

# Supporting Historic Preservation in California

A Report for the California Cultural and Historical Endowment

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Los Angeles' Little Tokyo National Historic Landmark District. Photo credit: Little Tokyo Service Center.

## **TABLE OF CONTENTS**

### **I. Introduction 3**

### **II. Executive Summary and Findings 7**

### **III. Potential Revisions to Current Programs**

Mills Act Property Tax Abatement Program 9

Marks Historical Rehabilitation Act 14

California Main Street Program 16

Affordable Housing Tax Credits 19

Cultural Heritage Tourism 24

### **IV. Potential New Programs**

California Historic Tax Credit 31

Historic Preservation and General Plans 38

Historic Preservation Revolving Loan Fund 43

### **V. Acknowledgements 47**

## Introduction

### Background on Report and the California Cultural and Historical Endowment

The California Cultural and Historical Endowment (Endowment) was created in 2003 under legislative directive AB 716 with funds from Proposition 40 bonds created through the California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Act of 2002. The Endowment's broad mandate has been to tell California's history as experienced by the state's many diverse peoples and to help strengthen and deepen Californians' understanding of the state's history, its present society, and themselves. The Endowment's primary purpose was to make grants "to develop various programs and projects to protect and preserve California's cultural and historic resources."<sup>1</sup> Nearly 150 projects sponsored by non-profit organizations and local government agencies were awarded funding for capital projects and planning activities between 2004 and 2009. Dispersed across the state, these projects ranged from restoration of one of the world's longest murals to installation of improved storage facilities at an archaeological research facility to renovation of an historic hospital that serves as an interpretive center.

The Endowments' grant program has achieved its goal of raising "the profile and scope of California's historic and cultural preservation program in an era of dwindling historic structures and cultural homogeneity."<sup>2</sup> In addition to establishing the grant program, AB 716 included a series of elements related to cultural and historic preservation policy study. This report was commissioned by the Endowment to address the legislative request for:

Recommendations for programs to encourage the historic maintenance and restoration of properties in private ownership including, but not limited to, a state tax credit for restoration of historic properties that maintain historic integrity, property tax deferral as long as a property's historic integrity is maintained, and low interest loans.<sup>3</sup>

In addition to reviewing the status of existing state legislation linking historic preservation and the tax code (Mills Act Property Tax Abatement Program and Marks Historical Rehabilitation Act) and the potential for a state historic tax credit in California, this report considers a handful of other policy and programs strategies that could better promote preservation in the Golden State. AB716 was passed by the California legislature during a period of economic strength, while this report is being written as Californians weather one of the worst economic downturns in living

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<sup>1</sup> Assembly Bill 716 (Firebaugh) California Cultural and Historical Endowment, p. 2. [http://www.leginfo.ca.gov/pub/01-02/bill/asm/ab\\_0701-0750/ab\\_716\\_bill\\_20020930\\_chaptered.pdf](http://www.leginfo.ca.gov/pub/01-02/bill/asm/ab_0701-0750/ab_716_bill_20020930_chaptered.pdf), accessed May 2011.

<sup>2</sup> "California Cultural and Historic Endowment," <http://www.library.ca.gov/grants/cche>, accessed September 2011.

<sup>3</sup> Assembly Bill 716 (Firebaugh), p. 89-90.

memory. Given the present context, it is understandable that adoption of many of the potential policies and programs described in this report would appear politically and economically untenable. Yet it is also obviously important to take a long-term view even in times such as these, and perhaps especially in relation to historic places that embody our shared heritage.

## Historic Preservation and the State of California

The ability to understand the history of the places we live and visit, and to understand our own connection to those places, is fundamental to the creating of citizens who are invested in their communities and their state. Throughout California thousands of dedicated individuals and hundreds of local organizations work to steward our historic resources. One measure of Californians' commitment to preservation is the large number of communities that have sought recognition through the federal Preserve America program. Twenty-six counties, communities and neighborhoods across California are Preserve America communities, recognized by the White House for their efforts to "protect and celebrate their heritage, use their historic assets for economic development and community revitalization, and encourage people to experience and appreciate local historic resources through education and heritage tourism programs."<sup>4</sup>

The work of dedicated residents across the state is complimented by the California Preservation Foundation, a statewide nonprofit organization, which serves as an advocate and educator about historic preservation. Within state government, the California Office of Historic Preservation (OHP) is the lead agency administering state and federal historic preservation programs throughout California. OHP's fundamental mission is to support identification, evaluation, registration and protection of California's historic resources. Through the Certified Local Government program, they encourage the direct participation of local governments in this mission within their jurisdictions and promote the integration of local preservation interests and concerns into local planning and decision-making processes. As of 2011, sixty California cities and counties (about 10% of the state's 58 counties and almost 500 cities) have been designated Certified Local

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<sup>4</sup> The Preserve America Initiative, <http://www.preserveamerica.gov/overview.html>, accessed September 2011.

California's Preserve America communities include two counties (Tuolumne and Monterey); five neighborhoods in large cities (Little Tokyo, Thai Town, and Chinatown in Los Angeles, Little Italy in San Diego, and Japantown in San Francisco); and nineteen cities. The nineteen cities are: Elk Grove; Fresno; Fullerton; Livermore; Mendocino; Monterey; Ontario; Redlands; Richmond; Sacramento; San Clemente; San Juan Bautista; San Ramon; Santa Ana; Santa Barbara; Santa Monica; Santa Rosa; Ventura; and Weaverville.

Governments.<sup>5</sup> OHP staff administers state and federal registration programs that designate historic resources – the National Register of Historic Places, the California Register of Historical resources, California Historical Landmarks and California Points of Historical Interest. The OHP is also responsible for reviewing projects to ensure compliance with federal and state laws, such as Section 106 of the National Historic Preservation Act, which governs federally-funded and permitted projects and programs, and the California Environmental Quality Act (CEQA), which requires review of projects with potentially negative impacts to historic resources. Along with the many programs the OHP administers, OHP staff provides technical assistance to public agencies, organizations, and the general public regarding historic preservation. The importance of their work in this arena with diverse constituents across the state can't be overestimated.

OHP is funded by an annual federal Historic Preservation grant through the National Park Service that is matched by the State. According to the OHP's Statewide Historic Preservation Plan, the State of California has the lowest per capita expenditures on historic preservation of any state with less than 2 cents spent per person annually.<sup>6</sup> California receives the largest allocation from the federal Historic Preservation Fund, which is administered by the National Park Service, yet the per capita impact of these dollars is also at the bottom as demonstrated by the figures below. Although California represents almost 12% of the United States' total population, our percentage of the total \$46.5 million allocated by Congress to State Historic Preservation offices through the Historic Preservation Fund is a paltry 3 percent.<sup>7</sup>

### 2010 Historic Preservation Funds<sup>8</sup>

	Allocation	Population	Per Capita
California	\$ 1,476,028	37,253,956	0 .0396
Texas	1,319,232	25,145,561	0.0524
Wyoming	683,576	563,626	1.2130
Vermont	570,562	625,741	0 .9118

<sup>5</sup> California Office of Historic Preservation, "Certified Local Government Program" [http://ohp.parks.ca.gov/?page\\_id=21239](http://ohp.parks.ca.gov/?page_id=21239), accessed July 2011.

<sup>6</sup> California Office of Historic Preservation, *2005-2010 Statewide Historic Preservation Plan Update*, p. 5. [http://www.ohp.parks.ca.gov/?page\\_id=21756](http://www.ohp.parks.ca.gov/?page_id=21756), accessed May 2010.

<sup>7</sup> National Park Service, *The Historic Preservation Fund Report Annual Fund, 2010* [http://www.nps.gov/hps/hpg/downloads/2010\\_HPF\\_Report.pdf](http://www.nps.gov/hps/hpg/downloads/2010_HPF_Report.pdf) accessed September 2011.

<sup>8</sup> National Park Service, *Historic Preservation Funds Statistical Reports by State* [http://www.nps.gov/history/hps/hpg/state\\_reports.html](http://www.nps.gov/history/hps/hpg/state_reports.html), accessed July 2011.

Although most land-use decisions are made at the local level, states can have powerful effect on those decisions through policies and programs that support and guide local jurisdictions. Richard Moe, former president of the National Trust for Historic Preservation, described this relationship when he wrote, “As creatures of state government, local governments often look to states for the tools and resources needed to preserve the buildings, the scenic vistas, and the countryside that people care about.”<sup>9</sup> Yet in an on-line survey and recent public meetings coordinated by the California Office of Historic Preservation as they update their Statewide Historic Preservation Plan, citizens across the state have identified lack of government capacity as a major issue.<sup>10</sup>

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<sup>9</sup> Constance E. Beaumont with preface by Richard Moe, *Smart States, Better Communities: How State Governments Can Help Citizens Preserve Their Communities* (Washington, DC: National Trust for Historic Preservation, 1996), p. x.

<sup>10</sup> Jenan Saunders, Acting Deputy State Historic Preservation Officer, email message to author, 15 September 2011.

## Executive Summary and Findings

The infrastructure for historic preservation in California leads the nation in a few areas, such as the development of an effective State Historic Building Code, but trails in many others. Comparative research conducted for this report revealed many programs successfully employed by other states to support historic preservation of private properties that are not used in California. This report includes recommendations in several new areas, such as adopting a state historic tax credit and emphasizing the role of historic preservation in the development of local jurisdictions' general plans. The recommendations also point out ways to strengthen existing programs such as the Mills Act Property Tax Abatement Program and the California Main Street Program. Some of these are recommendations that are achievable in the short-term; many will take additional study and resources before they could be pursued.

Two general recommendations that touch on most of the policies and programs represented in this report (as well as others outside its scope) are to:

1. **Strengthen state and local governments' capacities to survey and inventory California's historic resources and to place their findings in a comprehensive, accessible GIS database.**<sup>11</sup> Having a process for developing, maintaining and updating this type of database has implications for many areas of historic preservation. When property owners have information about the historic significance of their property, their projects can more easily proceed without being surprised by 11th hour efforts to save a building that had not been identified as a historic resource. A comprehensive inventory would aid required environmental review under the California Environmental Quality Act, and in developing regional cultural heritage plans such as heritage corridors and heritage areas. Finally, a strong and accessible inventory is critical for planning for preparedness and recovery from earthquakes, floods, long-term sea level rise and other threats posed to historic resources across California.
2. **Support the California Office of Historic Preservation to engage more robustly with other state agencies and local communities.** Although California is fortunate to have dozens of organizations and thousands of individuals engaged in preserving our historic

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<sup>11</sup> The California Historical Resources Inventory, managed by eleven regional Information centers and overseen by OHP, holds an enormous amount of useful information, but it is not easily accessible, nor is it comprehensive as each Information Center focuses on its own region.

resources, the statewide infrastructure is weak. The non-profit California Preservation Foundation cannot adequately serve the state's nearly 500 cities and towns in its mission of historic preservation leadership, advocacy and education, despite laudable and sustained efforts by its staff of five. As described above, the Office of Historic Preservation serves an absolutely critical role in California that could be leveraged with adequate staffing. Even before recent city budget cuts, local governments often did not have time to research strategies and grants to support historic preservation, and the Office of Historic Preservation has not had resources to conduct necessary outreach and educational programs. Additionally, statewide planning for sweeping issues such as regional transportation needs, disaster preparedness and addressing climate change generally proceed without substantive involvement of the Office of Historic Preservation. When cultural resource preservation is not thoughtfully incorporated into planning, it increases the likelihood that historic preservation efforts are focused on last-ditch efforts to save threatened buildings, reinforcing the perception that preservation is about saying "no" rather than a partnership to create stronger communities.

**3. Conduct detailed economic analysis of historic preservation impacts in California.**

Research for this report has reinforced how intertwined the preservation of cultural resources is with local economies as a jobs generator, draw for tourism dollars, and strategy for social and economic revitalization of neighborhoods. Pursuant to requirements of the enabling legislation for the California Cultural and Historical Endowment, CCHE staff is writing an overview of the "economic impact of the preservation and interpretation of cultural and historic resources in the state."<sup>12</sup> More substantive research and analysis of the impacts of historic preservation will help buttress arguments that this is an arena for the state to increase its investments.

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<sup>12</sup> AB 716, p. 12.



## Mills Act Property Tax Abatement Program

California property taxes can be a significant impediment to homebuyers and commercial developers. Since 1972 this state property tax incentive, named for state senator James Mills of Coronado, has been employed across California with remarkable variation and often remarkable results. Created to incentivize the preservation, rehabilitation and maintenance of qualified historic properties, the Mills Act requires a contract between the private property owner and the city or county in order to qualify for a reduction in property tax. The program is one of the very few significant incentives available to California homeowners as well as for-profit entities.

How does it work? While a statewide incentive, the Mills Act grants local governments the ability to choose whether to participate and the flexibility to design the program to address local needs. A formal agreement, typically known as either a Mills Act or Historical Property contract, is executed between the local government and owner of a qualified property. A “qualified” historic property is one that is not exempt from property taxes and meets one of the following criteria:

Listed in the National Register of Historic Places or located in a registered historic district, as defined in Section 1.191-2(b) of Title 26 of the Code of Federal Regulations.

Listed in any state, city, county, or city and county official register of historical or architecturally significant sites, places, or landmarks.<sup>13</sup>

A Mills Act contract is for a ten-year term, which is automatically renewed each year. The contracts run with the property and are transferred to and binding on all subsequent owners. In return for the tax reduction, the owner agrees to protect, rehabilitate and maintain their historic property in accordance with the *Secretary of the Interior’s Standards for Rehabilitation* and the *State*

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<sup>13</sup> California Government Code, Article 12, Sections 50280.1. Note, the State Board of Equalization, GUIDELINES FOR THE ASSESSMENT OF ENFORCEABLY RESTRICTED HISTORICAL PROPERTY (2005) describes qualified historic property (b) Listed in any state, city, county, or city and county official register of historical or architecturally significant sites, places, or landmarks including the California Register of Historic Resources, California Historical Landmarks, State Points of Historical Interest, local landmarks and local survey listings of historical properties.

*Historical Building Code.* The contract also spells out the requirements for periodic inspections to ensure the property is properly maintained. Finally, Mills Act contracts must include penalty provisions in the event of breach of contract or a failure to adequately maintain the property.

The contracts are recorded with the county, thereby allowing the County Tax Assessor the ability to calculate the new tax rate according to the “income” method set out in the Revenue and Taxation Code, Section 439.21 rather than the standard market approach. According to a paper by University of San Diego Professors of Economics Andrew Narwold and Jonathan Sandy and Associate Professor of Real Estate Charles Tu, the City of San Diego calculated in 2005 that “The property tax savings from entering into a Mills Act contract for a historic house ranged from 40 to 80 percent, with an average savings of 49 percent.”<sup>14</sup>

Property owners are required to notify the Office of Historic Preservation of their involvement in the Mills Act program within six months of entering into a contract. OHP has a limited role in the Mills Act, and there is no single entity responsible for overseeing the Mills Act statewide. This results in little consistent, regularly monitored data regarding the number of contracts, level of savings, cancellations and related programmatic issues. The authors of the University of San Diego paper found that in 1995 there were 39 cities participating with a total of 119 contracts and in 2008 “...an estimated 89 cities and 1,662 Mills Act contracts statewide...”<sup>15</sup> Today, San Diego has roughly 900 contracts—the most statewide.

The flexibility of the Mills Act legislation has enabled a wide variety in local program design, which allows cities to set their own requirements. In Los Angeles, for example, the city adopted the program in 1996 and currently has over 400 properties in contract. In order to control the property tax loss to the local government that might result from the program, the city imposed a cap of \$1 million on the program. The city also restricted the program to buildings with assessed property tax value for single-family residences at \$1.5 million and not more than \$3 million for income-producing multifamily, commercial, and industrial properties. The City of San Jose has roughly a dozen contracts with no cap to lost revenue or property value. San Francisco, on the other hand, has but a handful of Mills Act contracts. The City and County of San Francisco investigated a range of program requirements including lost revenue caps; property qualification based on assessed values, significance of the property and of the rehabilitation need, but has not formally adopted such requirements.

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<sup>14</sup> Andrew Narwold, Jonathan Sandy, Charles Tu, “Historic Designation and Residential Property Values,”

<http://sohosandiego.org/histdistricts/historicvalues.pdf> accessed September 2011.

<sup>15</sup> Ibid.

Fees for Mills Act contract also appear to vary considerably statewide. A contract in San Diego, including historic designation, will cost approximately \$2,267, while a contract in San Jose for a historic homeowner will cost between \$730 and \$1,185 with a maximum fee of \$3,120 for all other property types. In San Francisco, an historic homeowner can expect to owe \$9,426, including designation, and owners of commercial property, including designation, will owe \$18,577. A property owner considering the Mills Act as a method for financing rehabilitation is not guaranteed a contract as most, if not all, are approved by the local governing body—a City Council or Board of Supervisors. Obviously, a fee structure like that of San Francisco is a significant impediment to the wary applicant. The Mills Act legislation itself provides guidance regarding fees by granting local governments the authority to charge fees, “... not to exceed the reasonable cost of administering this program.”<sup>16</sup>

From 2006 through 2008 San Diego’s program was the focus if some controversy about whether the program subsidized the wealthy, had stringent enough restrictions, and was properly monitored. San Diego’s program was so popular that consultants offered home owners combined landmark designation and Mills Act contract assistance to help interested homeowners efficiently realize property tax savings. In 2008, a county grand jury found the City’s program lax in its controls for which buildings qualified and for the City’s compliance procedures.<sup>17</sup> In response, the City revised the program that year by:

- Requiring that applications be submitted in time to account for the fiscal impacts from contracts on the city budgeting process.
- Adopting an annual threshold of not more than a \$200,000 loss to the General Fund unless the City Council authorizes a greater amount.
- Requiring owners to include a ten-year maintenance/rehabilitation work plan as a part of the contract, with the added requirement that the owner demonstrate that the tax savings will be invested in the property.
- Establishing a city monitoring program, including staff site visits, maintenance inspection and review of compliance with the contract provisions.<sup>18</sup>

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<sup>16</sup> California Government Code, Article 12, Sections 50281.1.

<sup>17</sup> Michael Gardner, “Hueso wants Mills Act fees allowed statewide,” *SIGNON San Diego*, July, 15, 2011.

<sup>18</sup> City of San Diego, Historic Resources Board, *Mills Act Program For Historically Designated Properties*, [www.sandiego.gov/planning/programs/historical/pdf/millsactdocs/millsacthandout090212.pdf](http://www.sandiego.gov/planning/programs/historical/pdf/millsactdocs/millsacthandout090212.pdf), accessed September 2011

OHP has called the Mills Act, “...the single most important economic incentive program available in California for use by private property owners of qualified historic buildings.”<sup>19</sup> Given the benefit the Mills Act has provided to historic property owners statewide, there is no reason to doubt the truth of OHP’s claim. The concern should be how few owners of historic property know about and take advantage of the program as well as how little is understood about the costs to local governments, positive impacts to local economies, and lessons learned from the variety of governments administering the program.



Preservation architect Alice Carey purchased the Old Engine Co. No. 2 at 460 Bush Street, San Francisco, as the headquarters for her firm, Carey & Co. Inc. Architecture, Planning, Historic Preservation. Ms. Carey rehabilitated the building, applied for landmark designation and then secured the first Mills Act contract in San Francisco. Photo by David Wakeley.

## Recommendations

As the fortieth anniversary of the Mills Act approaches in 2012, the following recommendations should be considered:

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<sup>19</sup> *Historic Preservation Incentives in California*, (Sacramento: California Office of Historic Preservation California Department of Parks and Recreation, 1998).

- Improved publicity about the benefits of the program to historic property owners and local governments. Over the years, organizations such as the California Preservation Foundation and OHP have offered educational workshops on the Mills Act. An effort should be made to continue these forums while reaching out to broader audiences and working to better integrate historic preservation education to associations such as the California League of Cities and County Tax Assessors.
- A statewide survey and analysis of the Mills Act should be conducted to determine:
  - The number of local governments participating in the program
  - The number of contracts statewide
  - The number of contract cancellations and other programmatic issues encountered
  - A survey of fees charged for landmark designation and Mills Act Contracts
  - A survey of what local governments require from applicants in order to qualify for a Mills Act Contract (whether there are assessed value caps or lost revenue caps and what level of historic significance is required)
  - A survey of local government contract requirements (are applicants required/encouraged to invest a percentage of their tax savings into the property per year?)
  - A survey of local government monitoring programs and how they work
  - An analysis of the estimated tax revenue losses to local governments from participating in the program as well as an analysis of the economic benefits from rehabilitation, materials purchase and other spin off benefits from property tax savings. It would be important to investigate how much of the spin off benefits are retained locally.

Clearly historic property owners and local governments would benefit from a survey and analysis of the program that summarizes what has worked in the variety of communities participating, what has not and why. With or without such a survey the Mills Act program would greatly benefit from improved publicity. A survey and analysis, however, could provide considerable assistance to strapped municipalities which may desire to offer or improve a program but do not have the experience or knowledge to do so confidently.

## Marks Historical Rehabilitation Act

Named for state Senator Milton Marks, the Marks Historical Rehabilitation Act of 1976

“...authorizes cities, counties, and redevelopment agencies to issue tax-exempt revenue bonds to finance the rehabilitation of significant historic buildings.”<sup>20</sup> The Act, located in the California Health and Safety Code Section 10, specifies the conditions and criteria under which the bonds can be issued. Seemingly a good tool for historic preservation, the Marks Bond Act has not been well used apparently due to a requirement that places a limit of \$10 million on a project’s capital expenditures. The limitation on capital expenditures is a disincentive to local governments considering the commitment of time and expense required for a bond issuance. In their *Technical Assistance Bulletin 15: Incentives for Historic Preservation*, the Office of Historic Preservation suggests that “If, however, several major historic projects are undertaken in a jurisdiction at the same time and the collective costs and expenses total an amount high enough to justify staff time and fees to issue a bond, then the Marks Bond Act may prove to be a useful and desirable tool.”<sup>21</sup>

Local and state governments elsewhere have successfully used bond programs to fund historic preservation goals. Phoenix, Arizona has a long-standing financial assistance program for private owners of historic property funded through bonds. One such program provides grants that range from \$5,000 to \$10,000 for exterior residential rehabilitation that complies with the Phoenix “Design Guidelines for Residential Maintenance and Rehabilitation” in [Historic Homes of Phoenix: An Architectural & Preservation Guide](#).<sup>22</sup> When the work is completed, the owner must sell a facade easement on the home to the City to protect the grant fund investment. On the statewide level, preservation funds generated from bond issuance tend to be overseen by a state entity such as the State Historic Preservation Office and are restricted to nonprofit and public agencies. Such is the case with the Pennsylvania and New Jersey programs.

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<sup>20</sup> *Technical Assistance Bulletin 15: Incentives for Historic Preservation* (Sacramento: California Office of Historic Preservation California Department of Parks and Recreation, 2004).

<sup>21</sup> *Ibid.*

<sup>22</sup> City of Phoenix, Historic Preservation Office, Planning and Development Department, *Historic Preservation Bond Fund, Exterior Rehabilitation Program Guide*, Phoenix: 2011, p. 2.

While these bond programs vary widely, it appears that when their success is demonstrated to the public, voters enthusiastically support renewal. In 2004 Pima County, Arizona voters supported renewal of a special bond program, in part funding historic preservation, by a margin of 2:1.<sup>23</sup> New Jersey voters have twice renewed the Garden State Preservation Trust, an historic preservation bond program begun in 1990. The first seven years of the program saw \$52 million in capital grants awarded to projects statewide. Grants are made to nonprofit entities and public agencies only. Projects are selected by the New Jersey Historic Trust and must be approved by the Garden State Preservation Trust and the New Jersey legislature.

## Recommendations

The Marks Historical Rehabilitation Act is a much-underused incentive that may yet be of benefit to historic preservation in California. Consideration should be given to the following:

- Discussion with planning, community development and redevelopment staff to determine whether and how the legislation should be amended to increase the capital expenditure cap, or altered in any other way.
- Research past use of the program to assess whether and how it was of benefit to local governments.
- Consider a local demonstration project using Marks Act funding which could be publicized and marketed to California communities.

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<sup>23</sup> Linda Mayro, "Pima County, AZ 2004 Historic Preservation Bond Program Approved by Voters," *Western Preservation News*, accessed at: <http://www.preservationnation.org/about-us/regional-offices/western/newsletters/WRO-0704.pdf>, July/August, 2004.

## California's Main Street Program

Thriving downtowns are a fundamental barometer of the economic and social health of a town or city. Historic commercial cores lost residents and businesses in the 1950s and '60s as the national highway network and suburban developments grew. "Main Streets" across America suffered from disinvestment and declining businesses, which resulted in lower property values and sales tax revenue and increases in crime and blight. By the 1970s preservationists and others began to see the nexus between combating sprawl, reviving downtown businesses, reinforcing community identity and preserving historic buildings.

The National Trust for Historic Preservation founded the Main Street Program in 1980 to support the well being of historic and traditional commercial districts through a comprehensive approach that included their economic, social, cultural, and environmental dimensions. The Main Street Program employs private investment and support from local governments and non-profit organizations to revitalize historic districts through a community-driven approach. The Trust estimates that over thirty years and in 2,000 communities the Main Street Program has transformed the way local decision makers view historic preservation as it stimulated \$49 billion in reinvestment, enlisted thousands of volunteers. The National Trust's Main Street Center works with a network of forty-three state, city, and regional Main Street coordinating programs that provide professional advice and guidance to participating local Main Street organizations. Coordinating programs serve as a translator and liaison between local communities and the Trust Main Street Center, while offering training, tools, information, and networking that assist Main Street Programs in the "four point approach" of organization, promotion, design and economic restructuring.<sup>24</sup>

California joined the National Main Street Program in 1986. The California Main Street Program (CMSP) was first administered by the State of California's Technology, Trade and Commerce Agency and supported by State General Funds. Although thirty-seven communities across the state had joined the CMSP, the program was terminated in 2002 when its parent agency was eliminated. Two years later, preservation leaders succeeded in convincing state legislators to reestablish the Main Street Program within the Office of Historic Preservation, but without funding or staffing.<sup>25</sup>

For a time, OHP redirected its limited staff and resources to the un-funded Main Street Program, but found this placed significant strain on its mandated programs. Today, OHP serves as

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<sup>24</sup> "About Main Street," <http://www.preservationnation.org/main-street/about-main-street/>, accessed June 2011.

<sup>25</sup> "California Main Street Program," [http://www.parks.ca.gov/?page\\_id=23484](http://www.parks.ca.gov/?page_id=23484), accessed June 2011.



the coordinating program for CMSP and works in partnership with the non-profit California Main Street Alliance (CAMSA) in an attempt to minimize costs. With a half-time staff-person and volunteer energy, CAMSA has worked to keep the Main Street Program active by providing vital training, information, research, referral services, and technical assistance to twenty-five certified Main Streets across the state.<sup>26</sup> A certified local Main Street program must meet criteria set forth by California Main Street as well as complete an application and pass an on-site assessment conducted by the state program. Laura Cole-Rowe, CAMSA board member and part-time consultant to CMSP, stated that frequent program evaluations that occurred when CMSP was operating with state funding under Trade and Commerce enabled a more robust approach to Main Street's four-point program. Local programs had support to strengthen their boards' and executive directors' capacity to develop a more comprehensive approach to revitalizing downtowns rather than simply organizing events and marketing.<sup>27</sup>

OHP staff and Ms. Cole-Rowe also described the need for better education of Main Street stakeholders about historic preservation, from the process of designating historic resources, to the Marks and Mills Act programs, to accessing other sources of funding such as federal Community Development Block Grants.<sup>28</sup> Because Main Street Programs combine local economic re-development and historic preservation to enhance diverse downtown areas, they reach a broader constituency than traditional preservation organizations. CMSP is in a unique position to share basic and crucial information about historic preservation with downtown property-owners, chambers of commerce and community leaders.

The number of designated Main Street Programs in California has decreased from thirty-seven in 2005 to twenty-five today. This decline is one indication that the current arrangement does not offer adequate resources to provide direction and coordination to maintain and grow an effective statewide Main Street Program. State Historic Preservation Officer, M. Wayne Donaldson

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<sup>26</sup> As of 2011, the Office of Historic Preservation's list of Certified California Main Street Programs included Arcata, Benicia, Coronado, El Cajon, Encinitas, Eureka, Fairfield, Fremont, Grass Valley, Hanford, Hollister, Livermore, Martinez, Monterey, Oceanside, Paso Robles, Pleasanton, Redding, Richmond, San Diego (North Park and Ocean Beach), San Luis Obispo, Ukiah, Vallejo and Vista. Five more communities are members of CAMSA, but not certified Main Street Programs; Cardiff-by-the-Sea, Lakeport, Leucadia, San Mateo and Tehachapi. [http://www.parks.ca.gov/?page\\_id=23496](http://www.parks.ca.gov/?page_id=23496) accessed September 2011.

<sup>27</sup> Author's communication with Laura Cole-Rowe, CAMSA 25 May 2011.

<sup>28</sup> Author's communication with Laura Cole Rowe and meeting with staff of California Office of Historic Preservation, May 2011.

believes that “from both a preservation and an economic perspective, California’s Main Street is one of the most important programs in the state.”<sup>29</sup>



San Luis Obispo’s Downtown Association runs the local Main Street Program, which has been in place since 1986. Their Farmer’s Markets have been drawing thousands of people downtown for almost three decades. The National Trust for Historic Preservation awarded San Luis Obispo a Great American Main Street Award in 1999 for their successful preservation-based revitalization work. Photo Credit: California Main Street Alliance

## Recommendations

By providing training and technical assistance, Main Street Programs are one of the most effective programs to help revitalize historic commercial cores of towns and cities across the state.

- Increase funding to create staff capacity within the Office of Historic Preservation and/or California Main Street Alliance
- Support targeted preservation workshops and/or publications for Main Street stakeholders on the process of landmark designation and the benefits of historic tax credits and the Mills Property Tax Abatement Act.
- Relationships between CMSP and California Travel and Tourism Commission and the California Arts Council should be fostered so that Tourism Commission and Arts Council can help publicize Main Street events and programs, and reinforce the connections between cultural heritage and historic preservation in California.

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<sup>29</sup> M. Wayne Donaldson, State Historic Preservation Officer, personal communication with the author, 1 May 2011.

## Affordable Housing Tax Credit

Most historic buildings are surprisingly flexible. Gas stations have been converted to restaurants, hospitals to office buildings, warehouses to housing and even incorporated into ballparks. Some of the most creative adaptive use projects are those designed for housing, both affordable and market rate. A recent study by the National Trust for Historic Preservation found that of the 405,385 units of housing created in the thirty years after the advent of the Historic Tax Credits (HTC) in 1978, nearly 22% were “new” housing units produced through the adaptive use of historic commercial buildings.<sup>30</sup>

When it comes to affordable housing, the financing is often as innovative as the design. If financing development is about debt and equity, affordable housing financing is about the gap between the two. Here, grants, loans, tax credits and other subsidies make the difference between success and failure. The federal HTC (covered in another section of this report) and the Low Income Housing Tax Credit (LIHTC) are two powerful forms of subsidy. Since the aim of the preservation community is to get the biggest bang for the preservation buck, focusing on ways to influence how California allocates LIHTCs to projects involving historic resources, to better align the combined use of the HTC and LIHTCs, and to reward the use of historic resources in housing creation should be at the top of the agenda.

The LIHTC (Section 42 of the Internal Revenue Code) was enacted by Congress as a part of the 1986 Tax Reform Act. The intent was to stimulate the construction and rehabilitation of rental housing for low-income residents by supplying a dollar for dollar credit to developers and investors against their federal income tax liability for a period of ten years. Developers sell the tax credits to investors or syndicators in order to generate equity for the housing project. The less debt the developer incurs, the greater the number of rental units the developer can offer.

Developers secure the tax credits by application to their state housing finance agency. The credits are competitively awarded according to the state’s Qualified Allocation Plan (QAP). These plans are to be revised annually and vary from state to state allowing housing agencies to address statewide needs. The QAPs give preference to projects that serve the lowest income tenants and do

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<sup>30</sup> The Historic Tax Credit Coalition, National Trust Community Investment Corporation and Rutgers University, *First Annual Report on the Economic Impact of the Federal Historic Credit*, (Washington DC: Historic Tax Credit Coalition, 2010), p. 11.

so for the longest periods of time.<sup>31</sup> LIHTC allocations are awarded to applicants based on points scored. The federal code requires review based on the following eight criteria, but states may include additional preferences as well.

- Project location (e.g., designated target areas)
- Housing needs characteristics (e.g., income mix of tenants within the project)
- Project characteristics including whether the project includes the use of existing housing as part of a community revitalization plan (e.g., percentage of low income units, number of units)
- Sponsor characteristics (e.g., nonprofit sponsorship, minority participation in development and management, experience in development)
- Tenant population with special housing needs such as elderly, disabled, and/or homeless
- Public housing waiting lists
- Tenant populations of individuals with children
- Projects intended for eventual tenant ownership<sup>32</sup>

The National Trust reports that by 2005 there were 21 states that awarded points based on the use of historic buildings. In 2008 the Housing and Economic Recovery Act ("HERA") was passed and revised the QAP criteria in two ways important for historic preservation. The first is the addition of the following two criteria to the QAP: 1) The energy efficiency of the project, and 2) The historic character of the project.<sup>33</sup>

As a result of this change, after December 31, 2008 all QAPs must include these additional criteria. Specific designation criteria and required compliance with the *Secretary of the Interior's Standards* were not uniformly included in these QAP evaluations.<sup>34</sup> The State of California does not appear to employ these criteria.

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<sup>31</sup> California State Tax Credit Allocation Committee, Office of the State Treasurer, *Low Income Housing Tax Credit Programs Qualified Allocation Plan*, accessed at: <http://www.treasurer.ca.gov/ctcac/qap.pdf>, February 1, 2007, p. 1.

<sup>32</sup> National Trust for Historic Preservation, "What is a Qualified Allocation Plan?" <http://www.preservationnation.org/issues/housing/public-policy/qualified-allocation-plans.html>. Accessed September 2011.

<sup>33</sup> Ibid.

<sup>34</sup> The Center for State and Local Policy, National Trust for Historic Preservation, *Incorporating Historic Preservation into Low-Income Housing Through Qualified Allocation Plans*, Washington DC: National Trust for Historic Preservation, 2008), p. 2.

The second revision resulting from HERA is the provision of an allowance to increase the LIHTC allocation to a project by 30% if the applicant meets criteria chosen by the state housing agency. The subject of the 30% boost criteria is not specified and is up to the determination of the agency. This provides considerable incentive for preservation constituencies to advocate that historic preservation goals be added to the QAP criteria. The Indiana Housing and Community Development Authority, for example, opted to reward historic preservation projects by allowing them to qualify for the 30% increase.<sup>35</sup>

Finding ways to integrate historic resources into LIHTC allocations is critical, especially given the significant number of historic buildings adaptively used for housing. In fact, the National Trust states that roughly half of the HTC projects (1978-2008) were exclusively housing, while 20 to 30% were mixed use—housing and commercial. The same National Trust study reports that:

In FY 2008, 5,220 LMI (low- and/ or moderate-income) units were produced under the HTC. While these figures are not large in an absolute sense, given national LMI housing needs, they are noteworthy when compared with some better-known affordable housing production programs; the HTC-aided LMI annual housing production approaches the scale of annual affordable housing units produced by such notable HUD programs as public housing and HOME. The HTC is largely invisible in the housing “radar”, yet it deserves much greater attention, given its total and LMI housing unit production.<sup>36</sup>



The former Central YMCA is a 1908 National Register-listed building located in San Francisco’s Tenderloin neighborhood. Substantial rehabilitation and historic preservation are underway to provide housing for 172 formerly homeless people and a new Department of Public Health Medical and Wellness Clinic. The renovated building will include historic theater and common spaces that provide social activities and recreational opportunities for residents of the Tenderloin. Photo Credit: Gelfand Partners Architects.

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<sup>35</sup> Ibid, p. 2.

<sup>36</sup>The Historic Tax Credit Coalition, *First Annual Report on the Economic Impact of the Federal Historic Credit*, p. 28.

The combination of the HTC and LIHTC for projects can be greater than the sum of their parts. While one project may take advantage of both credits, the developer of a project must reduce the amount of the rehabilitation expenditures eligible for the LIHTC by the amount of HTC allowed. Despite this restriction, the credits can complement one another. The HTC, for example, is earned in the year the project is placed in service; whereas, the LIHTC is taken over a ten-year period. The LIHTC may only be applied to the housing components of a project while the HTC may be applied to any use (ground floor commercial, market rate housing, childcare facilities) within the historic structure.

Thirty states have adopted their own state historic tax credit to further encourage private investment in rehabilitating older building stock.<sup>37</sup> Many of these states incorporated improvements to their tax credit programs that the preservation constituency would like to see applied to the federal HTC, such as making the credit available to residential homeowners and nonprofit organizations, lower investment thresholds and higher tax credit rates. In Maine, the Maine Historic Preservation Commission oversees the state's Substantial Rehabilitation Tax Credit (25% state credit for projects that qualify for the federal HTC) and Small Project Rehabilitation Tax Credit (25% state credit for the rehabilitation of certified historic buildings with qualified expenditures between \$50,000 and \$250,000). A third incentive is the Affordable Housing Rehabilitation Credit Increase that allows a 30% tax credit when either of the other two state credits is used in the rehabilitation of a specified amount of affordable housing.<sup>38</sup> All of the Maine tax credits are subject to a per project state tax credit cap of \$5 million.

## Recommendations

Affordable housing and historic preservation are natural partners. Real effort should be made to facilitate means to strengthen that partnership, such as:

- Assess the degree to which the federal Historic Tax Credit and Low Income Housing Tax Credit have been used together in California and the results for housing and economic development.
- Ensure that California is revising its Qualified Allocation Plan in conformance with the 2008 Housing and Economic Recovery Act guidelines. The Office of the State Treasurer currently has the 2007 QAP posted on the state's website. Revisions to the state QAPs

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<sup>37</sup> Ibid, p. 32.

<sup>38</sup> Maine Historic Preservation Commission, "Tax Incentives," [http://www.maine.gov/mhpc/tax\\_incentives/index.html](http://www.maine.gov/mhpc/tax_incentives/index.html) accessed July 2011.

include a public review and comment period. Preservationists should become acquainted with the process, ensure that the historic preservation goals required through the HERA amendments in 2008 are being met and advocate for the 30% boost to encourage reuse of historic structures. In addition, preservationists should provide model language to the state housing agency regarding what qualifies as an “historic” building, how to determine the proper documentation of historic significance and guidelines for the appropriate treatment of historic resources (*Secretary of the Interior’s Standards*)<sup>39</sup>

- Consider additional points in the QAP for projects that qualify for and receive the combined LIHTC and HTC

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<sup>39</sup> For specific language and guidance see: The Center for State and Local Policy, National Trust for Historic Preservation, *Incorporating Historic Preservation into Low-Income Housing Through Qualified Allocation Plans*, (Washington DC: National Trust for Historic Preservation, 2008,) pages, 2-3

## Heritage Tourism and Historic Preservation

“Tourism does not go to a city that has lost its soul” according to travel publisher, Arthur Frommer.<sup>40</sup> Heritage tourism -- travel to experience the “soul” of a city, town or rural landscape through its historic places, artifacts, and activities that communicate the stories of the past -- has been proven as a means to attract visitors and boost local economies. The U.S. Department of Commerce’s Office of Travel and Tourism Industries defines a cultural heritage traveler as “having participated in one or more of the following activities: art gallery/museum, concert/play/musical, cultural heritage sites, ethnic heritage sites, American Indian community, historical places, and national parks.”<sup>41</sup> By protecting and stewarding historic resources that reflect a community’s story, historic preservation is clearly a foundation of a strong cultural heritage program.

According to a 2009 national research study, over 118 million adults, or 78% of all U.S. leisure travelers, participate in cultural and/or heritage activities while traveling each year. Heritage tourism is also an important part of travel for international tourists, whose travel to the US is increasing despite the economic recession. Almost three quarters of international visitors visited a historic place and 41% visited a cultural heritage site. Over one-quarter of those visitors came to California, second only to New York.<sup>42</sup> When travel within the U.S. is factored in, California is the most visited state in the United States.<sup>43</sup>

Cultural heritage travel is a significant part of a robust tourism economy, including California’s. Studies have repeatedly shown that cultural heritage travelers stay longer and spend more money than other travelers. Average spending of cultural and heritage totals thirty percent higher than other tourists -- \$994 per trip compared to \$611 for all U.S. travelers.<sup>44</sup> There is no question that the entire tourism industry, including cultural heritage tourism, is still feeling the

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<sup>40</sup> Constance E. Beaumont, *Smart States, Better Communities*, p. 86.

<sup>41</sup> US Department of Commerce “2010 Cultural Heritage Traveler”

[http://www.tinet.ita.doc.gov/outreachpages/download\\_data\\_table/2010-cultural-heritage-profile.pdf](http://www.tinet.ita.doc.gov/outreachpages/download_data_table/2010-cultural-heritage-profile.pdf). Accessed August 2011.

<sup>42</sup> Ibid. The US Department of Commerce study showed a 45% increase in international visitors between 2004 and 2010.

<sup>43</sup> California Cultural Heritage Tourism Council Strategic Plan, 2008.

[http://tourism.visitcalifornia.com/media/uploads/files/CCHTC\\_Strategic\\_Plan.pdf](http://tourism.visitcalifornia.com/media/uploads/files/CCHTC_Strategic_Plan.pdf) accessed June 2011.

<sup>44</sup> Mandala Research, Cultural & Heritage Traveler Study, cited in the National Trust for Historic Preservation’s “Cultural Heritage Tourism 2011 Fact Sheet” <http://www.preservationnation.org/issues/heritage-tourism/additional-resources/2011-CHT-Fact-Sheet.pdf>. Accessed June 2011.



impacts of the economic downturn that began in 2008, though there are signs of improvement. According to the California Travel and Tourism Commission, total direct travel spending in California was \$95.1 billion in 2010, representing a 7.5 percent increase from the previous year's spending. In 2010 travel in California directly supported 873,000 jobs, with earnings of \$29.9 billion. It generated \$2.1 billion in local taxes and \$4.0 billion in state taxes and had a significant impact on job creation in arts, entertainment and recreation (209,000 jobs), and accommodations and food service (516,000 jobs).<sup>45</sup> Among other sectors of California workers, tourism's economic benefits also extend to farmers, artists, historians, musicians, dancers, and museum employees.

The National Trust for Historic Preservation acknowledges, "Tourism is a competitive, sophisticated, fast-changing industry that presents its own challenges. It is generally a clean industry.... But it does put demands on the infrastructure — on roads, airport, water supplies and public services like police and fire protection."<sup>46</sup> In order to be sustainable, cultural heritage tourism must go beyond serving visitors to reflect key priorities of local residents and improve their quality of life. For most local economies, linking tourism with heritage and culture can create a synergy more powerful than promoting them separately. As they preserve local heritage and culture, communities can then share it with visitors, and reap the economic benefits of tourism. The biggest benefits of cultural heritage tourism, in addition to diversification of local economies, is preservation of a community's unique character.

Beyond its economic value, cultural and heritage tourism contributes to cultural identity by supporting traditional aspects of culture and cuisine that might otherwise be forced to relocate or even dwindle away. Yet a significant challenge is ensuring that tourism does not destroy the very heritage that attracts visitors in the first place. "Environmental pollution by tourism" (*kankokogai*) has become a common term in Japan as residents have come to see that preservation must be an end in itself and indicator of community identity, as well as a generator of wealth through tourism.<sup>47</sup> Finding this blend of authenticity, responsiveness to local needs, and economic development should be foremost in the mind of leaders and decision-makers who will guide and support cultural tourism efforts in California.

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<sup>45</sup> "Economic Impact of Travel in California," <http://tourism.visitcalifornia.com/Research/California-Statistics-and-Trends/> accessed June 2011.

<sup>46</sup> National Trust for Historic Preservation "Cultural Heritage Tourism" <http://www.culturalheritagetourism.org/howToGetStarted.htm> accessed September 2011.

<sup>47</sup> Uta Hohn, "Townscape Preservation in Japanese Urban Planning," *The Town Planning Review* (vol. 68., no. 2, April 1997), p. 226.



The historic gold mining town of Grass Valley uses its well preserved downtown as a center for seasonal events that draw local residents and visitors throughout the year. Photo Credit: Grass Valley Downtown Association.

The California Travel and Tourism Commission (CTTC), is the major organization dedicated to promoting California as a tourist destination. From 1998 to 2003, the State of California's Division of Tourism was engaged in a public-private partnership with the CCTC to support marketing the state to national and international visitors. Since 2003, when the state dissolved the Division of Tourism, the CTTC been a separate non-profit organization whose sole source of funding is now directly derived from business assessments within the travel and tourism industry.

According to the national Cultural & Heritage Tourism Alliance, state tourism offices across the United States were beginning to create designated Cultural Tourism positions in the 1990s.<sup>48</sup> It does not appear that the State of California ever had such a dedicated position, but from 2004 to 2010 the CTTC partnered with the California Cultural Heritage Tourism Council (CCHTC) to "enhance the joint benefits of cultural and heritage resource protection and tourism promotion."<sup>49</sup> Members of CCHTC included representatives from federal and state agencies such as the National Park Service, Caltrans and the California Arts Council, statewide non-profits such as the California Council for the Humanities and California Association of Museums, regional organizations like the Placer Arts Council, and local groups such as the San Francisco Convention and Visitors Bureau.

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<sup>48</sup> "Cultural & Heritage Tourism Alliance" <http://www.chtalliance.com/about.html> accessed September 2011.

<sup>49</sup> California Travel and Tourism Commission, "California Cultural and Heritage Council Program Description," <http://www.visitcalifornia.com/media/uploads/files/comm-200805/Domestic/Rural/California-Cultural-and-Heritage-Tourism-Council.pdf> accessed May 2011.

Initially, CCHTC members contributed funding toward joint projects such as the six Annual Cultural and Heritage Symposiums organized between 2004 and 2010 as well as numerous regional workshops.

A 2008 Strategic Plan by the CCHTC stated that the Council and the Commission “are partnering to integrate cultural/heritage components into the CTTC tourism capacity building and promotion efforts” and that the CTTC’s goal was to “develop strategic efforts that showcase California as the premier cultural/heritage destination.”<sup>50</sup> According to Jonelle Tanahill, who represented the California Travel and Tourism Commission on the Council, the CCHTC accomplished many of its goals but has lost momentum in recent years as economic pressures curtailing activities of its members. No symposia or workshops are being planned at this time. Tanahill described the curtailment of CCHTC’s programs as a function of reduced resources among members, and restrictions on what CCTC can take on as a business-funded marketing organization.<sup>51</sup>

Rural California was a particular focus for the joint work of CTTC and the CCHTC. Tanahill remarked that, unlike urban areas that have fine dining and other attractions, rural areas often find that “all they can market is their culture and heritage.”<sup>52</sup> The CCTC and CCHTC’s Rural Tourism Development Program sponsored more than twenty local and regional workshops in 2007-2008, and released a study of rural tourism in July 2011. The study’s findings indicate that potential visitors have a strong association between heritage, historic sites and rural areas of the state, as well as a high level of understanding of the important place agriculture plays in California’s economy. One participant even conjectured that “the country, if not the world, probably wouldn’t be able to eat without California.” The research authors conclude that this awareness of California’s agricultural strength positions the state well as a provider of authentic rural and food experiences.<sup>53</sup>

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<sup>50</sup> California Cultural Heritage Tourism Council Strategic Plan 2008.

<sup>51</sup> Jonelle Tanahill, California Travel and Tourism Commission, personal communication with author, 13 September 2011.

<sup>52</sup> Ibid.

<sup>53</sup> California Travel and Tourism Commission “California Rural Tourism Research: Qualitative Study of Traveling Consumers, Summary of Research Findings,” 2011.

[http://api.visitcalifornia.com/GETMEDIA.aspx?FILE=CTTCRuralConsumerResearchReport\\_July2011.pdf&TYPE=PDF](http://api.visitcalifornia.com/GETMEDIA.aspx?FILE=CTTCRuralConsumerResearchReport_July2011.pdf&TYPE=PDF) accessed September 2011.



San Diego's Chinese Historical Museum is able to build upon the popularity of the city's "Gaslamp District" as a tourism draw by offers monthly walking tours of the area's history of Asian immigration and settlement in partnership with Asian Pacific Historic Collaborative. Photo Credit: Preserving California's Japantowns.

Based on this study, agritourism as a destination activity could encompass targeted areas of rural California with a network of farm heritage attractions, including historic farms, working farm tours, tours of processing facilities, museums and history centers, and educational facilities.<sup>54</sup> To be achieved, such a network would require structure and organization. The CCHTC's 2008 Strategic Plan described supporting legislation to create heritage corridors as one of its core strategies:

Bringing together many different perspectives—preservation, tourism, economic development, the arts, local residents, private concerns, elected officials, and public land managers—to develop cultural and heritage tourism in California. The goal of these efforts is to provide authentic, high quality experiences rooted in the unique indigenous culture, history, cultural landscape, sense-of-place, arts, as well as agriculture and other rural industries of a given locale or heritage area.<sup>55</sup>

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<sup>54</sup> Orange County Agricultural and Nikkei Museum at CSU Fullerton is among the institutions that could enhance and support cultural heritage tourism related to California's agricultural heritage. More information can be found at [p://fullertonarboretum.org/museum\\_nikkei.php](http://fullertonarboretum.org/museum_nikkei.php)

<sup>55</sup> California Cultural Heritage Tourism Council 2008 Strategic Plan.

As described above, the mission of the California Cultural Heritage Tourism Council echoes the goals and strategies of the heritage area movement. The National Park Service (NPS), which partners with National Heritage Areas, describes them as a “grassroots, community-driven approach to heritage conservation and economic development.” The NHA concept originated as residents observed that large areas of the North East were facing enormous change from deindustrialization, so early Heritage Areas focused on areas with mills, canals, and factories that were no longer in use. As the NHA program grew, it encompassed more rural landscapes and came to be seen as a means to sustain local economies as they built on local resources and cultural traditions. National Heritage Areas are defined as:

A place designated by the United States Congress where natural, cultural, historic and recreational resources combine to form a cohesive, nationally distinctive landscape arising from patterns of human activity shaped by geography. These areas tell nationally important stories about our nation and are representative of the national experience through both the physical features that remain and the traditions that have evolved in them.<sup>56</sup>

Several states have state-legislated and/or funded heritage area programs, including Pennsylvania, Maryland, New York, and Utah.<sup>57</sup> Some local areas give themselves a heritage area designation as a way to identify stories that make their region unique for visitors and residents. The state of New York has created twenty heritage areas in the nearly three-decade long program. The twelve heritage areas within Pennsylvania's Heritage Areas System have a thematic focus on the state's role in industrial history of the United States. Heritage areas certified by each state are eligible for certain grant programs and technical assistance.

Although California does not yet have a heritage area program, in recent years, California State Parks has begun paying serious attention to the concept of heritage areas. Based on the California Recreational Trails Act as provided in Public Resources Code Section 5070.3, 5071, and 5073, California State Parks (CSP) is charged with identifying and promoting heritage corridors and trails throughout the state. CSP began evaluation of five heritage corridors as part of the 2009 Central Valley Vision Implementation Plan, a catalog of proposed initiatives, to be implemented over the next twenty years, to improve recreation and resource protection in the Central Valley.

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<sup>56</sup> National Park Service, “National Heritage Area Feasibility Study Guidelines,” August 2003.

[http://www.nps.gov/history/heritageareas/FSGUIDE/feasibility\\_guide.html](http://www.nps.gov/history/heritageareas/FSGUIDE/feasibility_guide.html), accessed September 2010.

<sup>57</sup> New York and Pennsylvania have published on-line resources about heritage area planning and program development. The New York State Office of Parks, Recreation and Historic Preservation's 2007 *Heritage Development Resource Guide* can be accessed at <http://www.nysparks.com/historic-preservation/documents/HeritageDevelopmentResourceGuide.pdf> Pennsylvania's Bureau of Recreation and Conservation published a *Heritage Areas Program Manual* in 2009 [http://www.dcnr.state.pa.us/brc/heritageparks/Heritage\\_Manual.pdf](http://www.dcnr.state.pa.us/brc/heritageparks/Heritage_Manual.pdf).

This plan recommends establishing five Central Valley driving routes as heritage corridors to bring visitors to the valuable heritage resources in the Central Valley. These are the California Delta Heritage Corridor, the Cross-California Ecological Corridor, the Black Gold Heritage Corridor, the Central Valley Farms Trail Heritage Corridor, and the Echoes of Our Ancestors Heritage Corridor.<sup>58</sup>

## Recommendations

Further exploration of the best means to develop cultural heritage tourism as a strategy for economic development and preservation of historic and cultural resources should be pursued. This might mean:

- Revisiting the relationship between the State of California and the California Travel and Tourism Commission
- Devising sustainable and effective ways to support the work of organizations such as the California Cultural Heritage Tourism Council
- Supporting the Office of Historic Preservation and California State Parks to explore potential heritage areas and corridors with key constituencies.

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<sup>58</sup> ,California State Parks Planning Division, *Central Valley Vision Implementation Plan*, pp. 32-33.

<http://www.parks.ca.gov/pages/22545/files/2009%20implementation%20plan%20for%20web.pdf>, accessed September 2011.



## Historic Tax Credits

### Federal Tax Policy and Historic Preservation

Tax policies can have major impacts as both incentives and disincentives to preservation of cultural resources. Some federal tax policy encourages short lives for many commercial buildings by allowing property owners to fully depreciate their buildings over the course of 39 years.

Accelerated depreciation encourages poor construction and less attention to long-term maintenance. Originated in the 1950s push towards suburban development, this tax policy is of questionable value in the 21<sup>st</sup> century as planners, elected officials, and community leaders argue for the values of sustainability over sprawl. As the suburban malls these tax policies promoted wither in some communities, others struggle to revive historic commercial areas that would keep shoppers and workers in downtown.<sup>59</sup>

The unintended physical result of this policy has been a “throw away” mentality on the part of developers, designers and builders for many of the buildings that populate our downtowns and commercial corridors. In direct contrast to “accelerated depreciation” enshrined in the 1954 tax code, a separate federal tax policy has been encouraging stewardship of historic resources for over thirty years. The 1981 Economic Recovery Tax Act initiated the federal Historic Tax Credit (HTC) program, which aids investment in historic resources by reducing income tax based on the cost of rehabilitating a property according to certain standards. The original legislation’s relatively generous credits were reduced by the 1986 Tax Reform Act, which established the formula used today: a certified historic rehabilitation receives a dollar-for-dollar reduction of their income tax for 20% of qualified expenditures, while a non-historic building (constructed before 1936) rehabilitation receives a 10% credit.

The California Office of Historic Preservation describes the federal HTC as “one of the most successful and cost-effective community revitalization programs which also attracts private investment in the historic cores of cities and towns.”<sup>60</sup> In addition to providing an incentive for historic preservation, advocates argue that HTC programs intensify preservation benefits such as

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<sup>59</sup> Dolores Hayden, *Building Suburbia: Green Fields and Urban Growth, 1820-2000* (New York: Vintage Books, 2003), pp. 162-180.

<sup>60</sup> *Technical Assistance Bulletin 15: Incentives for Historic Preservation* (Sacramento: California Office of Historic Preservation California Department of Parks and Recreation, 2004).

job creation, increasing the overall tax base, revitalizing neighborhoods, add to affordable housing stock, promoting sustainable development, and encouraging cultural tourism.<sup>61</sup>

A recent study by Rutgers University has quantified these tax credit impacts. The *First Annual Report on the Economic Impact of the Federal Historic Tax Credit* states that approximately \$85 billion dollars was dedicated to HTC-aided rehabilitation between 1978 and 2008, and that the \$16.6 billion federal cost of this program was offset by \$21 billion in resulting tax revenues. In addition to preserving historic resources, the study argues that benefits of this investment are multivalent: “1,815,208 jobs generating an additional \$197.6 billion in output, \$717 billion in income, \$97.6 billion in gross domestic product (GDP), and \$428.7 billion in taxes (\$21 billion federal government taxes, \$3.9 billion state government taxes, and \$3.8 billion local government taxes).”<sup>62</sup> Tim Brandt, staff of the California Office of Historic Preservation, has calculated the use of federal tax credits in California over the last ten years and determined that \$1,365,900,000 was spent on qualified rehabilitation projects, averaging in the top 10% of expenditures among all states that use a historic tax credit.<sup>63</sup>

### California’s 20% Federal Rehabilitation Tax Credit Project

#### Certified Expenses for Federal Fiscal Years

(costs attributed solely to the rehabilitation of an historic structures)

Year	Certified Expense	Part 3 Applications Approved	Rank by State
2001	\$18,134,472	18	23
2002	\$129,917,660	10	4
2003	\$76,018,062	14	9
2004	\$102,782,333	10	8
2005	\$281,177,846	15	1
2006	\$80,571,840	7	11
2007	\$175,463,150	10	3
2008	\$81,207,698	9	14
2009	\$260,298,399	31	6
2010	\$160,356,554	14	7
	<b>\$1,365,928,014</b>		

<sup>61</sup> The Historic Tax Credit Coalition, *First Annual Report on the Economic Impact of the Federal Historic Credit*, p. 10.

<sup>62</sup> Ibid, p. 41.

<sup>63</sup> Tim Brandt, Senior Restoration Architect, California Office of Historic Preservation, shared his calculations in personal correspondence with the author, May 2011.



## California's 20% Federal Rehabilitation Tax Credit Project

### Certified Tax Projects by Building Type

BUILDING TYPE	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Residential only</b>									
Rental/Affordable					1				4
Rental/Market	1	2	2	1	1		1		2
Rental/Mixed									
<b>Commercial</b>									
Hotel	5	1	1	1	1			21*	
Residential/Retail	1	2	1	4	4	5	4	3	1
Office/Retail	4	4	2	4		2	5	5	1
Office only	2	1	1	1	1	1			1
Retail only								1	1
School					2				
Theater/Retail			1					1	1
Theater/Retail/School									1
Theater/Residential				1					
Bed/Bath			1						
<b>Mixed Use: Manufacturing,</b>								1	
Office, Retail									
Mixed Use: Retail first floor,									1
Office, Residential upper floors									
	13	10	9	12	10	8	10	32	13

### A California Historic Tax Credit

California preservationists have promoted the idea of a state historic tax credit for many years. They point to successful programs that have been enacted in dozens of other states and to the National Park Service statement that states with the strongest HTC programs lead the nation in receiving federal HTC benefits.<sup>64</sup> Thirty states have enacted legislation to authorize historic tax credits; nine states do not levy income tax. California is among the remaining eleven states that levy state income tax but do not offer a tax credit on historic rehabilitation. Most programs share basic components including criteria for which historic resources qualify for the credit; rehabilitation standards that preserve the historic and architectural character of the resource; a formula for establishing the credit to be awarded, usually based on a percentage of the cost of the approved

<sup>64</sup> The Historic Tax Credit Coalition, *First Annual Report on the Economic Impact of the Federal Historic Credit*, p. 7.

rehabilitation project; a minimum threshold for the rehabilitation cost; and a means for administering the program.



Oakland's Cotton Mill Studios employed the federal Historic Tax Credit and the California Historic Building Code to convert what was once the largest textile mill west of the Mississippi into 74 live-work rental units. Photo Credit: Oakland Heritage Alliance.

Many states enacted policies that mirrored the federal program, which is limited to income-producing properties that are certified to be historic structures eligible for the National Register. The income-producing requirement meant that, except in certain circumstances, the benefits of a federal tax credit were unavailable to support rehabilitation of private residences and historic structures owned by non-profit entities. Some states have decided to expand their HTC programs beyond these guidelines. For example, Connecticut recently revised its HTC program to include all residential, industrial, commercial, institutional, governmental and cultural properties as long as they are listed on the state or National Register. The *Hartford Courant* stated:

Prior to the change, only certain types of buildings were entitled to the credits, and then only for certain types of uses. For example, an owner-occupied residential building with four units qualified, but one with five units did not. Also, the credits were available if a developer was turning a factory building into a mixed-use or residential building, but not if the plan was to reuse it as, say, a factory. The new bill eliminates these arbitrary distinctions.<sup>65</sup>

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<sup>65</sup> "Broader View of History: Tax Credits State Wisely Expands Incentives for Historic Preservation," *Hartford Courant*, July 11, 2011.

Most preservationists feel strongly that California would benefit from an HTC program, and the lessons learned by states that have experience with them. As Californians consider the potential contours of a state HTC, determining what is the best fit will be an important task. The National Trust for Historic Preservation's Center for State and Local Policy notes "not all state tax credit programs are created equal" and has identified two major stumbling blocks in the path toward a successful tax credit program. The first is how the amount of total credits available is allocated. Some states set tax credits by annual appropriation; others establish annual caps. When those caps are placed too low it can be impossible for a state to achieve the program goals. As applicants compete for scarce tax credit dollars, smaller projects can be squeezed out and many developers will opt out of the process altogether in a quest for more certainty in their development process. The Trust identifies lack of transferability as the second common shortcoming of some state tax credit programs; in other words, the credit must be available to a party that can use it to offset their income taxes. Allowing tax credits to be sold to a third party with adequate tax liability, or permitting partnerships to own the property and allocate the credit in a disproportionate manner, can accomplish this. Some states also allow tax credits to offset liabilities from previous tax years as the federal tax credit permits.

In 2010, the California Preservation Foundation gathered a group of stakeholders to form the CREDIT (California Rehabilitation Economic Development Investment Tax Credit) Coalition to revive efforts to advocate for state rehabilitation tax credit legislation. The goals of the CREDIT Coalition are to:

Encourage public and private investment in historic and older, urban and rural communities across California. Reinvest in older and historic residential neighborhoods and commercial districts. Promote long-term economic growth through sustainable development practices in disinvested and underserved areas.<sup>66</sup>

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<sup>66</sup> CREDIT Coalition Presentation at 2011 California Preservation Foundation Annual Conference, May 2011.



The Far East Café served as a community gathering spot for over sixty years in Los Angeles' Little Tokyo. The Little Tokyo Service Center Community Development Corporation used a combination of grants and federal tax credits to rehabilitate the building into a community computer center, 16 units of affordable housing and a new café. Photo Credit: Little Tokyo Service Center.

As this report was being authored, the CREDIT Coalition envisioned a program with a 20-25% credit towards taxable state income that included all resources listed on the California Register, as well as those listed in the National Register. Rehabilitation of non-depreciable historic buildings, including owner-occupied single- and multi-family residences and buildings owned by non-profit organizations, would be eligible, as would restoration and rehabilitation of historic landscape features associated with designated buildings. As the discussion about a state tax credit moves forward, additional aspects to be considered include:

- Determining what types of resources will qualify for a tax credit and what level of designation is required. Although many states limit eligible properties to those listed on the state and National Registers, the National Trust recommends including buildings locally designated as individual landmarks, or as contributors to historic districts.<sup>67</sup>
- Establishing incentives at a level high enough to motivate property owners, but not so high that it serves as an unnecessary bargain. According to the National Trust for

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<sup>67</sup> Harry K. Schwartz, "State Tax Credits for Historic Preservation: A Public Policy Report Produced for the National Trust for Historic Preservation's Center for State and Local Policy," [http://www.preservationnation.org/issues/rehabilitation-tax-credits/additional-resources/nthp\\_state\\_tax\\_credits\\_model\\_policy.pdf](http://www.preservationnation.org/issues/rehabilitation-tax-credits/additional-resources/nthp_state_tax_credits_model_policy.pdf), accessed April 2011.

Historic Preservation, this is usually in the range of 20-30% of qualified rehabilitation expenditures.

- Establishing standards for rehabilitation. Most states use the Secretary of the Interior's Standards for Rehabilitation, as interpreted by the state historic preservation officer. In order to make this benefit available to more modest structures, which have often been altered over time, education about the Standard's integrity requirements would need to be part of any new program.
- Assessing program staffing requirements. A new HTC program would potentially have a significant impact on Office of Historic Preservation. Would applicant fees be a reasonable method to offset some of these costs?
- Determining the best level of investment required. Thresholds set too high will exclude many residential projects and smaller projects by lower-income applicants in favor of larger developers. This, of course, has implications for staff levels required to review applications.
- Promoting efficiency of administration for program managers and applicants. Documentation requirements should be balanced to yield necessary data but not so onerous that it impedes the program.
- Mechanisms for outreach and education about the program to potential applicants and county tax assessors.
- Tying HTCs to other statewide priorities such as sustainability, affordable housing, or revitalization of low-income census tracts by permitting higher credits to projects that attain designated goals.
- Establishing penalties for violating HTC agreements with the State.

## Recommendation

California Preservation Foundation should continue to bring together a broad-based coalition of interested parties, stakeholders, individuals and organizations to move a California historic tax credit forward.

## Historic Preservation and General Plans

The State of California requires local governments to develop and adopt general plans as a fundamental tool to guide local land use decisions. Described by the California Supreme Court as a “constitution for future development,” general plans outline long-term goals and policies that will shape a community’s development. Seven general plan elements are currently required by the state including Land Use, Housing, Circulation, Noise, Safety, Open Space and Conservation. The organization of these seven elements, as well as any optional elements, is determined by the local jurisdiction. All subsequent planning, including ordinances, zoning, specific plans, subdivision regulations, redevelopment and building codes, must be consistent with the General Plan.

Cities and counties have the flexibility to include additional elements in their general plans such as recreation and economic development. Historic preservation falls within this category of “optional” elements. Any element, once adopted carries the same force of law as the seven required elements. A 2002 study conducted by Petree A. Knighton, a master’s student in UC Berkeley’s school of urban planning, found that approximately 18% of California’s counties and 13% of California’s cities reported having dedicated preservation elements of their general plans to the Governor’s Office of Planning and Research in 2002.<sup>68</sup>

A meeting this report’s author held in May 2011 with staff from the California Office of Historic Preservation demonstrated consensus that OHP would like to see Historic Preservation become a required element of general plans within California. The Office of Historic Preservation’s website states that, “Historical resources, unlike most other resources, can never be recovered once altered or demolished. Therefore, in order for historic preservation to be recognized as a legitimate land use concern, it is essential to include historic preservation in the community’s General Plan.”<sup>69</sup> This is consistent with the 2006–2010 update to the Comprehensive Statewide Historic Preservation Plan for California, which states that one of ten objectives is to encourage “integrating preservation planning strategies and programs into broader land use processes.”<sup>70</sup>

States vary in the level of importance they assign to historic preservation goals within general plan guidelines. Sixteen states *mandate* historic preservation elements or historic

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<sup>68</sup> Petree A. Knighton, “A Path to Parity: Adopting a Historic Preservation Element to the General Plan,” UC Berkeley, 2002, p. 7. <http://ohp.parks.ca.gov/pages/1072/files/Path-Parity.pdf>, accessed July 2011. Knighton states that several of the cities reporting did not actually have preservation elements, and that others may be under development.

<sup>69</sup> California Office of Historic Preservation, “Historic Preservation Elements: Having a Seat at the Table,” [http://ohp.parks.ca.gov/?page\\_id=25898](http://ohp.parks.ca.gov/?page_id=25898), accessed July 2011.

<sup>70</sup> Knighton, “A Path to Parity,” p. 5.

preservation discussion in related elements in their respective general plans (Delaware, Florida, Georgia, Hawaii, Idaho, Maine, Maryland, Massachusetts, Oregon, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia, and Wisconsin). Three states require that general plans discuss historic preservation or that the overall plans be consistent with historic preservation principles (Connecticut, New Hampshire, and Oklahoma). Nine states describe historic preservation as an optional element (Arkansas, Colorado, Illinois, Kentucky, Nevada, New Jersey, New York, Utah, and Washington).

Research conducted for this report by San Jose State University master's student, Tan Hoang, determined that California's statute regarding general plans makes no mention of historic or cultural resources.<sup>71</sup> The California Government Code grants local legislative bodies the authority to "provide for the protection, enhancement, perpetuation, or use of places, sites, buildings, structures, works of art and other objects having special character or aesthetic interest or value."<sup>72</sup> A community's desired long-term goals and policies are embodied in a general plan. Since general plans are required to be adopted by local governments in California, they present a significant opportunity to promote awareness for the preservation of historic and cultural resources.

California might consider the example of a state like Georgia, which incorporates strong preservation language into a variety of its statewide goals and objectives for general plans. A Natural and Cultural Resources Goal establishes the need to "conserve and protect the environmental, natural and cultural resources of the Georgia's communities, regions and the state." A Regional Identity Objective states that regions "should promote and preserve an 'identity,' defined in terms of traditional regional architecture, common economic linkages that bind the region together, or other shared characteristics." According to the Heritage Preservation Objective, "the traditional character of the community should be maintained through preserving and revitalizing historic areas of the community, encouraging new development that is compatible with traditional features of the community, and protecting other scenic or natural features that are important to defining the community's character." The Environmental Protection Objective states "Environmentally sensitive areas deserve special protection, particularly when they are important for maintaining traditional character or quality of life in the community or region." The Sense of Place Objective establishes that "traditional downtown areas should be maintained as the focal

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<sup>71</sup> Tan Hoang, "Historic Preservation Elements in General Plans," a paper written for internship credit for a course on historic preservation at San Jose State University, May 2011.

<sup>72</sup> Knighton, "A Path to Parity," p. 31.

point of the community....” Local governments are required by Georgia state law to “evaluate the consistency of their policies, activities, and development patterns with these goals and objectives.”<sup>73</sup> States vary in their approach to incorporating historic preservation into general plans. Some states explicitly mandate that historic preservation be incorporated in a specific element, most commonly in historical or cultural resources. A number of states combine natural and historic resource protection into a single element. However, in other statutes there is no separate element, yet it is required that historic preservation be included somewhere in the general plan. Some states, such as Delaware, require attention to historic preservation in cities with populations of 2,000 or more, but treat it as a suggestion for smaller communities. There is obvious flexibility in how historic preservation is integrated into a general plan with a range of opinions as to whether historic preservation should stand alone as a dedicated element or be embedded throughout a document.

Some feel that planners rely most heavily on the Land Use element of their general plans and argue that embedding historic preservation there, or weaving it throughout several relevant elements, would be most effective and difficult to ignore.<sup>74</sup> The City of Ontario identified historic preservation, sustainability and health as components that would inform all aspects of their comprehensive plan. Although the plan was adopted only recently, Principal Planner Cathy Wahlstrom feels confident that the long planning process brought all city agencies into agreement on the importance of historic preservation into each department.<sup>75</sup> Others believe that a separate element underscores the validity of preservation as a fundamental land use concern. The City of Santa Monica’s general plan states:

Historic preservation is an optional additional element permitted under state law. Santa Monica has decided to prepare and adopt a Historic Preservation Element to focus attention on the preservation of historic resources and devote special consideration to planning involving these resources. With the preparation and adoption of the Element, historic preservation policies will become equal to policies in any of the mandated elements.<sup>76</sup>

According to Knighton, the majority of planners interviewed or surveyed for her study reported that adopting a dedicated preservation element gave historic resource protection more weight as land use decisions were contemplated. “All of the planners interviewed, and many of the planners

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<sup>73</sup> Rules of Georgia Department of Community Affairs Chapter 110-12-1 Standards and Procedures for Local Comprehensive Planning “Local Planning Requirements” (Effective Date: May 1, 2005) <http://dca.state.ga.us/development/PlanningQualityGrowth/programs/downloads/MinimumStandardsAdopted.pdf>, accessed June 2011.

<sup>74</sup> Knighton, “A Path to Parity,” p. 13.

<sup>75</sup> Cathy Wahlstrom, Principal Planner City of Ontario, personal communication with author, 12 September 2011.

<sup>76</sup> City of Santa Monica Historic Preservation Element, 2002.

<http://www01.smgov.net/planning/planningcomm/historicpreserve.html>, accessed April 2011.



responding to the survey indicated that having the preservation element has helped bring parity to historic preservation as a legitimate land use concern.”<sup>77</sup> A separate element, they believed, allowed the government’s goals and policies for historic resource preservation to gain equal footing when land use decisions were made by planning authorities, whether it be a zoning administrator, planning commission, redevelopment agency, city council or court of law.

Although a stand-alone historic preservation element may be the optimal approach, by their mandate general plans are required to be comprehensive in nature and internally consistent, so including preservation as a robust component in any form should be an effective tool. A comprehensive approach to including historic preservation in general plans would provide for identification, designation and regulation of historic resources; integrating preservation into the land use decision making process at all levels of government; education of residents and civic leaders; technical assistance and training for property owners, community leaders and public agency staff. Typical components of a preservation element include:

- Description of the justification and goals for the preservation element
- Description of the legal foundations for the element
- A history of the community
- Description of a preservation ordinance or the foundation for one
- Description of known historic resources (both designated and eligible for listing) and goals for surveying additional resources
- A tool for disseminating historic resource information such as an on-line GIS database
- Information on funding programs to support local preservation
- Description of specific actions to be taken when a historic resource is under review for designation, alteration or demolition.

The multi-faceted approach embodied by this list can enable cities to plan more effectively, to achieve more consistency and coordination between departments and to address competing land use claims more transparently and smoothly. All of these aspects of an element(s) will continue to evolve as new information is gathered; yet having a specific, yet broad, foundation allows a city more opportunities to preserve what is important to a community and to more readily avoid battles that take place when a resource is threatened.

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<sup>77</sup> Knighton, “A Path to Parity,” p. 16.

## Recommendation

Office of Historic Preservation should discuss benefits, and potential problems, of making cultural/resources-historic preservation a required component of general plans with the Governor's Office of Planning and Research.

## Historic Preservation Revolving Loan Fund

Historic preservation revolving loan funds (RLF) are mechanisms that lend money to secure the future of a historic property without long-term ownership by the lender. As repayment is made, the RLF's central fund is replenished, allowing them to continue to make additional loans. Revolving Loan Funds for historic resources appear across the United States. Most operate at a local level, but ten states have programs Alabama, Indiana, Maine, Michigan, New York, North Carolina, Pennsylvania, Vermont, Virginia, and Utah. California preservationists have long wished for a revolving loan fund in the Golden State, but often wondered whether this was a feasible goal in a state as large and complex as California. Yet it is difficult to dismiss the concept out of hand after reviewing the successes in other areas.

The Historic Preservation Foundation of North Carolina administers one of the best known and most experienced statewide revolving fund. Since its founding in 1977, Preservation North Carolina's (PNC) Endangered Properties Program has assisted in preserving over 600 properties. PNC's revolving fund is used to acquire threatened historic properties through donation, option to buy or outright purchase. It then identifies buyers who are able to buy and renovate the structures, and willing to sign a covenant on the property that ensures its protection into the future. A historic resource meets PNC's revolving loan fund criteria if it:

- Is threatened with immediate demolition, deteriorating or vacant, or likely to be subdivided or otherwise lose its historic integrity
- Meets eligibility standards for the National Register of Historic Places
- There is a willing seller and PNC considers the property marketable.<sup>78</sup>

The most common methods Revolving Loan Funds use to purchase threatened historic resources are:

- Bargain Sales (sales of real estate to a non-profit organization at less than fair market value)
- Donations: both of these methods not only ensure that threatened historic properties are preserved, donations can provide much-needed capital to loan funds. In both cases,

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<sup>78</sup>Preservation North Carolina, "What is the Endangered Properties Program?,"

<http://www.presnc.org/Property/Endangered-Properties-Program>, accessed September 2011.

property donors and individuals who convey property by bargain sale to a non-profit may be eligible for tax deductions.

- Options: if the owner is interested in selling a property, an organization can acquire an option to purchase it. An option is obtained for a fee, which gives the organization exclusive right to purchase the property during a specified period of time at an established price. This method provides assurance that the property will be protected while the option is in place and assures the owner that the organization has incentive to work to locate a qualified buyer.
- Fee simple purchase: such outright purchase of a property is done only in rare circumstances. Property ownership ties up the RLF's capital and may limit the ability to participate in other pressing projects.

Many RLFs prefer to use an option to purchase a property, because this method requires less cash outlay yet still accomplishes the goal by protecting a structure from threat for a time. Organizations such as Preservation North Carolina will place an option on a threatened property then market it to an appropriate buyer. They also work to help potential buyers understand other financial tools, such as federal and state tax credits, than can incentivize purchase and renovation of historic properties.

Capitalization that can start revolving loan funds is one of the biggest barriers to initiating such a program. Yet a recent convening by the National Trust RLF administrators described their programs as compelling opportunities to donors because each gift is designed to function in perpetuity.<sup>79</sup> Several statewide programs have begun through different means. Michigan Historic Preservation Network (MHPN) used an enhancement to their state Historic Tax Credit as a catalyst for a revolving loan fund program. The enhancement, enacted in 2009, allows MHPN to partner on larger projects and syndicate the tax credits. Proceeds from these projects enabled MHPN to revive a fairly moribund RLF program, which will be targeted to smaller projects that have trouble getting started and don't qualify for historic tax credits. The Georgia Trust for Historic Preservation started a revolving loan fund in 1990 through donation of historic resources. Maine Preservation received funding from 1772 Foundation and \$1.25 million from state legislature in a bond referendum that will go toward a statewide revolving loan fund administered as a partnership between Maine Preservation and the SHPO's office.

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<sup>79</sup> Notes from Convening of Revolving Fund Directors at National Trust for Historic Preservation Annual Conference, October 2010. Shared with the author by Susan West Montgomery, Associate Director for State and Local Partnerships and Policy, National Trust for Historic Preservation.



Preservation North Carolina purchased the long-idle Glencoe Mill Village property in a bargain sale. Glencoe's 105 acres consisted of 32 vacant houses in varying conditions of decay and a complex of mill buildings along the river. PNC installed water/sewer lines and built necessary roads to provide modern access throughout the village. One by one, buyers began to purchase and restore the historic homes and rebuild the Glencoe community. Various buildings in the mill complex are undergoing rehabilitation for a mix of uses. In addition to the restoration of the existing buildings, ten new infill houses will be built under tight design review. Photo Credit: Preservation North Carolina.

Each program determines the most strategic opportunities for using their funds. In addition to the criteria used by the North Carolina revolving loan fund, Georgia's requires that a historic property project has the support of local government and community groups who are willing to

help market and safeguard the historic resource.<sup>80</sup> Indiana Landmarks restricts its loans to non-profit organizations, which can receive up to \$75,000 in low-interest loans to purchase and/or renovate a historic property. Indiana Landmarks also maintains a separate Endangered Places Acquisition Fund to save vacant and endangered buildings. Indiana Landmarks buys the property, attaches protective covenants to the property deed, and resells to a buyer who agrees to restore the landmark within a specified time. Revenue from the sale returns to the acquisition fund.<sup>81</sup>

Revolving Loan Funds have proved to offer alternatives to demolition or neglect of architecturally and historically significant properties by promoting their rehabilitation and enabling owners of endangered historic properties to connect with buyers who will rehabilitate their properties. Preservation leaders in California should seriously consider whether and how such a program could serve our state. A potential source of support to initiate a revolving loan fund in California is the 1772 Foundation, which “provides financial support for targeted restoration and agricultural projects throughout the United States.”<sup>82</sup> Several states have received grants from this foundation to initiate revolving loan funds, including Maine, New York and New Hampshire. The 1772 Foundation may be a source of funding to move thinking on this topic forward in California. As this report was being written, the Foundation website announced that applications for grants to study the feasibility of a revolving loan fund, or increase the capacity of existing RLFs. California’s scale has been an impediment for some in considering a statewide RLF, yet a program could be developed that targets priority issues identified by the Office of Historic Preservation and a statewide partner such as California Preservation Foundation or California Main Streets Association. For example, a revolving loan fund might target small business development in historic commercial neighborhoods, or provide additional support for affordable housing projects that renovated and reused historic buildings. An alternative to a statewide program could involve matching grants from the State to Certified Local Governments that capitalize revolving loan funds meeting certain criteria.

## Recommendation

California Preservation Foundation and Office of Historic Preservation should convene a roundtable to explore the establishment of a California Historic Preservation revolving Loan Fund and CPF should consider applying for funds to support this activity.

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<sup>80</sup> The Georgia Trust, “Endangered Properties Revolving Loan Fund,”

[http://www.georgiatruster.org/what/revolving\\_fund.php](http://www.georgiatruster.org/what/revolving_fund.php), accessed August 2011.

<sup>81</sup> Indiana Landmarks, “Grants & Loans,”

<http://www.indianalandmarks.org/Resources/Pages/GrantsLoans.aspx#endangeredplacesloans>, accessed August 2011.

<sup>82</sup> [www.1772foundation.org](http://www.1772foundation.org), accessed September 2011.

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