving National Park Service Part II Approval between FY 2011 and FY 2022, Social Vulnerability Index**



**Figure 9: Saint Paul Projects Receiving National Park Service Part II Approval between FY 2011 and FY 2022, Social Vulnerability Index**

<sup>4</sup> Rabinowitz, P. (n.d.). Encouraging historic preservation. Community Toolbox at University of Kansas. Retrieved from <https://ctb.ku.edu/en/table-of-contents/implement/physical-social-environment/historic-preservation/main>

Finally, Figure 10 shows projects in Duluth. Nearly all of Duluth's projects were in highly vulnerable neighborhoods.



**Figure 10: Duluth Projects Receiving National Park Service Part II Approval between FY 2011 and FY 2022, Social Vulnerability Index**

## CASE STUDIES OF COMPLETED PROJECTS

Since the inception of the Minnesota Historic Rehabilitation Tax Credit, 193 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 four completed projects.



### Cloquet High School

509 Carlton Avenue, Cloquet

Built:	1920 with multiple additions
Rehabilitated:	2018-2020
Developer:	Cloquet Housing GP LLC
Original Use:	High School
Current Use:	Apartments (workforce and market rate)
Photo:	Rethos

In October 1918, the combination of a dry season, high winds, and sparks from a passing train led to Minnesota's worst natural disaster. Within a matter of hours, 450 people were dead, 1,500 square miles were burned, and towns were flattened.<sup>5</sup> Among the most devastated communities was the City of Cloquet.

Only one of Cloquet's school buildings survived the devastation. That building, along with school district personnel, played a prominent role in the immediate relief efforts and the longer-term rebuilding of the community.<sup>6</sup>

Within a year of the fire, ground was broken on the new Cloquet High School located at 509 Carlton Avenue. It opened for students in February 1921. At its opening, the local paper, *The Pine Knot*, praised the building for its "many modern marvels of the twentieth century" including steam heating, shower rooms in the gymnasium for both boys and girls, and a gymnasium balcony with a moving picture booth.<sup>7</sup>

The high school was expanded multiple times to accommodate the growing school district. In addition to higher student counts, the educational needs of students changed, causing additions like machine and wood shops. Additions were added to the building in 1938, 1954, and 1958. Enrollment continued to climb, however, and by 1968, Cloquet had outgrown the 1921 high school. The district

<sup>5</sup> Nelson, P. (2020, March 18). Cloquet, Duluth, and Moose Lake fires, 1918. Retrieved from <https://www.mnopedia.org/event/cloquet-duluth-and-moose-lake-fires-1918>

<sup>6</sup> Carroll, F., & Raiter, F. (1983). At the time of our misfortune: relief efforts following the 1918 Cloquet fire. *Minnesota History*. Retrieved from <http://collections.mnhs.org/MNHistoryMagazine/articles/48/v48i07p270-282.pdf>

<sup>7</sup> Ludt, T. (2020). National register of historic places form.

converted the 509 Carlton property to a middle school. By 2020, the district had vacated the property.

The architecture of the building reflects the historical changes of the times. The 1921 construction is styled in the Classical Revival style. Meanwhile, the 1950 additions are simplified and modernist with decorative brickwork. Carved into two of the entrances are the words “Cloquet High School.”

Upon completion, the Cloquet High School project developer reported spending \$16.1 million on rehabilitation (Table 7). Of this, \$14.7 million qualified for the tax credits, allowing for \$2.9 million each of state and federal tax credits.

The project generated an estimated \$31.1 million of economic activity in Minnesota, supporting 150 jobs. For every dollar of state tax credit, the project generated \$10.60 in economic activity.

In addition, the construction created \$1.4 million in tax revenues for the state and local governments. Thus, nearly 50 percent of the tax credit was repaid when the project was completed.

**Table 7: Project Financing and Economic Impact of the Cloquet High School**

<b>Project Details</b>	
Total Final Project Costs (millions)	\$16.1
Total Qualifying Rehabilitation Costs (millions)	\$14.7
State Historic Tax Credit (millions)	\$2.9
Federal Historic Tax Credit (millions)	\$2.9
<b>Economic Impact</b>	
Economic Impact of Construction (millions)	\$31.1
Total Economic Activity Per Dollar of State Tax Credit	\$10.60
Jobs Supported During Construction	150
State and Local Taxes from Construction (millions)	\$1.4
<b>Impact on Property Values</b>	
Property Value 2018 <sup>8</sup>	\$82,900
Property Value 2022	\$82,900
Annual increase in Property Tax Collections	\$2,038
(Since this property recently finished work, property values will likely continue to rise as building is assessed)	
Source: State Historic Preservation Office, Part B applications; University of Minnesota Extension estimates	

<sup>8</sup> Property value is estimated market value. Property value (2022) for parcel 06-005-1860 accessed via Carlton County parcel information system. Property value in 2018 from phone call with Carlton County Treasurer's office. Public schools are exempt from property taxes in Minnesota.

The high school building, now known as the Carlton Lofts, is located in a residential neighborhood of Cloquet. Neighbors include churches, a grocery store, and housing. Rents in the building primarily target workforce housing, but the building also has market rate units.

Cloquet, with a population of nearly 12,000, has a diverse economic base.<sup>9</sup> Industries with the highest number of jobs in 2021 included health care and social assistance, manufacturing, and retail trade. The region's major industries are growing. In the five years between 2016 and 2021, health care and social assistance businesses added 300 jobs, manufacturing companies added 240 jobs, and construction firms added 120 jobs. Job growth is good for the economy, but also translates into a need for housing, which the Carlton Lofts is helping to fill.

Cloquet's workforce reflects the diversity of the area. In the city, 85 percent of the population is White, Non-Hispanic. Eight percent of the population is American Indian and Alaska Native, 2 percent is Black or African American, and 1 percent Asian.

The median income in Cloquet is \$54,011, compared with the Minnesota median income of \$68,411. Of the residents, 14 percent live below the poverty line. More than one in five children live in households with incomes below poverty, further indicating a need for affordable housing.

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<sup>9</sup> United State Census, ACS, 2020, 5-Year estimates.





## Lewis P. & Lisbeth (Putnam) Hunt House

811 South 2<sup>nd</sup> Street, Mankato

Built: 1885  
Rehabilitated: 2019-2021  
Developer: Christopher Crowell  
Original Use: Private residence  
Current Use: Bed and breakfast  
Photo: Moulin Rouge B&B

The Hunt House dates to the early founding of the City of Mankato. Mankato was first established in 1852, primarily due to its location on the Minnesota River. In the early days, steamboats helped fuel growth in Mankato. Following the Civil War, growth began in earnest when the railroads arrived in the region. The period of 1870 to 1899 marked an era of expansion for Mankato. Railroads running both north-south and east-west met in the city, allowing for easy movement of goods. Combined with the region's growing agricultural industry, Mankato quickly became a regional trade center, home to wholesale businesses, hospitals, large mills, and factories.

As industry and commerce expanded, so did housing. Development began to move outward from the banks of the Minnesota River. New neighborhoods sprang up, including Lincoln Park. The Lincoln Park neighborhood is well known in the area for its steep hills and oddly angled streets. The author Maud Hart Lovelace wrote lovingly of her childhood adventures on the hills in her series of books known as "Betsy-Tacy."<sup>10</sup>

In 1885, L.P. and Lisbeth Putnam Hunt built a Queen Anne style home at 811 South 2<sup>nd</sup> Street. The house has numerous distinguishing features, including a turret with a conical roof and a curved glass window purchased at the World's Columbian Exposition in 1893. L.P. was a postmaster in Mankato who later went on to own the *Mankato Free Press*. Lisbeth, in the meantime, was involved in historical and cultural work, both at the local and state level.

In 1940, the home's third owner opened a beauty shop in the parlor. She, and then her daughter, ran the business until 2015. By then, the house's upkeep became overwhelming, and the home was sold through a bank sale. Three years later, the current owners purchased the property and have rehabilitated it to serve as a bed and breakfast.<sup>11</sup>

The new homeowners invested a total of \$225,661 to rehabilitate the home (Table 8). Of this, \$208,345 qualified for the historic tax credit, resulting in a state credit of \$41,668. With the work,

<sup>10</sup> Granger, S. & Kelly, S. (1995). National register of historic places form. Retrieved from [https://s3.amazonaws.com/NARAprodstorage/lz/electronic-records/rg-079/NPS\\_MN/95000671.pdf](https://s3.amazonaws.com/NARAprodstorage/lz/electronic-records/rg-079/NPS_MN/95000671.pdf)

<sup>11</sup> Fischenich, M. (2022, October 17). Mankato's Hunt House moves from verge of demolition to Preservation Landmark status. *Mankato Free Press*. Retrieved from [https://www.mankatofreepress.com/news/local\\_news/mankatos-hunt-house-moves-from-verge-of-demolition-to-preservation-landmark-status/article\\_87e046b2-4b41-11ed-8751-9396455412fb.html](https://www.mankatofreepress.com/news/local_news/mankatos-hunt-house-moves-from-verge-of-demolition-to-preservation-landmark-status/article_87e046b2-4b41-11ed-8751-9396455412fb.html)

the property's value also increased by 220 percent between 2019 and 2022. Correspondingly, property tax collections also increased by \$2,296.

When accounting for the ripple effects, or the businesses that benefited from the construction activity, the Hunt House project generated an estimated \$440,860 in economic activity. Thus, each dollar of state taxes generated \$10.60 in economic activity. The construction work also triggered an estimated \$22,980 of new tax collections, which is more than half the tax credit awarded. Between the increased tax collections from construction and increased property values, within 10 years, the project will be paying more in taxes than it cost.

**Table 8: Project Financing and Economic Impact of the Hunt House**

<b>Project Details</b>	
Total Final Project Costs	\$225,661
Total Qualifying Rehabilitation Costs	\$208,345
State Historic Tax Credit	\$41,668
Federal Historic Tax Credit	\$41,668
<b>Economic Impact</b>	
Economic Impact of Construction	\$440,860
Total Economic Activity Per Dollar of State Tax Credit	\$10.60
Jobs Supported During Construction	3
State and Local Taxes from Construction	\$22,980
<b>Impact on Property Values</b>	
Property Value 2019	\$87,800
Property Value 2022 <sup>12</sup>	\$280,400
Annual increase in Property Tax Collections	\$2,296

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

As was the case in the 1860s, Mankato is a regional commercial hub in southern Minnesota. With a population of 41,700, the largest industries in Mankato (measured by employment), include health care and social assistance, manufacturing, and retail trade.

Mankato attracts visitors through its tourism economy. The Hunt House is located near the commercial hub of downtown Mankato, including the civic center. It also provides easy access to the University, which draws families visiting their children.

Mankato's median income (\$45,625) is below Minnesota's average of \$68,411. Of the population, 24 percent live below the poverty level. However, Mankato is home to Minnesota State University, Mankato, and college students are reflected in the data. For families, 12 percent of children live below the poverty level.

<sup>12</sup> Property value is estimated market value. Property tax values for parcel ID R01.09.18.157.002 accessed via Blue Earth County Beacon.

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## Moorhead Storage and Transfer Warehouse

8 10<sup>th</sup> Street North, Moorhead



Built: 1922

Rehabilitated: 2018-2020

Developer: Center Avenue, LLC

Original Use: Potato Warehouse

Current Use: Apartments

Photo: Michael Vosburg, Forum Photo Editor

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The Moorhead Storage and Transfer building reflects the Red River Valley's prominence as an agricultural producer. In the late 1800s, the fertile soils of the Red River Valley, along with the ease of access provided by railroads led to a rapid increase in farms. The first farmers in the region primarily grew wheat, sent along to feed Minneapolis' flour mills. By 1900, an overreliance on one crop proved problematic for producers and they needed to diversify.

The rapid growth of the population in the Twin Cities continued to provide a market for Red River Valley growers—this time for potatoes. Growers quickly adapted. In Clay County alone, acreage planted for potatoes grew from around 3,500 acres in 1900 to 31,600 acres in 1920. Increased production, in turn, drove the need for transportation and storage.

Moorhead emerged as a prime location for storage facilities. By 1880, both the Northern Pacific and Great Northern railroads ran through Moorhead. The land around the railroads developed into a warehouse and manufacturing district. Among those warehouses, potato warehouses began to appear. They started small, but eventually became larger and more technologically advanced.

In 1922, construction of the Moorhead Storage and Transfer Warehouse was announced. It had the capacity to store 400 boxcars (or 308,000 bushels) of potatoes. It featured key designs. Potatoes could easily be transferred from trucks into storage units and then into trains at the time of sale. The building was well ventilated, insulated, and had heat for the severe cold of winter.<sup>13</sup>

While the Red River Valley remains a major producer of potatoes, production, storage, and warehousing has shifted, and the warehouse ceased to be used for potato storage in the 1950s. In the late 1960s, the building was purchased by furniture dealers who used it for public storage. The building became known locally as the Simon Warehouse.<sup>14</sup>

In 2017, Center Avenue LLC purchased the property with the intent to develop it into apartments. In June 2020, the building was placed into service with 65 apartment units, known as the Simon Warehouse Lofts. Center Avenue reported spending \$8.3 million to rehabilitate the property (Table 9). Of this, the developers spent \$7.4 million on qualifying costs, resulting in the award of \$1.5

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<sup>13</sup> Mack, D., Goodrich, R., & Anderson, R. (2019). National register of historic places form.

<sup>14</sup> Schmidt, H. (2020, May 14). Moorhead landmark gets new life as Simon Warehouse Lofts. *InForum*. Retrieved from <https://www.inforum.com/business/moorhead-landmark-gets-new-life-as-simon-warehouse-lofts>

million in state tax credits. Extension estimates taxes generated from the construction amounted to \$716,990, meaning 48 percent of the taxes were repaid upon project completion.

An analysis of the economic impact of the rehabilitation construction shows the project generated an estimated \$16 million of economic activity in the state. For every dollar of state taxes invested, Minnesota's economy experienced \$10.80 of activity. The project also supported 77 jobs.

**Table 9: Project Financing and Economic Impact of the Moorhead Storage and Transfer Building**

<b>Project Details</b>	
Total Final Project Costs (millions)	\$8.3
Total Qualifying Rehabilitation Costs (millions)	\$7.4
State Historic Tax Credit (millions)	\$1.5
Federal Historic Tax Credit (millions)	\$1.5
<b>Economic Impact</b>	
Economic Impact of Construction (millions)	\$16.0
Total Economic Activity Per Dollar of State Tax Credit	\$10.80
Jobs Supported During Construction	77
State and Local Taxes from Construction	\$716,990
<b>Impact on Property Values</b>	
Property Value 2018	\$711,500
Property Value 2022 <sup>15</sup>	\$735,000
Annual increase in Property Tax Collections	\$384
(Since this property recently finished work, property values will likely continue to rise as building is assessed)	

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

The Simon Warehouse Lofts are located in downtown Moorhead, providing housing for the city's workforce. With a population of 43,409, Moorhead's largest industries, in terms of employment, include health care and social assistance, retail trade, and education.

Moorhead residents have moderate incomes. The median income in the city is \$61,220, according to the American Community Survey. This is slightly below Minnesota's median income of \$68,411. Around 16 percent of Moorhead's population lives below the poverty level. The rate is higher (19.2 percent) for those under the age of 18. Moorhead's population is 88 percent White. The other largest racial demographic is Black or African Americans who constitute 5 percent of the population. People of Hispanic/Latino culture account for 5 percent of the population.

<sup>15</sup> Property value is estimated market value. Property tax value for parcel 58.324.0010 accessed via the City of Moorhead property information site (2022). Data for the 2018 provided via email from the Clay County treasurer.



## Rand Tower

527 Marquette Avenue, Minneapolis

Built:	1929
Rehabilitated:	2018-2020
Developer:	Rand Tower MN Owner LLC
Original Use:	Office Tower
Current Use:	Boutique Hotel
Photo:	Leonardo

The 1929 construction of the Rand Tower reflects the economic dynamics of Minneapolis in the 1920s. Spurred by rapid economic growth, businessmen of the era developed bold plans for office buildings. By the late 1920s, two designs emerged to challenge Minneapolis' building height restrictions—the Rand Tower and the Foshay Tower. The Rand Tower, opening first, featured 26 stories and was the tallest building in Minneapolis. That title was taken by the Foshay when it opened a year later, reaching 32 stories tall.<sup>16</sup> The Foshay Tower held that title for nearly 50 years, highlighting how unusual these two buildings were at the time of their construction.

The driving force behind Rand Tower was Rufus Rand, Jr. Rufus, who served as an aviator in World War I, had returned home. His family was well known as the owners of the Minneapolis Gas Company where Rufus would eventually become president.<sup>17</sup>

Rand Tower is a stepped skyscraper.<sup>18</sup> At the time, New York architecture was evolving to this model. As New York buildings grew taller, less sunlight was reaching the streets below. To compensate, architects began designing buildings that “stepped back” as they rose.<sup>19</sup> The building's exterior style is Art Moderne and features Indiana Bedord Limestone and Quincy granite. Inside, the building is finished in the Art Deco style. Rand Tower also showcases Rufus' love of aviation, featuring several touches, including a prominent statue in the lobby named “Statue of Wings.”

When it opened, Rand Tower was an office building. Owners throughout the years included the Dain Corporation, Reliance Real Estate Services, Gaughan Companies, and most recently Maven Real Estate Partners. In 2017, the current owners began the process of rehabilitating the property into a boutique hotel. The hotel opened in December 2020.

<sup>16</sup> Powers, M. (2020, March 30). Rand Tower. Clio: Your guide to history. Retrieved from <https://theclio.com/entry/97546>

<sup>17</sup> Rufus R. Rand, the last member of the Lafayette Escadrille, is dead. (1971, October 19). *New York Times*. Retrieved from <https://www.nytimes.com/1971/10/19/archives/rufus-r-rand-the-last-member-of-uafayette-esadrille-is-dead.html>

<sup>18</sup> City of Minneapolis. (2007, February). Rand Tower. Retrieved from <https://www2.minneapolismn.gov/resident-services/property-housing/property-info/landmarks/alphabetical/rand-tower/>

<sup>19</sup> Preserve Minneapolis. (n.d.) Rand Tower. Minneapolis Historical. Retrieved from <https://minneapolishistorical.org/items/show/105>



The Rand Tower’s developers reported spending \$115.9 million to rehabilitate the project (Table 10). Of this, \$76.7 million qualified for the historic tax credit, resulting in a state credit of \$15.3 million. Extension estimates the project generated \$223.3 million in activity during the construction phase. Thus, for every dollar of state tax credit invested, \$14.60 in economic activity was generated.

The project also helped support state and local taxes. Construction companies, their employees, and suppliers generated \$10 million in state and local taxes during the rehabilitation process. Therefore, the construction alone repaid 65 percent of the tax investment. Property values, and property tax collections, also rose upon project completion. Between 2018 (prior to the work) and 2022 (after completion), property tax collections increased by \$301,460. Between the construction taxes and the annual property tax collections, the building will pay more in taxes than it collected within 18 years.

**Table 10: Project Financing and Economic Impact of the Rand Tower**

<b>Project Details</b>	
Total Final Project Costs (millions)	\$115.9
Total Qualifying Rehabilitation Costs (millions)	\$76.7
State Historic Tax Credit (millions)	\$15.3
Federal Historic Tax Credit (millions)	\$15.3
<b>Economic Impact</b>	
Economic Impact of Construction (millions)	\$223.3
Total Economic Activity Per Dollar of State Tax Credit	\$14.60
Jobs Supported During Construction	1,068
State and Local Taxes from Construction (millions)	\$10.0
<b>Impact on Property Values</b>	
Property Value 2018 (millions)	\$10.9
Property Value 2022 <sup>20</sup> (millions)	\$21.5
Annual increase in Property Tax Collections	\$301,460

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

Located near the heart of downtown, the Rand Tower’s neighbors include office buildings (the IDS Center and Wells Fargo), shopping and lodging properties, and the Target Center. Given the office buildings, most of the jobs in the neighborhood are in finance and insurance, professional, scientific, and technical services, and administrative and support services.

With the commercial leanings of the neighborhood, there are not many people who live in the zip code. For the approximately 500 people who do live there, the average median income is \$58,563. Twenty-eight percent of the residents live below the poverty level. It’s a diverse neighborhood—62

<sup>20</sup> Property value is estimated market value. Property tax value for parcel 22-029-24-44-0060 accessed via Hennepin County property information search.

percent of the population is white, 15 percent is Black or African American, and 10 percent is Asian. Meanwhile, about 7 percent are Hispanic/Latino.

## Impacts of Case Studies 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 four case studies. On average, the value of the three properties grew by 91 percent, from \$11.8 million prior to rehabilitation to \$22.6 million post-rehabilitation (Table 11). By comparison, property values statewide increased 16 percent.

As a result of property value increases, annual property taxes also increased. Property tax revenues on the four properties increased by an estimated \$304,140 annually.

For two of the properties, the market values remained close to the pre-rehabilitation work. It often takes a few years for the assessments to make their way into property tax billing, so these values will likely increase even further once the assessments are complete.

**Table 11: Property Value Changes, FY22 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 (four properties)	\$11,802,200	\$22,598,300	91%
Estimated market value, statewide, 2018-2022	\$693,962,163,841	\$804,978,906,709	16%
Estimated annual increase in property tax collections, case study projects receiving tax credit (four properties)		\$304,140	

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

## APPENDIX: DEFINITIONS OF TERMS

### Input-Output 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.

## **Historic Preservation Terms**

### **Part A Application**

Part A of the Minnesota application must be submitted with Part 2 of the federal application prior to starting construction.

### **Part 2 Application**

“Part 2 is the Description of Rehabilitation Work. All owners of a certified historic structure who are seeking the 20% tax credit for the rehabilitation work must complete a Part 2 application form, which is a description of the proposed rehabilitation work. The National Park Service reviews the description of the proposed rehabilitation for conformance with the Secretary of the Interior’s Standards for Rehabilitation. If the proposed work meets the Standards, the National Park Service issues a preliminary decision approving the work. Or the proposed work may be given a conditional

approval that outlines specific modifications required to bring the project into conformance with the Standards.”<sup>21</sup>

## **Part B Application**

Part B of the Minnesota application must be submitted with Part 3 of the federal.

## **Part 3 Application**

The Part 3 federal application is submitted after the construction project is complete (placed in service. The part 3 documentation illustrates that the work was completed as proposed and conditionally approved in the Part 2 phase. National Park Service approval of the Part 3 certifies that the project meets the Standards and is a "certified rehabilitation."

## **Qualified Rehabilitation Expense**

“Any expenditure for a structural component of a building will qualify for the rehabilitation tax credit. Treasury Regulation 1.48-1(e)(2) defines structural components to include walls, partitions, floors, ceilings, permanent coverings such as paneling or tiling, windows and doors, components of central air conditioning or heating systems, plumbing and plumbing fixtures, electrical wiring and lighting fixtures, chimneys, stairs, escalators, elevators, sprinkling systems, fire escapes, and other components related to the operation or maintenance of the building. In addition to the above named "hard costs," there are "soft costs" which also qualify. These include construction period interest and taxes, architect fees, engineering fees, construction management costs, reasonable developer fees, and any other fees paid that would normally be charged to a capital account.”<sup>22</sup>

## **Social Vulnerability Index**

“Social vulnerability refers to the potential negative effects on communities caused by external stresses on human health. Such stresses include natural or human-caused disasters, or disease outbreaks. Reducing social vulnerability can decrease both human suffering and economic loss.”<sup>23</sup>

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<sup>21</sup> National Park Service. (n.d.). Incentives: What is the application process? National Park Service. Retrieved from [https://www.nps.gov/tps/tax-incentives/incentives/application\\_2.htm](https://www.nps.gov/tps/tax-incentives/incentives/application_2.htm)

<sup>22</sup> National Park Service. (n.d.). Qualified expenses. National Park Service. Retrieved from <https://www.nps.gov/tps/tax-incentives/before-apply/qualified-expenses.htm>

<sup>23</sup> <https://www.atsdr.cdc.gov/>



## HISTORIC STRUCTURE REHABILITATION TAX CREDIT APPLICATION PROCESS

Visit [mn.gov/admin/shpo/incentives/state](https://mn.gov/admin/shpo/incentives/state) for additional information

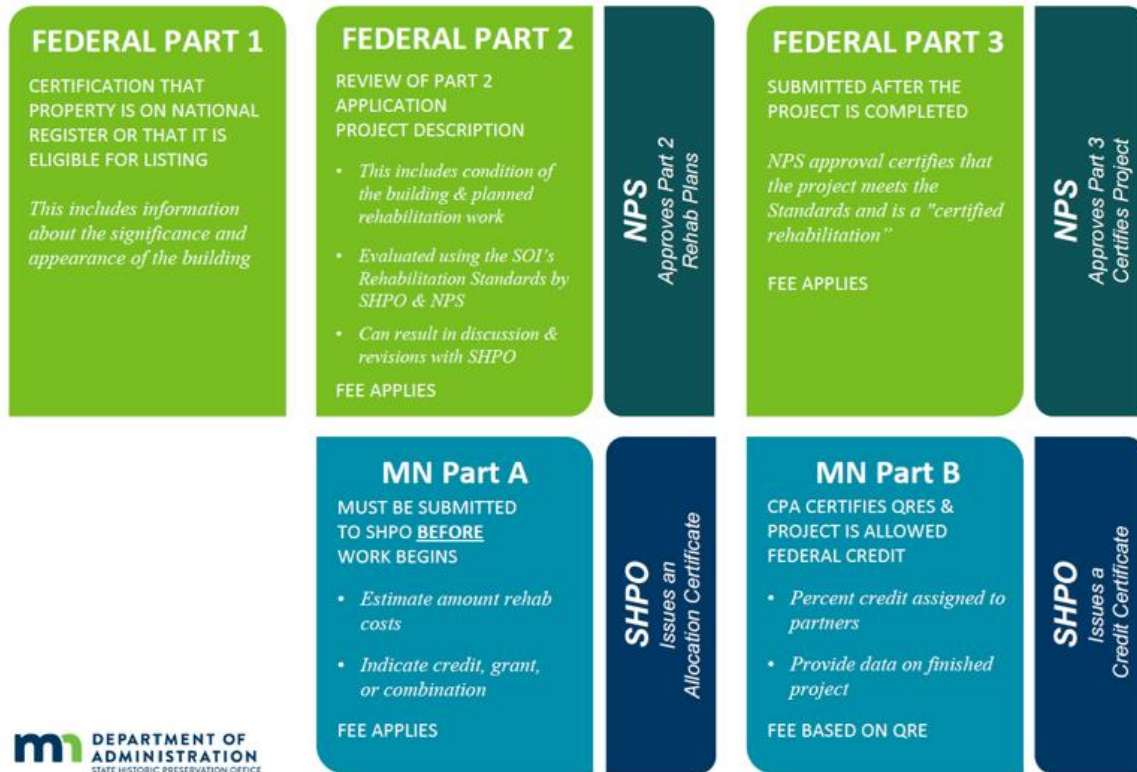


Figure 1A: Graphic of Application Process