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Kasper: Tax Credits Can Revitalize a Community

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Published: March 22, 2010

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Recently the

Richmond Times-Dispatch ran an excellent cover article (Feb. 21) addressing jobs and economic development -- "Searching for a Rebound in Southside Virginia." This area -- Halifax, Pittsylvania, and Henry counties -- was particularly hard-hit much before the current national recession began, as the region's traditional employment foundations of the two "T's" -- textiles and tobacco -- have downsized significantly. Those historic employment bases of Southside are not coming back and new industries are needed for job creation. These new industries have found a willing supply of available workers but retraining and educational programs are needed for reentry of this work force.

What the article did not discuss is that for more than a dozen years Virginia has had a superb economic development and job-creating program -- the state historic rehabilitation tax credit, administered by the Virginia Department of Historic Resources. This program works well in tandem with a similar program at the federal level to provide incentives in the form of tax credits (20 percent federal credit, 25 percent state credit), which are monetized and go directly into funding hard project rehab costs for the adaptive reuse of historic properties. Without such incentives, much of this economic and revitalization activity would not be happening.

The article had a photograph (reprinted below) of one such adaptive reuse under way -- the American Tobacco Warehouse (ATW) in South Boston. This former tobacco warehouse is owned by the Halifax Educational Foundation and will be operated by the Southern Virginia Higher Education Center, or SVHEC. (There is an existing building not shown in the photo that has been operated for several years by the SVHEC.) The building in the background is the Prizery, a cultural and arts center operated by the Community Arts Center Foundation. The Prizery has a state of the art theater, seating approximately 350, which can accommodate touring (and local) theater groups and provides a venue in South Boston for excellent theater and fine arts exhibits and education.

The existing SVHEC facility conducts educational and retraining programs, where "laid-off workers have flocked into such programs as nursing" as the article pointed out. When the rehab of the ATW building is completed late this year, it will offer programs in product design and development, with an advanced technology lab and digital design lab. Clearly, this will provide critical education and training for high-tech and skilled 21st-century jobs.

This trio of buildings in South Boston -- the SVHEC, the Prizery, and the soon-to-be completed ATW form a campus of facilities for cultural, educational, and job retraining, a "virtual laboratory" for how to revitalize a community and re-energize its work force. What else do they have in common? Both the SVHEC and the Prizery were redeveloped with the benefit of the historic tax credit program, and the ATW, currently being redeveloped, would not have been possible without the use of this incentive program. (Disclosure: Our firm is the tax credit investor in each of these adaptive re-use properties.)

Approximately two years ago, the Virginia Department of Historic Resources released a study, Prosperity Through Preservation, in partnership with VCU's Center for Public Policy. Recently updated, this study analyzes the impact (on a conservative basis) of the state rehabilitation tax credit program on the economy of the commonwealth. The results were eye-opening; this isn't just a program to preserve old buildings, although it does that. The DHR/VCU study (analyzing 1,747 adaptive reuse projects over this period) concluded that:

(1) Approximately \$2.4 billion of total investment activity was generated in these rehabilitations. The historic credit attracts and leverages private capital very efficiently;

(2) 12,887 full and part-time jobs were generated from direct and indirect employment in other sectors of the economy,

(3) Resulting in \$532 million in labor income (wages and salaries).

Virginia and Missouri have each had a state historic tax credit since the late 1990s, these being the two longest-existing state historic credit programs. In a recent study, the Missouri credit was found to have similar economic benefits to that state as the DHR/VCU study showed in Virginia. And, in addition to the economic impact directly attributed to their respective state credit programs, the existence of those programs makes these two states top producers in the use of federal tax credits as investors seek to do business in Virginia and Missouri.

Probably the most comprehensive report on the economic development and job-creating power that historic tax credits unleash was just published this month by Rutgers University, assisted by a business group called the Historic Tax Credit Coalition. This report, titled First Annual Report on the Economic Impact of the Federal Historic Tax Credit, examines the impact of the federal rehab credit over a 30-year period. It estimated that investment in historic rehabilitation generated about 1.8 million new jobs over the period from 1978-2008. The rehab of historic buildings requires greater trained labor than new construction and the ratio of labor to materials is more weighted toward labor in adaptive re-use than new construction. Thus, the jobs multiplier effect is greater than in new construction.

Here's the clincher: For the \$16.6 billion of federal credits generated over this period studied, \$21 billion in additional federal tax receipts (and approximately \$7.7 billion in state and local taxes) were generated, more than offsetting the direct cost of the federal credit.

Historic tax credits = economic development + jobs -- and they pay for themselves directly. Tom Kasper is president of Kasper Mortgage Capital, a national historic tax credit investment firm. Contact him at (804) 285-3900 or tom@kmctaxcredits.com

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