University of Minnesota Extension

Economic Impact of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit: Fiscal Year 2021

A report of the Economic Impact Analysis Program

Program sponsor:
Minnesota Department of Administration,
State Historic Preservation Office
Photo: Continental Apartments/Ogden Apartment Hotel

Department of Administration
State Historic Preservation Office

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A report of the Economic Impact Analysis Program

January 2022

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As part of Minnesota's historic tax credit legislation, the State Historic Preservation Office "must annually determine the economic impact to the state from the rehabilitation of property for which credits or grants are provided" (Minnesota Statues, Chapter 290.0681, Subdivision 9). To complete this charge, the State Historic Preservation Office has contracted annually with University of Minnesota Extension's economic impact analysis (EIA) program. Pursuant to Minnesota Statutes, Chapter 3.197 regarding the cost of reports, the total for this study was $3,000.

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

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

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Authored by Brigid Tuck, senior economic impact analyst

Executive Summary: Economic Impact of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit: FY 2021

In 2010, the Minnesota legislature enacted the Minnesota Historic Rehabilitation Tax Credit, which parallels an existing federal tax credit. The credit supports historic preservation efforts in the state. In addition to stimulating economic activity, historic preservation benefits people by providing a sense of place and continuity, efficiently using resources, preserving craftsmanship, improving aging neighborhoods and assets, and encouraging creative new uses of existing spaces.

Each year, the State Historic Preservation Office partners with Extension to measure the economic impact of projects leveraged with the credit. This report presents the results for fiscal year 2021 (FY21), which covers the period of June 30, 2020 to July 2, 2021. Its focus is on the state credit.

Major findings for projects in-progress in FY21 include:

- Developers filed 34 applications, a record high for the program. This is largely a result of the planned sunsetting of the program.
- Project developers reported planned spending of $890 million to complete their projects.
- Including ripple effects, the projects will generate an estimated $1.4 billion of economic activity in the state and $693.4 million in labor income. The credit will support 9,660 jobs.
- Every dollar of tax credit created $11.30 of economic activity in the state.
- Construction of the projects will repay 50 percent of the credit cost immediately upon completion through increased state and local tax collections.

Key Statistics: Minnesota Historic Rehabilitation Tax Credit, Economic Contribution FY21

Major findings for projects in-progress between FY11 and FY21 include:

- The projects have generated an estimated $5.0 billion in economic activity in the state. The credit has supported 28,480 jobs and $1.9 billion in labor income.
- A mapping project showed 53 percent of projects located in Minneapolis, Saint Paul, and Duluth are in socially vulnerable neighborhoods.
- A comparison to a brownfield (new construction) project showed that both projects received nearly an identical amount of federal, state, and local funding. The brownfield project, however, was more expensive per unit than the historic tax credit project.

Projects Leveraged by Historic Tax Credit

2021 Outcomes

$1.4 billion

future economic activity generated from projects

supporting **9.6K** jobs

34 applications filed by developers

Program record high*

Every **$1** of tax credit created **$11.30** of economic activity in the state

$890 million

spending planned by project developers

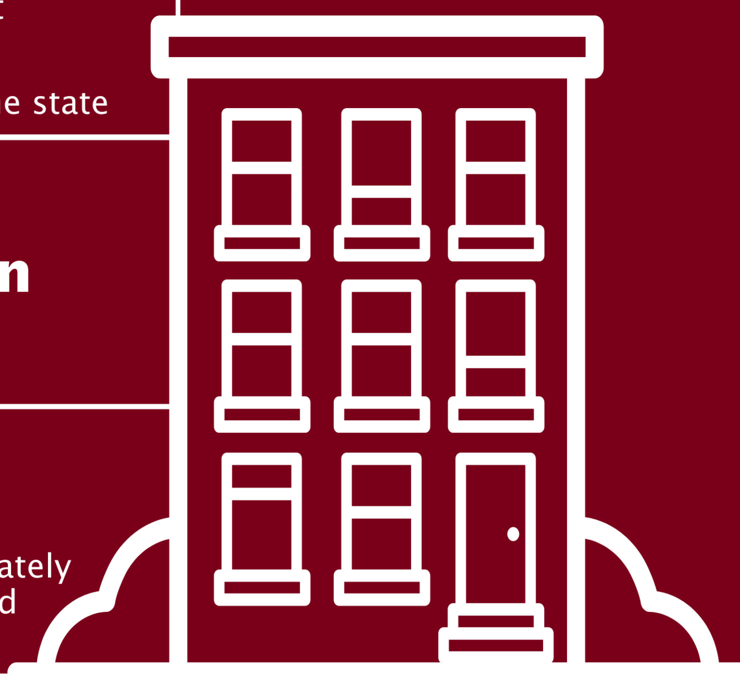
50% of credit costs repaid immediately after completed construction

Economic Impact

FY2011-2021

$5B **economic activity** generated supporting **28K jobs** and **$1.9B** in **labor income**

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



*Program was slated to sunset after this fiscal year

Introduction

Conversations regarding the value of preserving historic places and spaces are nearly as old as the United States itself. Initial efforts focused on sites and monuments. Many cite the formation of the Mount Vernon Ladies Association in the 1850s as the start of formal efforts around historic preservation.[1] These early efforts raised the debate historic preservation practitioners still discuss today—what is the role of public versus private investment?

> *"Historic preservation is the practice of thinking through how to manage historic resources… It encompasses the creation of places like historic house museums that are open to the public, but also includes…business owners who might want to inhabit a historic building, but want to also make use of it through adaptive reuse."*
> *Smithsonian Magazine*

In 1966, the United States Congress weighed in on the debate by passing the National Historic Preservation Act (the Act). The Act provided pathways for public investment in historic preservation, and in 1986, the Federal Historic Preservation Tax Credit was adopted. The 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 and the Internal Revenue Service work together to administer the federal credit. State Historic Preservation Offices provide support on the state level.

In addition, many states have authorized a matching state historic rehabilitation tax credit, increasing the use of federal funding. Minnesota joined other states in 2010, passing into law the Minnesota Historic Rehabilitation Tax Credit. The credit was set to sunset after fiscal year 2021, but received a one-year extension during the 2021 legislative session. Minnesota's credit mirrors the federal credit in that the State Historic Preservation Office (SHPO) and the Minnesota Department of Revenue jointly administer the credit.

The Minnesota Historic Rehabilitation Tax Credit authorizing language includes a provision requiring SHPO to annually assess the economic impact of the program. This report satisfies that requirement and is Extension's 11^{th} report on this topic.

Extension's annual analysis focuses on direct investments by developers and the expected economic activity from projects receiving approval in the most recently completed fiscal year. It also includes a summary of the economic impact of all projects receiving approval since FY11. Extension further features several case studies in this report. Case studies demonstrate how the projects provide additional benefits (for example, property tax increases and contributions to community character).

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. Benefits not explicitly measured here 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.[2]

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[1] Wulf, K. (2020, May 4). *How historic preservation shaped the early United States.* Smithsonian Magazine. Retrieved from https://www.smithsonianmag.com/history/how-historic-preservation-shaped-early-united-states-180974871/

[2] 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

Implementing the Credit in Minnesota

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

Project developers interested in securing the tax credit must complete the application and receive approval from both state and federal agencies. At the national level, developers must secure approval from the National Park Service. The National Park Service labels its approval system with numbers—Parts I, II, and III. 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. Part III is submitted once the rehabilitation work is completed and certifies the project meets the Standards.[3] (See appendix for more on the terms and application process.)

As property developers move through the National Park Service approval process, they also file for state approvals. In conjunction with the federal Part II form, developers also file a state Part A application. The state Part A application requires a detailed budget of projected costs, which Extension used to measure the economic impact of the projects. Likewise, with the Part III application, developers submit a Part B at the state level. The Part B form includes their final project costs, which Extension used for the case studies.

Economic Impact in Fiscal Year 2021

Economic impact is comprised of direct, indirect, and induced impacts. Direct impact is the initial change in the economy. In this report, it is the planned spending by developers to rehabilitate the historic properties. Indirect and induced impacts are the multiplier (or ripple) effects of money spent on rehabilitation. Broadly, indirect impacts stem from the business purchasing goods and services and induced impacts stem from household spending of income. Extension used the input-output model, IMPLAN, to calculate the indirect and induced impacts.

Input-output models trace the flow of goods and services throughout an economy. Once the flow is established, the models can measure how a change in one area of the economy effects another area of the economy. The indirect and induced impacts are the effects at the businesses not directly impacted. Indirect impacts are business-to-business effects. As construction companies buy supplies and inputs, this causes their suppliers to increase purchases of their inputs and so on through the supply chain. Induced impacts are consumer-to-business impacts. As construction workers have income, they pay for housing, buy groceries, and dine out. This triggers an increase in spending in the supply chain for the businesses serving workers.

Economic impact terms

Direct impact: initial change

Indirect impact: business-to-business impacts

Induced impact: consumer-to-business impacts

[3] National Park Service (n.d.). *Application process*. Technical Preservation Services. Retrieved from https://www.nps.gov/tps/tax-incentives/application-process.htm

In this report, construction firms broadly include businesses that employ people from carpenters to masons and from architects and engineers to historic preservationists.

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

Scope of the Analysis

Thirty-four projects received Part A approval in FY21 (Table 1). Planned continued and reuse for the buildings include commercial, residential (including affordable housing), office, and mixed use. Projects are planned geographically across Minnesota. Developers in Greater Minnesota submitted 14 projects, whose locations include Albert Lea, Duluth, Fergus Falls, Hastings, Litchfield, Owatonna, Rochester, Saint Cloud, and Winona.

The number of projects receiving state Part A approval in FY21 is the highest experienced during the tax credit's history. This is likely due to the anticipated sunsetting of the state program in FY21. The Minnesota legislature extended the credit by one year, however, given the deadlines to gain necessary Part A approvals and the session, many developers filed their project applications for FY21 anticipating the state sunset.

Table 1: Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between July 1, 2020 and June 30, 2021 (FY21)

Historic Property Name	Proposed Use	Location
225 North Sibley Avenue	Commercial/Residential	Litchfield
231 North Sibley Avenue	Commercial/Residential	Litchfield
Central Grade School	Residential	Winona
Chicago, Saint Paul, Minneapolis and Omaha Railroad Office	Mixed Use	Saint Paul
Danish Brotherhood Society Lodge 75	Residential	Albert Lea
Duluth Central High School	Residential	Duluth
Erpelding/A.M. Ramer Candy Company	Commercial	Winona
Fairfax-Parson Company	Office/Retail	Minneapolis
Farm Building Number One Complex	Conference Center	Rochester
Fergus Falls Hospital Building #33	Residential	Fergus Falls
Foley-Brower-Bohmer House	Retail/Residential	Saint Cloud
Fort Snelling – Barracks and NCO Housing	Residential	Hennepin County
Fort Snelling – Medical and Gymnasium Complex	Residential	Hennepin County
Fort Snelling – Officers' Row Housing	Residential	Hennepin County
Hall Hardware Company	Retail/Residential	Minneapolis
Hockin Furniture Company Building	Retail/Residential	Duluth

Historic Property Name	Proposed Use	Location
Hudson Manufacturing Company Factory	Residential/Retail	Hastings
J.I. Case Building	Commercial	Minneapolis
J.H. Martin Company	Commercial	Minneapolis
Little Sisters of the Poor Home for the Aged	Residential	Minneapolis
Minneapolis Iron Store	Residential	Minneapolis
Minneapolis Iron Block	Retail/Residential	Minneapolis
Newell, George, R. and Company	Retail/Residential	Minneapolis
North Star Center West	Mixed Use	Minneapolis
Northrup, King, & Co.	Residential	Minneapolis
Printer's Exchange	Residential	Minneapolis
Rasmus Jensen Building	Residential	Albert Lea
Red River Mill	Residential	Fergus Falls
Saint Paul Casket Building	Warehouse	Saint Paul
Security Warehouse – Itasca	Retail/Residential	Minneapolis
Stearns Building	Commercial	Minneapolis
Stillwater Armory	Housing	Stillwater
Strutwear Knitting Co.	Mixed Use	Minneapolis
Young's Block	Commercial	Owatonna

Direct Impact

Developers anticipate spending $890.2 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 $729.0 million.

Based on the submitted project costs, SHPO estimates $124.6 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 costs.

Table 2: Direct Impact of Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between July 1, 2020 and June 30, 2021 (FY21)

Total Estimated Costs	Estimated Costs, Acquisition Removed	Estimated Minnesota Historic Rehabilitation Tax Credit	Additional Dollars Leveraged per $1 of Tax Credit
$890,261,404	$729,009,825	$124,644,011	$7.14

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 2021, every dollar of state tax credit leveraged $7.14 of additional investment by developers.

Total Impact

Projects leveraged by the Minnesota Historic Rehabilitation Tax Credit in FY21 will generate an estimated $1.4 billion of economic activity (Table 3). This includes $693.4 million in labor income. The credit will support 9,660 jobs.

Table 3: Total Economic Impact of Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between July 1, 2020 and June 30, 2021 (FY21)

Impact Type	Output (millions)	Employment (FTEs)	Labor Income (millions)
Direct	$729.0	6,050	$465.4
Indirect	$164.2	800	$55.0
Induced	$514.5	2,810	$173.0
Total	$1,407.7	9,660	$693.4

Source: University of Minnesota Extension estimates, IMPLAN

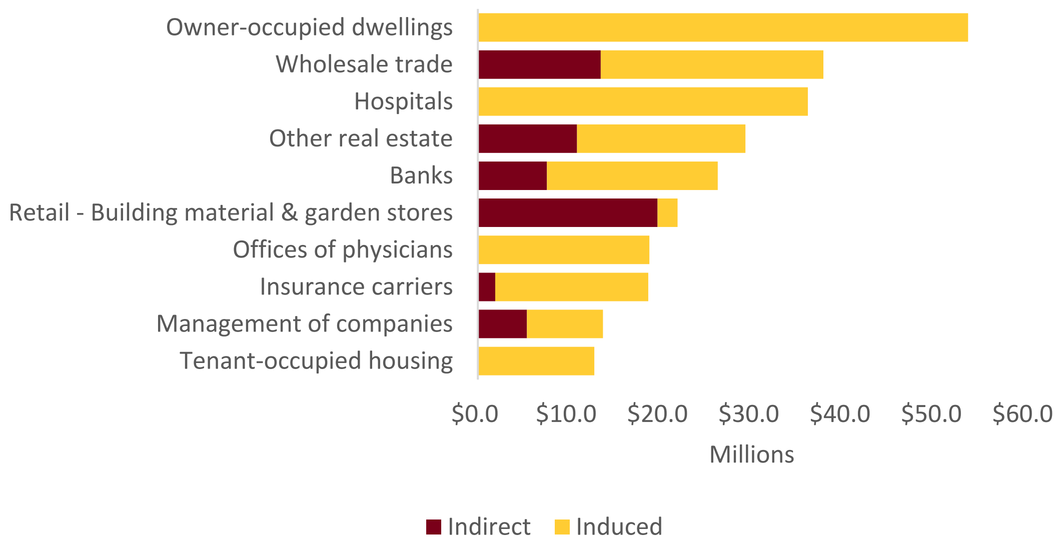
Top Sectors Impacted

In addition to the direct impact on the construction industry, the projects will generate an estimated $678.7 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 owner-occupied dwellings (housing), wholesale trade, and hospitals (Chart 1).

Owner-occupied dwellings see high impacts because workers employed by the construction, architectural, preservation, and other related construction firms spend a significant portion of their incomes on their own mortgages.

Indirect impacts (business-to-business) are highest in building material and garden supply stores, wholesale trade, other real estate (including services such as titling and closing), and banks. Induced impacts are highest in housing, health care, and insurance carriers. 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.

Chart 1 : Top Industries Impacted by the Minnesota Historic Rehabilitation Tax Credit, Indirect and Induced Effects, FY21, Sorted by Output



State and Local Tax Collections

Minnesota Historic Rehabilitation Tax Credit projects in-progress for FY21 will generate an estimated $65.5 million in state and local tax collections (Table 4). Income and sales taxes, which primarily go to the state, will total $41.1 million. Property tax collections will total $15.8 million.

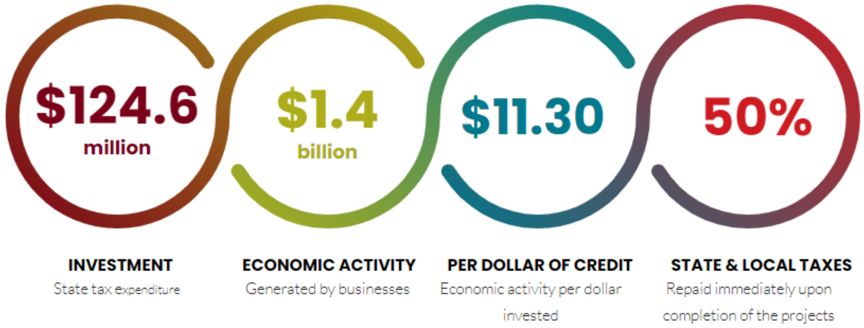
Table 4: State and Local Tax Collections from Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between July 1, 2020 and June 30, 2021 (FY21)

Tax	Estimated Collections (millions)
Income	$21.9
Sales	$19.2
Property	$15.8
Other	$8.6
Total	$65.5

Source: University of Minnesota Extension estimates, IMPLAN

Since the state plans to award $124.6 million in tax credits to projects receiving initial approval in FY21, the projects themselves will repay 50 percent of the cost upon completion (Chart 2). In addition, the projects will generate $11.30 of economic activity in Minnesota for every dollar of credit awarded. The $11.30 includes the public and additional investment ($7.14) plus the ripple effects per dollar.

Chart 2: Summary, Minnesota Historic Rehabilitation Tax Credit, FY 2021



Economic Impact Fiscal Years 2011-2021

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 $5.0 billion in economic activity in the state (Table 5). The state credit has supported 28,480 jobs and $1.9 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 2021 (Adjusted to 2021 Dollars)

Impact Type	Output (millions)	Employment (FTEs)	Labor Income (millions)
Direct	$2,734.6	15,370	$1,095.5
Indirect	$932.8	5,060	$330.8
Induced	$1,364.5	8,050	$459.7
Total	$5,031.9	28,480	$1,886.0

Source: University of Minnesota Extension estimates, IMPLAN

Total Impacts by Fiscal Year

Economic impact has varied by year (Chart 3). 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). FY 2015 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. [4]

[4] 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.

Chart 3: Total Economic Impact of Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between FY 2011 and FY 2021

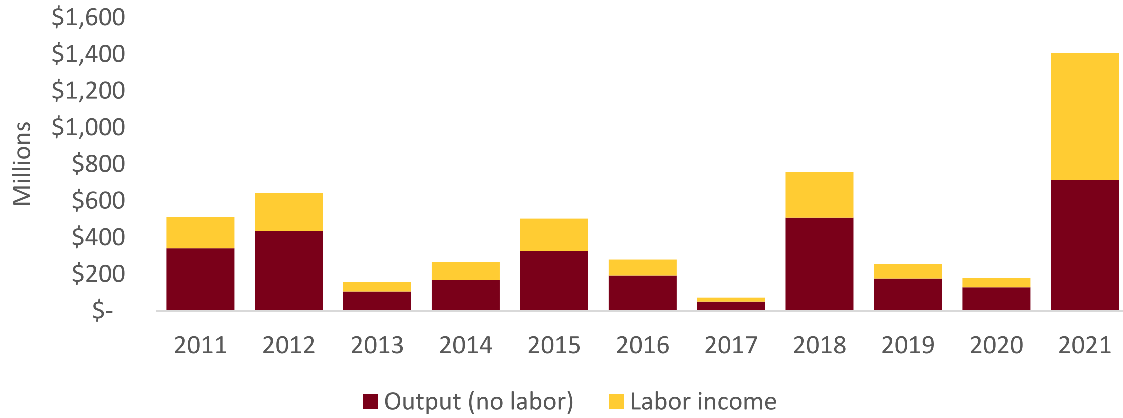


Table 6: Total Economic Impact of Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between FY 2011 and FY 2021

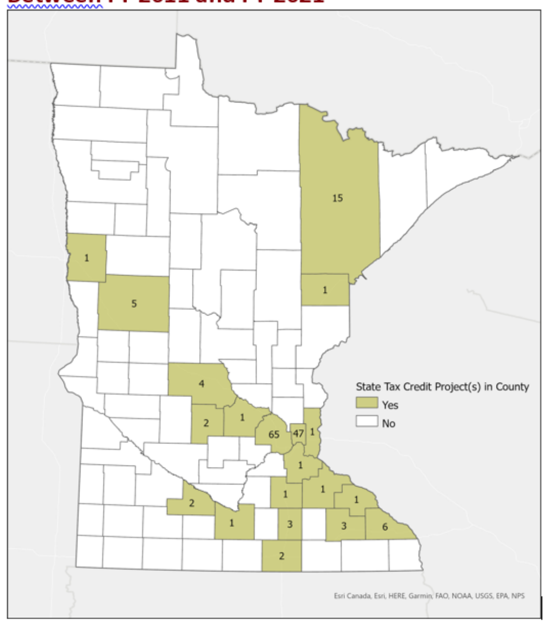
	Output (millions, 2021 $)	Employment (FTEs)	Labor Income (millions, 2021 $)
FY 2011	$511.6	2,880	$171.0
FY 2012	$642.5	3,500	$207.6
FY 2013	$158.3	1,200	$53.0
FY 2014	$265.7	1,340	$96.3
FY 2015	$503.3	2,605	$176.7
FY 2016	$279.4	1,280	$87.1
FY 2017	$71.7	290	$21.6
FY 2018	$758.1	3,910	$249.3
FY 2019	$255.3	1,100	$79.5
FY 2020	$178.3	720	$50.3
FY 2021	$1,407.7	9,660	$693.4
Total	$5,031.9	28,485	$1885.8

Estimates by the University of Minnesota Extension Center for Community Vitality

Location of Projects In-Progress between FY 2011 and 2021

Counties across Minnesota have benefited from the value generated by the historic rehabilitation tax credit. Map 1 illustrates, by county, the location of projects awarded the credit between FY 2011 and FY 2021. While many of the projects have been in Ramsey and Hennepin Counties, St. Louis, Winona, Otter Tail, and Stearns counties have also seen a fair number of projects.

Map 1: Location of Minnesota Historic Rehabilitation Tax Projects Receiving National Park Service Part II Approval Between FY 2011 and FY 2021



Projects in Context of their Neighborhoods

Beyond creating economic activity, Minnesota Historic Rehabilitation Tax Credit projects can improve the built capital of their neighborhoods. This is especially true in neighborhoods that may be more vulnerable from a socio-economic perspective.

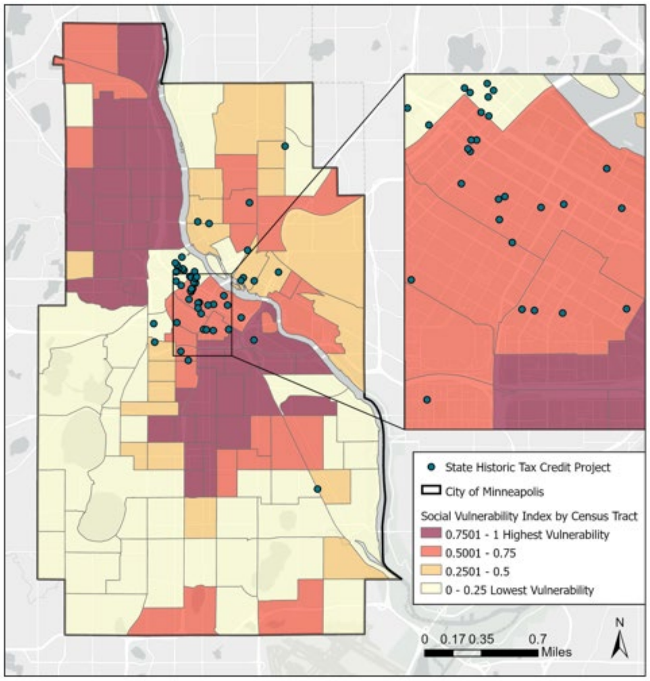
To measure how properties receiving the credit are affecting neighborhoods, SHPO mapped the properties overlaid with the neighborhoods' social vulnerability index. The Social Vulnerability Index (SVI) ranks census tracts' social factors, including unemployment, minority status, and disability, as well as socioeconomic status, household composition and disability, minority status and language, and housing type and transportation. Percentile rankings range from 0 to 1 with higher values indicating greater vulnerability.

The following maps highlight projects completed in Minneapolis, Saint Paul, and Duluth and show the locations of the historic tax credit projects compared with the social vulenerability index.

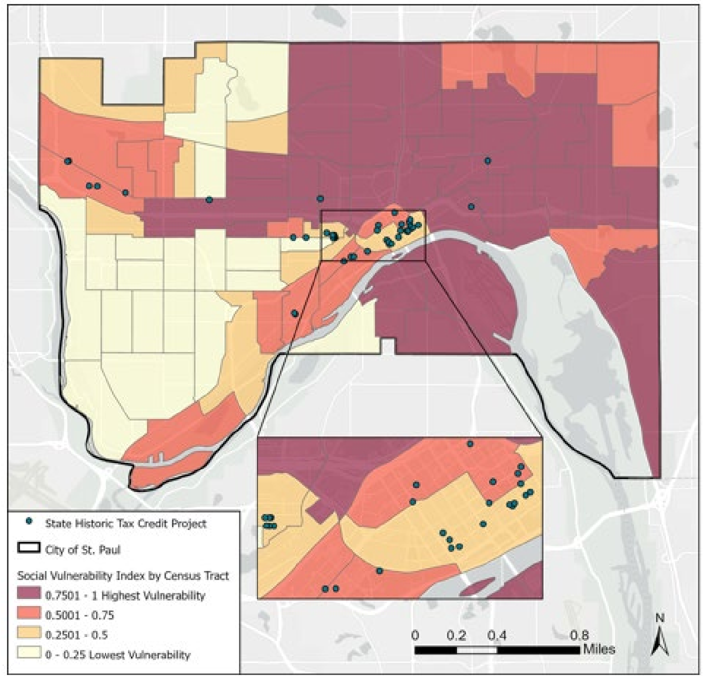
Map 2 shows the geographic distribution of projects in Minneapolis receiving National Park Service Part II approval during the history of the credit. While there are multiple properties in neighborhoods with the lowest levels of vulnerability, there are also a high number of projects in neighborhoods in the two highest tiers of vulnerability. In fact, 45 percent of the projects are in high vulnerability neighborhoods.

Likewise, Map 3 shows the distribution of projects in Saint Paul. Saint Paul has a higher percent (50 percent) of its projects in high vulnerability neighborhoods.

Map 2: Minneapolis Projects Receiving National Park Service Part II Approval between FY2011 and FY2021, Social Vulnerability Index

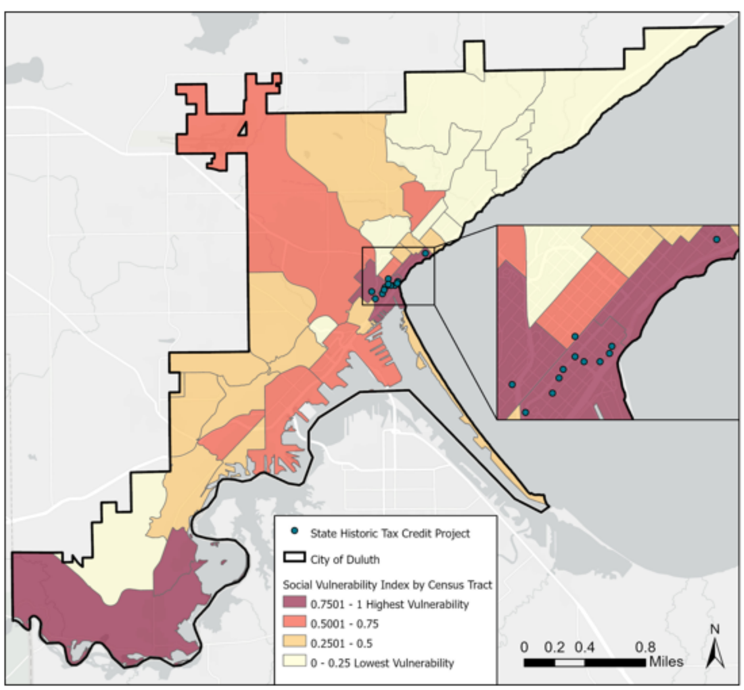


Map 3: Saint Paul Projects Receiving National Park Service Part II Approval between FY2011 and FY2021, Social Vulnerability Index



Finally, Map 4 shows projects in Duluth. Nearly all of Duluth's projects were in highly vulnerable neighborhoods.

Map 4: Duluth Projects Receiving National Park Service Part II Approval between FY2011 and FY2021, Social Vulnerability Index



CASE STUDIES OF COMPLETED PROJECTS

Since the inception of the Minnesota Historic Rehabilitation Tax Credit, 179 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 three completed projects. New this year, one case study—Ogden Apartment Hotel—compares a rehabilitation project with a new brownfield construction project.

Continental Apartments/ Ogden Apartment Hotel

66 South 12th Street, Minneapolis

Built: 1910

Rehabilitated: 2016-2017

Developer: Aeon

Original Use: Apartment Hotel

Current Use: Housing for the formerly homeless

Photo: McGhiever via Wikipedia Commons

The Ogden Apartment Hotel is an example of a building exemplifying its time and place in the social and economic transformation of its era. The population of Minneapolis grew exponentially in the late 1880s—an astounding 250 percent increase between 1880 and 1890. Multi-family dwellings—row houses, apartment buildings, apartment hotels, and duplexes—sprung up across the city. In the early 1900s, the apartment hotel became a popular lodging option for skilled workers looking for affordable housing near their urban workplaces. Tenants typically included a mixture of secretaries, department store clerks, junior salespeople, construction workers, accountants, lawyers, and schoolteachers.

The lack of private kitchens and the presence of a communal kitchen and dining area typically distinguished apartment hotels from apartment buildings. In addition, apartment hotels often offered a mix of furnished or unfurnished rooms. Finally, apartment hotels lacked the lobby space of a hotel and a commercial business on the first floor most common in apartments.

The Ogden Apartment Hotel, built in 1910, is one of two former apartment hotels still standing in Minneapolis. According to the application for the National Register of Historic Places, “Each apartment at the Ogden was equipped with a bathroom that contained a sink with hot and cold water, a water closet, and a bathtub. The use of ‘disappearing wall beds’ was rather innovative for Minneapolis because these did not become popular nationwide until about 1910.”[5]

[5] Koop, M. (1991). National register of historic places form. Retrieved from https://catalog.archives.gov/id/93201981

The Ogden was designed by architect Adam Door and is an example of the Second Renaissance Revival. Primary materials included in the building are limestone, brick, tile, and terra cotta. The entry is distinguished by sidelights and a transom framed by a pair of lion's heads. The Minneapolis Fire Proof Door Company manufactured the electric copper finished front and vestibule doors.

In 1992, the Central Community Housing Trust, now known as Aeon, purchased the building. Aeon rehabilitated the building to serve as housing for the formerly homeless and provides wrap around services such as classes and workshops.[6] The building features 70 units.

In 2014, prior to rehabilitation, the Continental Apartment/Ogden Apartment Hotel property carried an estimated market value of $2.3 million (Table 7). By 2021 and following the tax credit work, the value had doubled to $4.6 million. On an annual basis, Minneapolis collects an estimated $24,500 in additional property taxes due to work completed with historic tax credits.

Extension estimates the Continental Apartment/Ogden Apartment Hotel rehabilitation project generated $18.9 million of economic activity from the developer's direct $9.6 million investment. The project was awarded $1.4 million in state historic tax credits; thus, for every dollar invested by the state, $13.95 in economic activity was generated.

Table 7: Project Financing and Economic Impact of the Continental Apartments/Ogden Apartment Hotel

Project Details	
Total Final Project Costs (millions)	$9.6
Total Qualifying Rehabilitation Costs (millions)	$6.8
State Historic Tax Credit (millions)	$1.4
Federal Historic Tax Credit (millions)	$1.4
Economic Impact	
Economic Impact of Construction (millions)	$18.9
Total Economic Activity Per Dollar of State Tax Credit	$13.95
Jobs Supported During Construction	100
State and Local Taxes from Construction	$946,100
Impact on Property Values	
Property Value 2015	$2,263,500
Property Value 2021[7]	$4,640,000
Annual increase in Property Tax Collections	$24,500

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

[6] Aeon (n.d.). *Welcome to the continental.* The Continental. Retrieved from https://continental.aeon.org/
[7] Property value is estimated market value. Property tax value (2021) for parcel 27-029-24-13-0008 accessed via Hennepin County property search. Property tax value for 2017 provided via email from Hennepin County.

New Construction and Rehabilitation Comparison

Added to this year's report is an analysis of how a project funded with historic rehabilitation tax credits compares to a brownfield redevelopment (new construction) project. To do this, Extension examined the data for the Continental Apartments/Ogden Apartment Hotel project and the data for a nearby brownfield[8] project at 1500 Nicollet. In the case of 1500 Nicollet, the project developers used Low Income Housing Tax Credit (LIHTC) funding and brownfield development funds from DEED and the Met Council. The Continental Apartments/Ogden Apartment Hotel also received housing tax credits and additional support from Hennepin County and the City of Minneapolis. This analysis includes all known local, state, and federal funding.

The Continental Apartments/Ogden Apartment Hotel project created 70 units at a total project cost of $9.6 million (Table 8). This translates to a per unit cost of $137,083. The construction work generated an estimated per unit economic impact of $270,317. On a per unit basis, the project received $118,219 in local, state, and federal support. Thus, for every dollar of government support, the project generated $2.29 in economic activity.

The 1500 Nicollet project, on the other hand, created 183 units for a total project cost of $52.7 million. The project cost per unit was $288,167. The construction work generated an estimated per unit economic impact of $567,848. Via federal, state, and local sources, the project received $118,975 per unit in support. For every dollar of government support, $4.77 in economic activity was generated.

The 1500 Nicollet project had a higher per unit cost to develop compared to the Continental Apartments/Ogden Apartment Hotel project. The projects received nearly equal amounts of local, state, and federal funding per unit. Since the 1500 Nicollet units were comparatively more expensive, the impact per dollar of governmental support is higher.

Table 8: Comparison of Rehabilitation Project to Brownfield Redevelopment

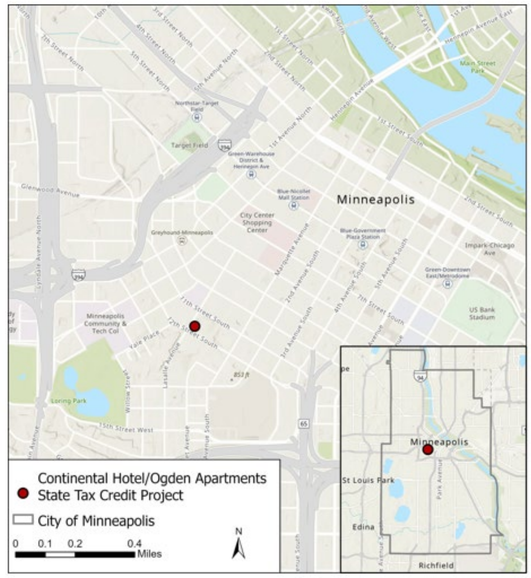
Metric	Continental Apartments/ Ogden Apartment Hotel	1500 Nicollet
Total project size	70	183
Total project cost (minus acquisition)	$9.6 million	$52.7 million
Per unit cost	$137,083	$288,167
Per unit economic impact	$270,317	$567,848
Per unit assistance	$118,219	$118,975
Economic impact per dollar of assistance	$2.29	$4.77

Source: State Historic Preservation Office, Minnesota Housing, and University of Minnesota Extension estimates

[8] According to the EPA, a "brownfield is a property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant." https://www.epa.gov/brownfields/overview-epas-brownfields-program

The Continental Hotel/Ogden Apartment Hotel property is located near Loring Park in Minneapolis. Neighbors include Brit's Pub, the Minnesota Orchestra, WCCO, and University of St. Thomas' Opus College of Business.

Map 5: Continental Apartments / Ogden Apartment Hotel, Minneapolis, MN



As the location of the property is near downtown Minneapolis, the economy of the zip code is heavily dependent on the management of companies and enterprises industry. Nearly one in three workers in the area are in that particular industry.

Most people working in the zip code commute in. The residents of the zip code are diverse. Seventy-one percent of residents are white, non-Hispanic. Meanwhile, 13 percent are black, non-Hispanic, 5 percent Asian, non-Hispanic, and 5 percent white-Hispanic.

Athough jobs in the area pay well—an average of $125,000 per job—many residents have low incomes. The median household income for the zip code is $48,680 compared to Minnesota's $71,300. In addition, 18 percent of people in the area have incomes below the poverty line.

Ely State Theater

234 East Sheridan Street, Ely

Built: 1936

Rehabilitated: 2015-2019

Developer: Ely State Theater, LLC

Original Use: Theater

Current Use: Theater

Photo: Ely's State Historic Theater

The Ely State Theater first opened its doors in 1936. Its opening fit within the social and economic trends of the times. Northern Minnesota's economy, built on mining and timber, had opened to tourism, drawing recreational visitors to its wonders. Meanwhile, cinema and the film industry were entering a golden era, with the addition of synchronized sound in the 1920s and color in the 1930s. A theater in Ely's commercial district was the perfect blend of these trends.

In the mid-1930s, Ely was home two movie venues. One was a silent movie theater and the other the Opera House. The Opera House, like many opera houses in small towns, had transitioned from its original purpose to showing movies. The Opera House's manager, Archie Swanson, saw an opportunity to offer a better motion picture venue, and by early 1935, he began exploring the idea of a new theater.

While developing ideas for the project, Swanson connected with theater architects, Liebenberg and Kaplan, who had designed more than 200 theaters in the Midwest. Their designs became iconic. As captured in the Ely State Theater National Historic Register nomination, "As art history scholar Lynde King observed: 'In the Upper Midwest, it was often Jack Liebenberg's movie theater designs that represented the most up-to-date architecture in town. His energetic inventiveness provided images that molded the consciousness of people living not only in large cities, but also in small towns everywhere. Liebenberg's 'Marquee on Main Street' often served as a focal point for the town, both visually and socially.'"[9] The State Theater in Ely, Minnesota, is an example of the Streamline Moderne style, a form of Art Deco popular in the 1930s.

As the Golden Era of cinema began to wane, due to the rise in popularity of television and videotapes, so did the number of people attending movies. Following national trends, the Ely State Theater stopped showing movies for a number of years, briefly becoming a video arcade in the 1990s, before returning to showing movies. The Great Recession, however, made the business model difficult, and the Ely State Theater once again stopped showing films.

By 2014, the building was underutilized and beginning to show signs of deterioration. The Ely State Theater, LLC purchased the building. Rehabilitation work finished in 2019 and the building was

[9] Roise, C. (2015). National Register of Historic Places Registration Form.

placed into service. Visitors and residents can once again take in a film at the Ely State Theater, which has delighted locals. According to David Wigdahl, “It is a truly beautiful theater and all thanks to the community stepping up and saying with their dollars and their support that they want an open theater in town.”[10]

The Ely State Theater building sold for $2,750 in 2014. By 2021, following the rehabilitation, the estimated market value of the building had increased to $162,900. That represents more than a 5,800 percent increase in value. Annually, property tax collections on the property increased by an estimated $5,260 (Table 9).

Extension estimates the $2 million investment by the developer generated total economic impact of $4.0 million in the state. The project was awarded slightly less than $400,000 in tax credits. Thus, for every dollar of state tax credit invested, $10.72 of economic activity was generated in Minnesota.

Table 9: Project Financing and Economic Impact of the Ely State Theater

Project Details	
Total Final Project Costs (millions)	$2.0
Total Qualifying Rehabilitation Costs (millions)	$1.8
State Historic Tax Credit (millions)	$0.4
Federal Historic Tax Credit (millions)	$0.4
Economic Impact	
Economic Impact of Construction (millions)	$4.0
Total Economic Activity Per Dollar of State Tax Credit	$10.72
Jobs Supported During Construction	20
State and Local Taxes from Construction	$170,700
Impact on Property Values	
Property Value 2014 (sale price)	$2,750
Property Value 2021[11]	$162,900
Annual increase in Property Tax Collections	$5,260

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

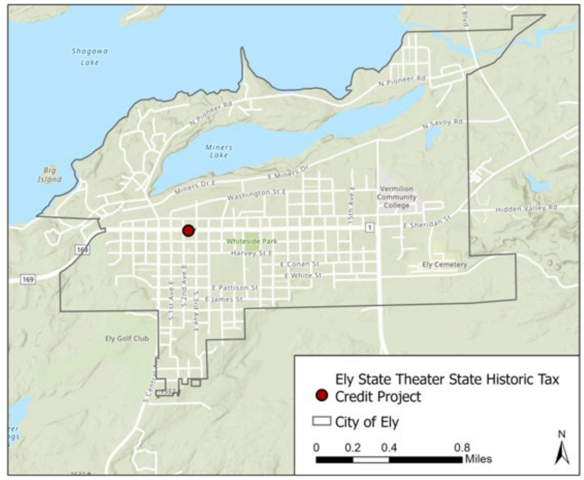
[10] Admin. (2021, May 7). Ely’s State Theater comes back to life, Greenstone Cinema added. *The Ely Echo*. Retrieved from https://www.elyecho.com/articles/2021/05/07/ely%E2%80%99s-historic-state-theater-comes-back-life-greenstone-cinema-added

[11] Property value is estimated market value. Property tax value for parcel 030-0010-01020 accessed via St. Louis County Beacon property search.

The Ely State Theater is located in the commercial heart of the city. Ely, with a population of 5,100, has an economy with a strong leisure and hospitality base. Major industries, based on employment, include accommodations and food services, retail trade, and arts, entertainment, and recreation. The theater fits within this economic sector.

Ely's median household income is $50,375. This compares to the state of Minnesota's median household income of $71,300.

Map 6: Ely State Theater, Ely, MN



Saint Agatha’s Conservatory of Music and Arts / Exchange Building

26 East Exchange Street, Saint Paul

Built: 1908-1910

Rehabilitated: 2018-2019

Developer: Rebound Exchange, LLC

Original Use: Arts and music education

Current Use: Hotel

Photo: Hess Roise and Company

Saint Agatha’s Conservatory of Music and Arts (St. Agatha’s) formed in 1884. As Saint Paul and Minneapolis grew as a social and economic hub of Minnesota, residents began to infuse the region with arts, music, and cultural appreciation. St. Agatha’s was one of four schools offering arts education during this period. The Sisters of Saint Joseph established it to train young people in arts and music and the social graces. At its peak in 1920, school enrollment hit 1,100 students.

St. Agatha's, a six-story building, was designed in the Beaux Arts style. Attached to the main building were a chapel and the convent. Another unique feature is a rooftop garden, a rare feature in Saint Paul architecture. Although the building changed ownership with time, according to the application for the National Historic Register, “The two parlors on the first floor are intact and the entire first floor retains original oak and maple woodwork—mantels with China tiles painted by the sisters, window and door frames, picture rails and baseboards—as well as classically inspired plaster moldings and brackets, marble baseboards and large glass transom windows.”[12]

By the 1930s, parochial schools began to incorporate arts and music education into their own curriculums and demand for Saint Agatha’s programming declined. The Sisters of Saint Joseph continued to educate students until 1962 when they sold the building. The main building served a variety of purposes between the 1960s and early 2010s. McNally Smith College of Music used part of the building for classroom space. Other parts of the building were used as office space.[13]

In 2017, Rebound Exchange purchased the building. Using historic tax credits, the new owners rehabilitated the building into the Celeste St. Paul Hotel and Bar, which opened in 2019. Retired nuns from the Sisters of Saint Joseph were the first overnight guests of the hotel.[14]

When the Saint Agatha’s property was sold in 2017, the estimated market value was $1.9 million (Table 10). By 2021, following rehabilitation into a hotel, the property value had risen to $7.1 million.

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[12] Zahn, T. (1988). National Register of Historic Places Form. Retrieved from https://catalog.archives.gov/id/93202707

[13] Melo, F. (2018, October 31). *Historic downtown, convent, music conservatory will become boutique hotel.* Twin Cities Pioneer Press. https://www.twincities.com/2018/10/31/former-st-agathas-convent-conservatory-to-become-71-unit-boutique-hotel/

[14] Glover, M. (2019, October 30). Sister sleepover: Retired nuns get to be first guests in former St. Paul convent turned hotel. Fox 9 KMSP. Retrieved from https://www.fox9.com/news/sister-sleepover-retired-nuns-get-to-be-first-guests-in-former-st-paul-convent-turned-hotel?fbclid=IwAR1Wl8POVxi93latzmEM4otuvpWbpl-L6M8ZhtlRsX5G8QZhmKlxDkd39sE

This represents a nearly 300 percent increase in property value. As a result, Ramsey County collected an additional $286,160 in property taxes in 2021 compared to 2017. Between the taxes generated by the construction activity and the increased property values, the Saint Agatha's property will generate more tax revenues than paid out in tax credits within three years.

Extension's estimates show the Saint Agatha's project generated $31.0 million in economic activity. When placed in service, the project was awarded $1.97 million in state historic tax credits. Thus, for every dollar invested, $15.80 of economic activity was created in Minnesota.

Table 10: Project Financing and Economic Impact of Saint Agatha's Conservatory of Music and Arts/Exchange Building

Project Details	
Total Final Project Costs (millions)	$15.96
Total Qualifying Rehabilitation Costs (millions)	$9.83
State Historic Tax Credit (millions)	$1.97
Federal Historic Tax Credit (millions)	$1.97
Economic Impact	
Economic Impact of Construction (millions)	$31.0
Total Economic Activity Per Dollar of State Tax Credit	$15.80
Jobs Supported During Construction	150
State and Local Taxes from Construction (millions)	$1.3
Impact on Property Values	
Property Value 2017	$1,875,600
Property Value 2021[15]	$7,100,000
Annual increase in Property Tax Collections	$286,160

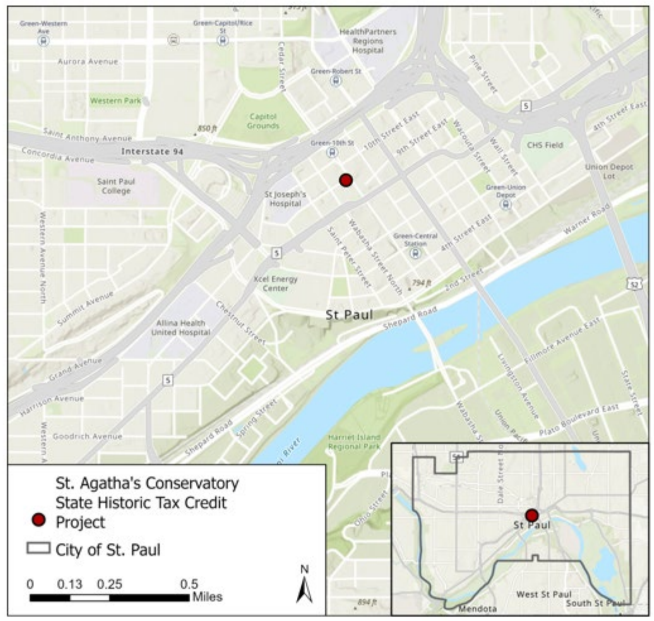
Source: State Historic Preservation Office, Part B applications; University of Minnesota Extension estimates

[15] Property value is estimated market value. Property tax value for parcel 312922340203 accessed via Ramsey County Beacon property search.

The Saint Agatha's property is located on the periphery of downtown Saint Paul. Neighbors include many arts and entertainment venues—the Fitzgerald Theater, History Theater, and the Minnesota Children's Museum—among them.

The property is located in one of downtown Saint Paul's main zip codes. Major industry employers in the area include health care and social assistance (M Health Fairview has a campus), finance and insurance, and professional and technical services.

Map 7: Saint Agatha's Conservatory, Saint Paul, Minnesota



Residents in the zip code have moderate incomes—the average household incomes is $58,580 compared to Minnesota's $71,300. Nearly 14 percent of residents live below the poverty level. The neighborhood is also relatively diverse, as 64 percent of residents are white, non-Hispanic. Thirteen percent of residents are black and another 13 percent are Asian. Around 4 percent are white, Hispanic.

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 three case studies. On average, the value of the three properties grew by 187 percent, from $4.1 million prior to rehabilitation to $11.9 million post-rehabilitation (Table 11). By comparison, property values statewide increased 21 percent.

As a result of property value increases, annual property taxes also increased. Property tax revenues on the three properties increased by an estimated $315,920 annually.

Table 11: Property Value Changes, FY21 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 (three properties)	$4,141,850	$11,904,921	187%
Estimated market value, statewide, 2016-2021	$9,286,963,250	$11,227,554,317	21%
Estimated annual increase in property tax collections, case study projects receiving tax credit (three properties)		$315,920	

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

The three case study projects were awarded $3.7 million in tax credits (Table 12). Extension's analysis estimates the rehabilitation construction of these projects generated $2.5 million in state and local taxes, meaning 66 percent of the credit was repaid in state and local taxes during the construction phase alone.

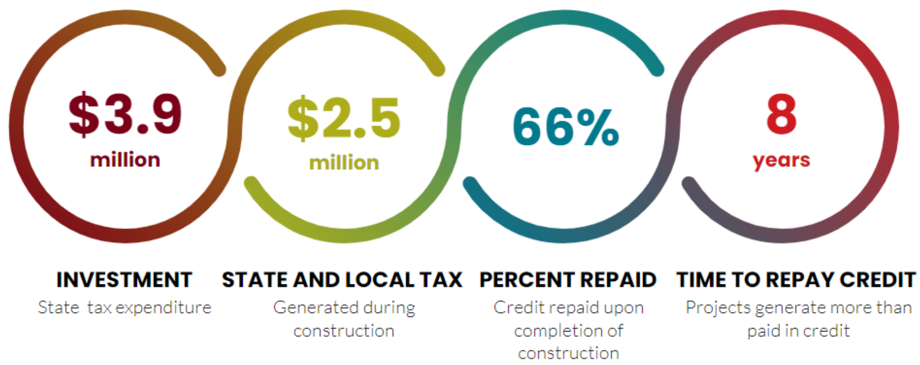
Table 12: Analysis of Tax Collections, FY21 Case Study Properties Receiving the Minnesota Historic Rehabilitation Tax Credit

Tax credits awarded	**$3,692,100**
State and local taxes generated from construction	$2,453,790
Annual increase in property tax collections	$315,920
Number of years after which tax collections from projects exceeded investment	8

Source: SHPO, University of Minnesota Extension estimates

In addition, annual property tax collections increased by $315,920. Thus, within eight years, state and local governments will receive more income from the properties than initially invested in the credit (Chart 4).

Chart 4: Analysis of Tax Collections, Three Case Study Projects



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.

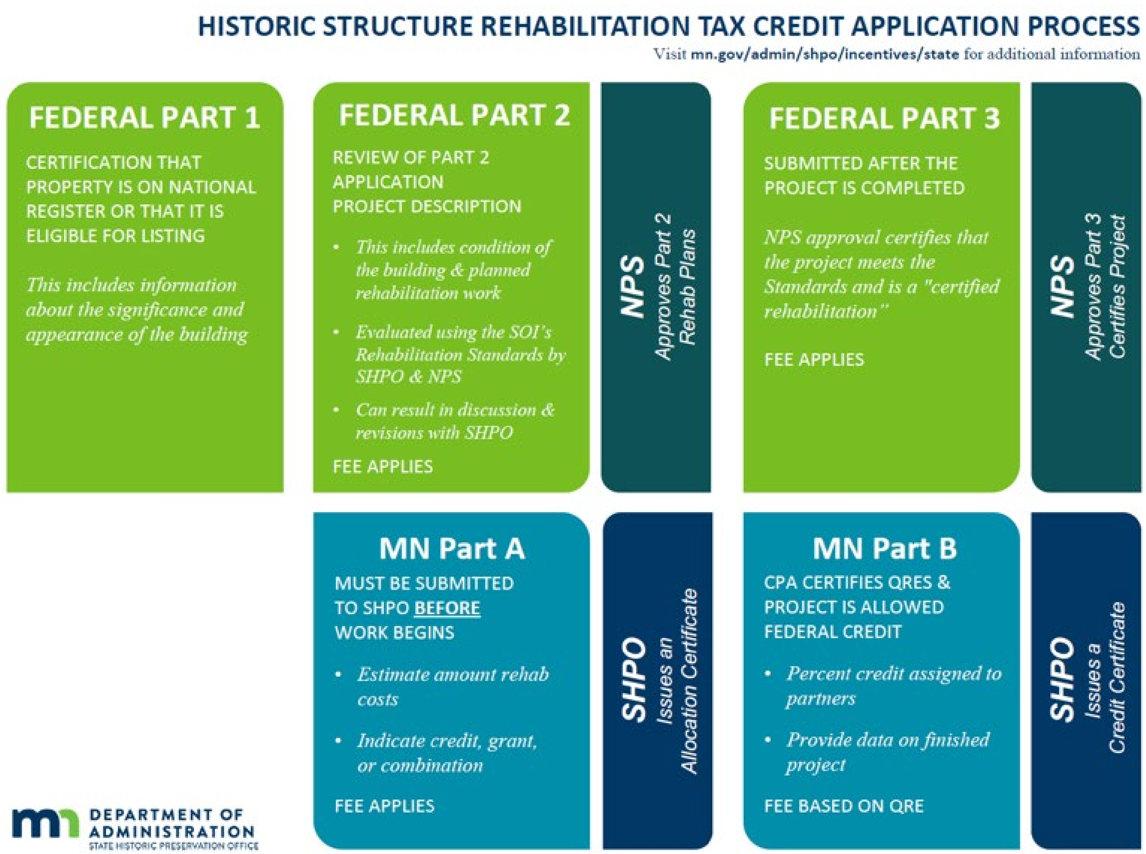
Part B Application

"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."[16]

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."[17]

Chart 1A: Graphic of Application Process



[16] 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
[17] National Park Service. (n.d.). *Qualified expenses.* National Park Service. Retrieved from https://www.nps.gov/tps/tax-incentives/before-apply/qualified-expenses.htm