



MEMORANDUM

To: Steve Ruger, Deputy City Manager, City Managers Office

From: Cade W. Sterling, Planner, Planning and Zoning Division

Subject: Historic Preservation Tax Credits

Date: November 21, 2024

Deputy City Manager Ruger,

As it relates to the Civic Center, 2100 Ridge Avenue, the use and value of the 20% Federal Historic Tax Credit as well as the 25% State Historic Tax Credit, is dependent on the property's future use and ownership structure.

Non-Competitive Federal Historic Tax Credit

The 20% Federal Historic Tax Credit has four criteria for eligibility. These include:

1. The building must either be individually listed in the National Register of Historic Places or be determined to be a Certified Historic Structure. The Civic Center is listed individually in the National Register (February 9, 2006), as the Marywood Academy. As such, the Civic Center meets this requirement and an Evaluation of Significance, commonly known as the Part I application, would be unnecessary.
2. The project is determined to be a Substantial Rehabilitation, meaning that the cost of rehabilitation exceeds the pre-rehabilitation cost of the building. Although this would require some additional information both on the assessed value of the building and land, and a better understanding of the proposed scope of rehabilitation, I am confident any meaningful rehabilitation of the building would meet this requirement.
3. The rehabilitation work meets the Secretary of the Interior Standards for Rehabilitation. There are ten principles which act to ensure the historic character and integrity of the building are preserved. To ensure this is met, the applicant submits a Description of Rehabilitation (including detailed drawings), commonly known as the Part II application, for review and approval by the State Historic Preservation Office and National Park Service.
4. After the rehabilitation is completed, the building must be depreciable (income producing), for a period of at least five years. The credit cannot be used to rehabilitate a building used exclusively for municipal use. In some unique instances, if a portion of the building is income producing, it could qualify, but the qualified rehabilitation expenses and value of the credit would be limited to the portions of the building which are income-producing.

The value of the tax credit depends on the value of the qualified rehabilitation expenses (QRE). As a rule of thumb, qualified rehabilitation expenses include the portions of the building that would be retained if the roof were removed and the building was turned upside down and shaken. These include wall surfaces, roofs, windows, doors, ceilings, HVAC systems, electrical, plumbing, lighting, floors, stairs, fire suppression systems, etc. Some soft costs may also qualify including architectural and engineering services, and construction management costs.

As an example, a \$15 million project, meeting the substantial rehabilitation criteria, may have \$10 million of QRE. Of those, a 20% credit is provided, for a total of \$2 million. Tax credits are often syndicated to a tax credit investor to acquire ready capital, at a rate between 80 to 90 cents on the dollar. This means the actual capital gained through the Federal Historic Tax Credit program for a theoretical \$15 million project would likely be between \$1.6 million and \$1.8 million. This would be further reduced if only a portion of the building were depreciable, (income producing), where the QRE would be limited to the scope of work for only those income producing spaces, and the total capital being 20% of that minus the rate of syndication.

Competitive Illinois Historic Tax Credit

The 25% Illinois Historic Tax Credit works in the same way as the Federal Historic Tax Credit in terms of qualifying criteria and valuation of the credit. Projects seeking the State Historic Tax Credit must also be coupled with and approved for the 20% Federal Historic Tax Credit. Additionally, the Illinois Historic Tax Credit is competitive, with a five criteria prioritization system. Also unlike the Federal Historic Tax Credit, allocations under the State program are limited to \$3 million. Priority criteria include:

1. The project is located in a county that borders a state with an income-producing historic tax credit program.
2. The certified historic structure was previously owned by an entity of federal, state, or local government.
3. The certified historic structure is located in a census tract that has a median family income at or below the State median.
4. The qualified rehabilitation plan includes, as a development partner, a non-profit or low-profit entity or organization.
5. The certified historic structure is located in an area declared under the Robert T. Stafford Disaster and Emergency Assistance Act and said declaration occurred no more than three years prior to the application.

Typically recipients of the State program have met at least four of the five priority criteria.

The Federal and State Historic Tax Credits are a significant financial tool for potential income producing uses for the Civic Center, and acts as an incentive to retain the building and its ability to communicate its significance effectively. Its value to and use by the City is far more complicated and uncertain compared to use by a developer – being dependent on the proposed use or collection of uses and the associated QRE of those income-producing spaces. I would recommend an advisory opinion on this approach by the State Historic Preservation Office be solicited before moving forward in earnest and assuming a value of the tax credit in any capital stack for proposed rehabilitation and use for municipal operations and services.