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Courtenay D. Mercer, PP, AICP
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January 5, 2018

Jose Lozano
Executive Director
Murphy-Oliver Transition 2018
Via Email: info@govelect.nj.gov

Re: Downtown New Jersey Policy Recommendations

Dear Mr. Lozano,

Downtown New Jersey (DNJ) is a non-profit membership organization of individuals, businesses, developers, government agencies, and local and regional entities that are passionate about downtowns. Downtowns reflect our communities' unique identities, provide a focal point, a convenient local place of commerce, and offer a sense of place where people can gather and truly be a community. DNJ provides advocacy, education, and technical assistance resources dedicated to ensuring the vitality of our downtowns.

In furtherance of our efforts to support and enhance the economic vitality of New Jersey's downtown, DNJ is pleased to provide the Murphy-Oliver Transition Team with insights into legislative, regulatory, and administrative initiatives that impact our commercial districts. Below are brief synopses of our priority policy initiatives, with more detailed white papers attached for reference.

Urban Enterprise Zone (UEZ) Program: In 2011, the Christie Administration released a report questioning the efficacy of the UEZ program, and subsequently curtailed significant aspects of the long-standing program intended to stimulate economic activity in distressed areas. At the time, Legislators questioned the validity of the report, but have thus far been unsuccessful in rejuvenating the program. In fact, five municipalities' UEZs have since expired, causing them to lose the critical 50% sales tax incentive. As demonstrated in the attached white paper, the UEZ program has stimulated substantial economic activity. At the same time, the program could benefit from reform to ensure efficiency and maximize benefits. Accordingly, DNJ asks that the Murphy administration work with the Legislature to introduce a reformed and streamlined UEZ program that supports the economic development goals of both the distressed localities and the State.

Payment in Lieu of Taxes (PILOT): Over the past few years, there have been several overtures in the Legislature focused on the distribution of PILOT proceeds to schools and/or county government. Currently, 5% of proceeds are distributed to the county, with the remainder to be used at the discretion of municipal government. A PILOT encourages developers to accept the substantial risks and additional costs that come with most redevelopment projects through a reduced overall tax burden, while still allowing the municipality to obtain reasonable income from the property. Substantial redistributions of PILOTs could significantly diminish or eliminate the financial incentive for municipalities to enter into PILOT arrangements in the first place. The most recent proposal, Assembly Bill 326, which requires municipalities to share

certain payments received in lieu of property taxes with school districts, will have such an affect. DNJ believes that this and any other proposals to redistribute PILOT proceeds should be reviewed carefully to ensure that the municipal incentive is not so diminished that it renders the PILOT useless.

Municipal Tax Incentives & Prevailing Wage: For decades, NJ has experienced notable success with redeveloping many of its distressed areas by affording municipalities the ability to provide tax incentives in the form of abatements or exemptions to redevelopers. These incentives encourage developers to accept the substantial risks and additional costs that come with most redevelopment projects. By statute, such incentives should only be given to redevelopers who prove that the cost of the construction are such that it makes the project incapable of being completed without the abatement/exemption. By imposing prevailing wage upon projects, particularly small to medium sized projects in low demand areas, it could serve to neutralize the benefit of the abatement/exemption by imposing what some believe to be additional costs in the range of 20-30%. DNJ believes that setting strict requirements for prevailing wage, irrespective of a project's scale, marketability, and feasibility is imprudent. Instead, municipalities should continue to be given the discretion to make determinations regarding prevailing wage based on local circumstances, so as to avoid putting high-risk project in jeopardy.

Main Street New Jersey (MSNJ) Program: From 1989-2016, MSNJ served as New Jersey's nationally certified state coordinating program for the National Main Street Center (NMSC), which was codified in 2001 by the state legislature as a program of the Division of Housing and Community Resources in the Department of Community Affairs [P.L. 2001, c. 238 (C.52:27D-452 et seq.)] Unfortunately, the Christie Administration terminated funding and operations of the MSNJ program as of December 31, 2016, notwithstanding the enabling legislation. MSNJ was a very successful program that provided technical assistance for downtown commercial revitalization in 46 municipalities (as of 2016) with NMSC accredited and affiliated programs, the full benefits of which are described in the attached white paper. DNJ strongly supports the reinstatement of the MSNJ program, and the full restoration of its funding, with an eye towards an increase in order to allow the program to meet historic staff levels and provide additional resources and assistance to NJ's main streets.

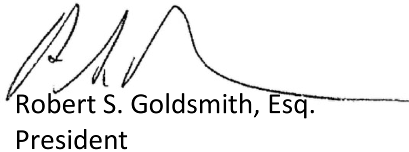
Liquor License Reform: New Jersey's liquor license regulations are among the most restrictive in the country. With licenses being limited by each municipality's population, the cost of a license in many of our municipalities can easily soar into the six or seven figures - if they are even available. Liquor license restrictions are seen to impede the economic development of many of our communities; especially our downtowns. As demonstrated in the attached white paper, research has shown that expanding liquor licenses has a positive impact on local communities. This is particularly important as our downtowns struggle to attract and retain millennials who are seeking out experience-based 'places' to live, play, and work. We are aware that there are a number of challenges to liquor license reform. While we do not have specific recommendations, we encourage the Murphy administration to study the issue, and that liquor license reform be considered as an economic tool for our downtowns throughout New Jersey.

Historic Tax Credits: Thirty-four states have a historic preservation tax credit. New Jersey is not one of them. Without a historic preservation tax credit, New Jersey is missing out on a proven tool for economic growth and revitalization. Between 1978 and 2015, the National Park Service's federal Historic Tax Credit for income-producing buildings led to $28.1 billion in federal tax receipts, a significant net gain over the $23.1 billion in allocated credits. States that have their own historic preservation tax credits see similarly strong returns on investment at the local level. In 2011, the NJ Legislature passed Historic Property Tax Credit Act with strong bipartisan support. However, included as part of the Democratic package for economic development, Governor Christie vetoed the state historic preservation tax credit. NJ Future and Preservation New Jersey worked together to formulate the

attached white paper in support of a NJ historic tax credit, and will be working with previous sponsors and supporters to put forward a new bill in the next legislative session. DNJ joins with our partners in asking the Murphy administration to support this important tool that encourages the rehabilitation of critical historic resources while promoting economic development in our downtowns.

We thank you for this opportunity to present DNJ's priority policy initiatives that impact our downtowns. Please do not hesitate to contact DNJ for additional information on these, or other matters related to the economic vitality of our downtowns.

Sincerely,



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President

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cc: Urban and Regional Growth Transition Committee

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URBAN ENTERPRISE ZONE PROGRAM

Enacted in 1983, the urban Enterprise Zone (UEZ) Program is intended stimulate economic growth in urban areas by fostering a business-friendly climate that encourages the creation and develop of private sector jobs.

Business benefits include:

- Reduced retail sales tax by 50% – currently 3.4375%
- Tax-free purchases on certain items such as capital equipment, facility expansions, upgrades, and certain personal property
- Financial assistance from agencies such as NJ Economic Development Authority
- Subsidized unemployment insurance costs for employees earning less than $4,500 / quarter
- Energy sales tax Exemption for qualified manufacturing firms with at least 250 full-time employees
- Tax credit options of:
    - Up to $1,500 for new permanent full-time employees hired, or
    - Up to 8% Corporate Business Tax credit on qualified investments

The Program allowed for the local UEZ to retain a portion of the retail sales tax collected in their zone; which could then be utilized for projects that would benefit the entire district. The funds collected for these particular projects (such as marketing, maintenance, capital investments, equipment purchases, and grants to businesses) were frozen indefinitely in fiscal year 2011.

At the inception of the UEZ program there has been a sunset provision; however, the State Legislature has seen fit to extend the UEZ program due to its demonstrated benefits. Yet, in 2016 the Christie Administration twice vetoed the Legislature's attempts to extend the UEZ program. As a result, the cities of Bridgeton, Camden, Newark, Plainfield an Trenton have lost their UEZ status and associated benefits as of December 31, 2016.

The contractions of the UEZ program by the Christie administration have been predicated on a report released in 2011 that questioned the efficacy of the program. While many legislators have questioned the legitimacy and bias of that report a new study has not been commissioned; thus the UEZ program continues to be retracted.

According to our research (using the last data supplied in 2012 by the UEZ Authority) UEZ benefits was a factor in seventy-four percent of all the jobs created by participating businesses. Moreover, the retail sales tax exemption benefit was utilized by approximately eighty percent of UEZ businesses. Since 1994, one out of every four businesses that relocated to New Jersey chose a location in an UEZ, demonstrating the immense positive impact the UEZ has had in New Jersey.

The UEZ program has garnered billions of dollars in private sector investments, and has demonstrated the greatest ratio of return on investment of any NJ economic program. For example in Hudson County, with the most Zones in the state at seven, the UEZ program has leveraged approximately $95 million of UEZ funds into more than $9 billion in private sector capital investments, creating over 23,000 new jobs. That is a public-sector investment of $4,100 per new job that produced $391,300 in private sector capital per new job. In Hudson County, the program has performed beyond expectations – realizing a 95% initial rate of return.

The UEZ Authority has not had an actively engaged full-time executive director in more than ten years. It has been moved multiple times, and endured staff reductions. Accordingly, it has been allowed to flounder, causing its effectiveness to diminish. In order to reinvigorate the UEZ program, Downtown New Jersey recommends the creation of a task force to take testimony and produce recommendations for a reformed and streamlined program that incorporates existing best practices in NJ and elsewhere.

Some key items to be considered:

1. Phase out certain projects, programs and services that require municipal matches.
2. Maintain the existing profitable programs and establish a "best practices" manual.
3. Provide personnel and administrative functions for monitoring certified businesses at the local level.
4. Ensure compliance of regulations and services in the programs.

Some additional items could include:

- Gradually reducing, but not eliminating, the municipal share of retail sales tax over a five-year period. As the municipalities are currently not capturing any of this intended funding, this compromise option could provide a much needed boost to local UEZ coffers while still allowing the State to recover sales tax over time from UEZs.
- Eliminating (phasing out) the municipal services projects the zones would have more funds available for job creation related projects. This money would then be

available to truly “incentivize development and create quality paying jobs.”

- Ensure that all the projects that are being considered require a job creation component that is verifiable. This will allow the state to gain additional revenues from income tax and the subsequent disposable income multiplier.

This is only the beginning of what is potentially available to help partner with both municipal governing bodies and the state to assist in reducing the overall financial burden confronting urban business districts. The UEZ program is here for the benefit of all. It was created to help stop the decline of the state’s urban centers, create incentives for investment, and ultimately develop job opportunities. A reformed and streamlined UEZ program can support the economic development goals of both the distressed localities and the State.

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MAIN STREET NEW JERSEY PROGRAM

From 1989-2016, MSNJ served as New Jersey's nationally certified state coordinating program for the National Main Street Center (NMSC), which was codified in 2001 by the state legislature as a program of the Division of Housing and Community Resources in the Department of Community Affairs [P.L. 2001, c. 238 (C.52:27D-452 et seq.)] Unfortunately, the Christie Administration decided to terminate funding and operations of the MSNJ program as of December 31, 2016, notwithstanding the enabling legislation.

Downtown New Jersey (DNJ) strongly supports the reinstatement of the MSNJ program and the full restoration of its $200,000 funding, with an eye towards an actual increase if financially feasible. MSNJ was a very successful program that provided technical assistance for downtown commercial revitalization in 46 municipalities (as of 2016) with NMSC accredited and affiliated programs, including 19 communities that were designated as MSNJ certified. MSNJ provided outreach, technical support, and educational services in order to assist communities in revitalizing their central business districts and surrounding neighborhoods. Over the years, they formed strategic partnerships with local organizations and municipalities in order to further their mission of promoting community revitalization and reinvestment. MSNJ made a vital difference for the communities that it served, and its absence this past year has clearly slowed the revitalization efforts of those municipalities and had a negative impact on the entire state.

The following are just some of the highlights of MSNJ's vitally important work since 2010:

- Provided ongoing technical assistance to dozens of municipalities and other stakeholders regarding the creation and management of Main Street programs and improvement districts
- Held 28 NJ Downtown Institute Workshops, with 2,164 attendees
- Produced 17 website and branding packages for MSNJ districts
- Created 287 scholarships for MSNJ members to attend the National Main Street Conferences
- Hosted 69 Small Business Retention workshops and 154 Small Business Retention consultations
- Developed 13 NJ350 Pop-Up stores in MSNJ communities, winning the 2015 Innovation on Main Street Award

As evidenced above, the ongoing assistance and training provided by MSNJ staff and contracted service providers offered a real benefit to MSNJ communities and programs.

In fact, the 19 certified programs were required to report annually on a variety of economic, physical, marketing and community metrics, providing the evidence for the significant value that the MSNJ brought to these communities. Furthermore, both New York and Pennsylvania maintain robust statewide Main Street coordinating programs, and New Jersey will continue to be at a disadvantage as compared to our neighboring states if MSNJ is not restored.

Additionally, we believe that if MSNJ's modest budget is not only restored but increased, MSNJ will have the capacity to help even more communities with their commercial revitalization efforts. Given recent reports that New Jersey is having difficulty attracting and maintaining millennials, DNJ believes that our state and municipalities deserve nothing less.

In summary, DNJ strongly supports the complete and total restoration of the MSNJ program.

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LIQUOR LICENSE REFORM

New Jersey's liquor license regulations are among the most restrictive in the country. With licenses being limited by each municipality's population, the cost of a license in many of our municipalities can easily soar into the six or seven figures if they are even available. In fact, it was reported that the most expensive license in that state's history was sold for an exorbitant $1.8 million in 2016.

New Jersey should consider reforming its liquor license laws, which have not been reformed in decades. Liquor license restrictions are seen to impede the economic development of many of our communities - especially our downtowns.

Communities must compete with each other to attract and retain residents – especially millennials who New Jersey municipalities are losing to big cities like New York and Philadelphia. One of the elements of the "sense of place" that people are looking for in our downtowns, in addition to more housing options, walkability, good schools and access to transit, is a solid mix of high end and low end restaurants. Since restaurants have a much higher profit margin on liquor than they have on food, it will be easier for New Jersey communities to attract higher end restaurants if these establishments are able to sell alcohol, beer or wine. While "BYO" establishments may be a popular option for many New Jerseyans, the "BYO" culture does nothing to help our restaurants who are struggling to pay what are often very high rents.

Research has shown that expanding liquor licenses has a positive impact on local communities. For example, the state of Oregon has created a new identity around its bars and beerhalls, which has brought in more jobs since the big recession than its software industry: approximately 7,400 from January, 2008 through September, 2016. Additionally, a recent study from the University of Arkansas found considerable economic benefits for dry communities that legalized alcohol sales.

In New Jersey, there are a number of challenges to liquor license reform. The biggest obstacle is what the state should do to compensate the current license holders who all own an asset that will clearly diminish in value once new licenses are issued. Many of these license holders are New Jersey residents, as well as being mom and pop entrepreneurs who may suffer from the increased competition that more restaurants selling alcohol, beer or wine may bring.

There have been a number of different legislative fixes to the problem of too few and too costly licenses, including adding new classes of licenses that would make service bars available only to restaurants, adding a new license for each special improvement district, and pilot programs for certain municipalities. While not recommending any particular legislative solution to the issue; it is recommended that the issue be studied, and that liquor license reform be considered as an economic tool for our downtowns throughout New Jersey.

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State Historic Preservation Tax Credit

ACTION: INSTITUTE A STATE HISTORIC PRESERVATION TAX CREDIT

Thirty-four states have a historic preservation tax credit. New Jersey is not one of them. Without the historic preservation tax credit, New Jersey is missing out on a proven tool for economic growth and revitalization. Between 1978 and 2015, the National Park Service's federal Historic Tax Credit for income-producing buildings led to $28.1 billion in federal tax receipts, a significant net gain over the $23.1 billion in allocated credits.[1] States that have their own historic preservation tax credits see similarly strong returns on investment at the local level.

BACKGROUND

In 2011, the New Jersey Senate voted unanimously to approve the Historic Property Tax Credit Act (S-659). The Assembly also passed an identical version of the bill. The Historic Property Tax Credit Act had strong bipartisan support.[2] However, it was part of the Democratic package for economic development, and Governor Christie vetoed it. This continued a pattern that had been in place since the mid-1990s and early 2000s, when bills for a historic tax credit garnered support on both sides of the aisle but never quite passed.

HISTORIC PRESERVATION TAX CREDIT AS A POLICY TOOL FOR ECONOMIC REVITALIZATION

A historic preservation tax credit drives economic development in the following ways:

- It creates jobs, during both the rehabilitation phase and the building's operation.
- It increases revenue in the form of income taxes, sales taxes, and property taxes.
- It incentivizes developers and banks to invest locally, especially in economically distressed areas they might not otherwise consider.
- It revitalizes run-down areas while making use of existing infrastructure. [3]
- It results in "spillover" effects that extend beyond the rehabilitated building, improving the local economy and attracting businesses to the surrounding area.

HOW THE CREDIT WORKS

Although each state has its own variants, the following steps describe how most historic preservation tax credit programs generally work. Most states keep their credit requirements consistent with the federal preservation standards so developers can apply to state and federal programs simultaneously. This makes the credit program doubly attractive to developers while promoting effective historic preservation within the state.

1. The state determines what types of buildings qualify.
2. Owners of qualified buildings submit an application to the state office or agency that administers the program. Proposals are evaluated competitively with a cost-benefit analysis that looks at how much tax revenue they will generate.
3. Winning projects earn a credit equal to a set percentage (20-30% in most states) of qualified expenses. The owner must pay the remainder of expenses, often financed by a loan.
4. Once the building is operational and has fulfilled all requirements, including compliance with historic rehabilitation standards, the credit is applied against the property owner's taxes—usually income tax.

MODELS IN OTHER STATES

Pennsylvania – Eligibility extends to qualified taxpayers completing restoration of a qualified historic structure into an income-producing property. Taxpayers apply through the Department of Community and Economic Development's electronic application system, and applications are reviewed on a first-come, first-serve basis. Tax credits apply toward up to 25% of qualified expenditures and may go toward personal income tax, corporate net income tax, capital stock-franchise tax, bank and trust company shares tax, title insurance companies share tax, insurance premiums tax, or mutual thrift institutions tax. The state program has a total annual cap of 3 million in credits per fiscal year (with $500,000 per project). [4]

Delaware – Eligibility extends to a property that is listed within the National Register of Historic Places, located within a National Register historic district, designated a local historic landmark, or located within a local historic district. The four-part application certifies that it is a historic property, that the rehabilitation process is valid, that the project has been completed, and that the owner requests an award of credit. Credit is awarded after the project is completed and certified as having met historic preservation standards. The credit may be applied against Delaware income tax liability or transferred to another tax payer. Credits are equal to 20% of the cost of rehabilitation for income-producing historic buildings. The credit

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may equal up to 30% if the project qualifies for low income tax credits. Delaware also offers a 30% credit for other non-commercial historic buildings. [5]

New York – Historic commercial buildings are eligible if they are located in a Qualified Census Tract with median family income at or below the state family median income level. State Historic Preservation Office staff review projects for compliance with federal preservation standards. The credit is worth 20% of the owner's state and federal income taxes. Unused credits are refundable. New York also has a separate tax credit program for owners of historic homes.

Ohio – Building owners and certain long-term lessees apply for a tax credit to rehabilitate eligible historic buildings. Ohio's Development Services Agency evaluates each application by conducting a cost-benefit analysis to determine whether the project will generate a net gain in state and local tax revenue. The DSA distributes up to $60 million in credits to top-scoring projects, with a cap of $5 million per project. The credit equals 25% of qualified expenditures against income tax, foreign and domestic insurance company gross premiums taxes, and financial institutions tax, up to the $5 million cap. Developers submit progress reports during the building's rehabilitation period. Once the renovation is finished, "developers receive the credit only after construction is complete and all requirements are verified." [6]

ECONOMIC BENEFITS

A study on Maryland's Heritage Structures Rehabilitation Tax Credit found that for every dollar of tax credit invested, the state receives "an average return of approximately $1.02 during the first year after a project's completion, and $3.31 within five years after project completion." In Maine, a study found that the first ten projects completed through the historic tax preservation credit "increased the assessed values in their community" from $3.6 million to $36 million, resulting in increased revenue from property and income taxes. [7]

Revenue is generated in the following ways:

- Historic preservation requires labor-intensive work, employing carpenters, electricians, plumbers, and other tradespeople. [8]
- Completed operational buildings create permanent jobs for employees who staff the businesses and maintain the building.
- New jobs mean new income, creating income tax revenue.
- Rehabilitation increases property values, resulting in increased property tax revenue. Increased property tax comes from the enhanced nature of the completed building. Because New Jersey property tax is based on the value of the structure and not the land, gains are especially pronounced when a dilapidated structure is rehabilitated, effectively putting the property back on the tax rolls.[9]
- Other taxes collected are state income tax, business-to-business sales tax, consumer sales tax, and commercial activity tax. [10]
- Indirect jobs are created by workers spending income and generally increased economic activity, such as other businesses moving to the area.
- States with state-level historic tax credit programs attract far more funding from the federal program. For instance, Kansas, before creating its own state program, completed around 50 projects over 21 years with the federal credit, with a combined $114 million in investment. After instituting its state program, Kansas completed 542 projects in 8 years, representing a total investment of $271 million. [11]

Not only does a historic preservation tax credit generate revenue, it's also been shown to foster greater economic growth than new construction:

- The distribution of costs in new construction average 40% labor and 60% materials. In contrast, rehabilitation costs on average 60% labor and 40% material, meaning more jobs. [12]
- In Delaware, $1 million output from a manufacturing firm generated about 9.2 jobs. A $1 million new construction project generated 11.2 jobs. Rehabilitation of a historic building beat both figures, with 14.6 jobs created for every $1 million spent.
- Delaware also benefited from the income those jobs generated. A manufacturing firm that spent $1 million generated on average about $344,000 in household income. A $1 million new construction project generated more than $477,000 in household income. Both paled in comparison to $1 million invested in rehabilitation of a historic building, which generated nearly $540,000 in household income. [13]
- "A $1 million investment in historic rehabilitation in Kansas realizes a markedly better economic effect to Kansas with respect to employment, income, GSP,

and state-local taxes compared to a similar increment of investment (i.e. $1 million) in an array of residential and nonresidential new construction (including building highways) in Kansas or a #1 million investment in an array of business activities important in Kansas, such as manufacturing (e.g., electrical machinery and automobile), agriculture (wheat farming), and services (telecommunication)." [14]

Finally, not having an historic preservation tax credit is an opportunity cost. Because New Jersey's bordering states all have tax credit programs, developers favor rehabilitation projects in those states over New Jersey.

ADDITIONAL BENEFITS

Preservation protects the cultural and aesthetic qualities of historic neighborhoods, providing a sense of community cohesion.[15] Historic neighborhoods attract the most economic and racial diversity, and they retain a greater percentage of their residents over time, creating social stability.[16] Historic rehabilitation also makes use of existing development and infrastructure, slowing sprawl and preserving farmland and open space. [17]

COSTS ASSOCIATED WITH HISTORIC TAX CREDITS

As a tax expenditure, the historic tax credit does have public costs. Potential costs include the following:

- Loss of immediate tax revenue—although these tax credit programs have been shown to more than pay for the initial loss over time. Loss of tax revenue can be limited by setting an annual cap on credits distributed.
- Cost of administering the program (evaluating applications, checking compliance, etc.)
- Opportunity cost for property values: A rehabilitated historic building generally results in higher property values than before the building was restored. However, it is possible that replacing the historic building with a new building (such as a high-rise apartment building) would result in even higher property values.

WHY IS A STATE CREDIT NECESSARY IN ADDITION TO THE FEDERAL PROGRAM?

The federal tax credit, which equals 20% of qualified rehabilitation expenditures, is sometimes not enough incentive for banks and developers to invest in rehabilitating historic properties. Rehabilitation projects in states with a state historic tax credit are more likely to win additional funding from the federal program, which in turn makes them more attractive to private investors. In Maryland, it is estimated that "$172.2 million in Federal Historic Preservation Tax Incentives Program tax credits have been leveraged by the Maryland tax credits—almost a one-to-one match. Owning to their challenging nature, most commercial projects would not be attempted without the equity provided by the combination of state and federal incentive programs."[18] There are numerous examples of successful projects that combined federal and state tax credits, such as the Parkside neighborhood redevelopment in Philadelphia.[19] In short, a state historic preservation tax credit would make New Jersey projects more competitive in receiving matching federal funds.

OPTIONS FOR STRUCTURING THE HISTORIC TAX CREDIT PROGRAM

The historic preservation tax credit is a proven method of economic stimulus that has had bipartisan support in New Jersey. Negotiations over the bill will likely come down to selecting different methods for structuring the credit to fulfill specific development or budgetary goals.

Income-producing vs. homeowner– The federal tax credit is limited to buildings used in trade or business for the production of income. Some states have chosen to extend eligibility for the state credit to houses belonging to individual homeowners, especially since the federal program does not cover this type of structure. If the primary goal is to generate jobs and tax revenue, the state may choose to define only income-producing buildings as eligible. It may be possible for the state to start with commercial structures and pilot a separate program for homeowners, perhaps with a focus on economically distressed areas.

Regional focus – The state can choose to focus the tax credit on a specific region that is targeted for redevelopment. Some states include geographical distribution in the tax code to ensure that both rural and urban areas benefit. Others focus the credit on economically distressed areas. In this scenario, the goal is to revitalize the economically distressed area, reducing its long-term reliance on state aid. In Vermont, credits are limited to commercial buildings in designated downtowns or village centers so that the credit operates as a strategic tool for revitalization.[20] The credit thus incentivizes banks and developers to "revitalize often abandoned and underperforming properties that have a financing gap between what banks will lend and the total development cost of the transaction." [21]

Transferability – Some states allow the tax credit to be transferred. This is useful in cases where a building owner

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does not have enough tax liability to make full use of the credit. In Kansas, Kentucky, Oklahoma and Missouri, the taxpayer can sell the credit to a third party. Other options are to allow a tax credit not fully useable in the current year to be carried back to offset previous taxes, or for the tax credit to be refundable, with unused amounts payable in cash to the credit holder. [22]

Incentives for smaller projects — Beyond transferability, there are other ways to make sure smaller-scale projects can make use of the credit. The bill could offer a higher percentage of credit to projects with smaller spending projections (for instance, $1-2 million). Smaller entities could also benefit from more flexibility in local ordinances relating to redevelopment.

Zoning exemptions for historic buildings — One challenge in rehabilitating historic buildings is that they may not meet current zoning requirements. For instance, if a historic factory in a downtown is rehabilitated into an office building, there might not be room for the hundreds of parking spaces required by local zoning laws. Exemptions for historic buildings can help attract developers to these projects.

Credit amount – Of the 34 states with a tax credit, 28 issue a credit equal to between 20 and 30% of qualified expenditures. At the low end, Montana provides 5% when the federal 20% credit is also used, and North Carolina provides 15%. At the high end, New Mexico offers a 50% credit with a per-project cap of $25,000. To control overall costs of the programs, states usually have caps for individual projects as well as overall aggregate caps. For instance, Ohio has a $5 million individual project cap and a $60 million annual aggregate cap. Nebraska has a $1 million project cap and a $15 million annual aggregate cap. [23]

Qualified expenditures – The state defines what counts as a qualified expenditure. For instance, Ohio defines these expenses as costs paid or incurred by the owner to rehabilitate the building, including architectural or engineering fees. Excluded costs are the price of acquiring or expanding a building and work done on facilities such as parking lots or sidewalks. The federal credit excludes expenses for expanding the building or costs associated with a portion of the building that will be used for tax-exempt purposes. [24] The federal credit also includes cleanup for brownfield sites, which is often a critical component of redevelopment projects. Because rehabilitation projects occur on land that is already developed, it is recommended that state programs keep brownfield cleanup as an eligible expense.

AREAS OF NEW JERSEY THAT WOULD BENEFIT FROM A HISTORIC TAX CREDIT

Because of New Jersey's industrial heritage, the state has a high percentage of buildings over 40 years old. Many of these buildings are sitting vacant. They are perfect for rehabilitation because industrial buildings can be converted into a wide variety of uses, and are often located in urban settings with existing infrastructure and transportation. Cities like Trenton, Perth Amboy, Rahway, and Elizabeth are strong candidates for historical rehabilitation. A study on markets in the City of Trenton found that given its "historic import," there is high potential to capitalize on its existing assets to invigorate commercial activity. The city's eight historic districts and 51 historical landmarks are eligible for the federal tax credit program. However, the city would see a larger number of projects completed if New Jersey had a state tax credit. This would encourage developers to invest in the city. [25]

Without the state tax credit, many historical buildings across New Jersey remain vacant or underutilized. One example is the Hahne and Co. Building in Newark. This commercial structure was built as a department store in 1901 and thrived through the 1950s. With the creation of suburban shopping malls, Hahne's went into decline, with its last store leaving in 1986.[26] The building stood empty for more than two decades. Eventually—through a public-private partnership between L + M Development Partners, Goldman Sachs, Prudential Financial, Citibank, New Jersey Housing and Mortgage Finance Company, and the state Economic Development Authority—the building was rehabilitated into a mixed-use facility with stores, apartments, and an art facility for Rutgers University at Newark. It officially reopened in 2017.[27]

While it is positive that Hahne's has reopened, the building remained vacant for more than 20 years—20 years that represent missed opportunities on property taxes, economic activity, and housing in Newark's downtown. If New Jersey had had a state historic preservation tax credit, it is likely that the building would have been rehabilitated sooner.

A similar example is the Keystone Watch Case Co. building in Riverside. The building was constructed in 1908. The factory closed in the 1950s after wristwatches replaced pocket watches. Another company, Root Metals, occupied the building until 1978. After that, the building stood mostly vacant. Various developers have proposed but never completed plans for the building. In 2016, a Brooklyn development firm purchased the building with plans to

convert it to luxury apartments. However, it remains to be seen whether this redevelopment project will be finished. Without incentives for developers, the factory has remained underutilized for nearly four decades. [28]

STAKEHOLDERS

Businesses — Businesses favor historic tax credits for commercial buildings. Unique, historic buildings are particularly attractive to entrepreneurs and local businesses. In an era where online shopping has made experiential retail newly important, businesses desire buildings with character and history.

Developers — Developers support historic tax credit programs, as they provide needed incentives to redevelop eligible buildings. Developers favor state historic tax credits that mirror the requirements for the federal programs so that they can apply to both programs simultaneously. Developers also require credit programs with faster application and approval cycles. They cannot afford to pay taxes and mortgage on a building that long sits vacant. An ideal credit program for developers would allow for preliminary or fast-track approval of an application. If the project is completed according to the proper standards, the credit would then be earned.

Homeowners — Homeowner eligibility for the tax credit will depend on the scope and budgetary limits of the credit. Homeowners are likely to support the bill if their houses are eligible. Some early drafts of the New Jersey bill included homeowners in order to win their support. However, this must be balanced against the demands of the Treasury, which generally wants a credit with more limited scope. Making homeowners eligible would add approximately 35,000 historic homes to the potential pool of projects, though only a small percentage of these would apply for credits in any fiscal year.

Residents – Residents are generally supportive of maintaining unique historic structures that define their neighborhoods.

State Treasury – The New Jersey State Treasury has opposed state historic preservation tax credits. The Treasury views tax credits as lost revenue, partly due to the fact that increased property taxes on completed projects go to municipalities and not the state. Potential counterarguments are that revenue from rehabilitation is not coming to New Jersey in the first place—real estate developers prefer to work on historic buildings in bordering states that offer the credit. New Jersey is losing out on this potential economic development.

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