

**MONTANA STATE LEGISLATURE TAX CREDIT REVIEW****Montana's Credit for the Preservation of Historic Buildings (15-31-151, MCA)**

This one-pager is offered as a helpful guide to the Montana State Legislature for their review of Montana's Credit for Preservation of Historic Buildings (MHTC). It addresses the questions considered by legislators in the review of state tax credits (15-30-2303, MCA). Responses are drawn from stakeholder feedback and findings in the Preserve Montana May 2024 report entitled, "Investing in Montana: Montana's Historic Preservation Tax Credit."

Overwhelmingly, stakeholders find the MHTC to be a necessary tool in the revitalization of historic buildings and communities across Montana and one that brings a strong return on investment to the state with minimal taxpayer expense. Since the MHTC was established in 1997, an estimated \$7.2 million in state historic tax credits and \$28.7 million in federal historic tax credits have leveraged \$144 million in private investment. Stakeholders would like to see the MHTC retained for future benefit.

**1. Does the credit change taxpayer decisions? Does the credit reward decisions that may have been made regardless of the existence of the credit?**

The MHTC makes historic building rehabilitation financially feasible and is a determining factor in taxpayer decision-making about whether to undertake a project. All but one stakeholder said the MHTC impacted project feasibility. Many said it made their projects viable: "In many cases, we could not make the numbers work without the state credits"; "an absolutely critical part of our project's success"; "without the tax credit the preservation projects we work on would not be economically feasible."

Multiple respondents commented on the difficulty of making projects feasible with rising costs. One stakeholder stated that "inflation has exploded the cost of every input," making the MHTC a critical funding source. With rehabilitation projects often being more complex, labor intensive and difficult to finance than new construction projects, the MHTC helps close financing gaps and makes a project pencil out.

**2. To what extent does the credit benefit some taxpayers at the expense of other taxpayers?**

There is no indication that benefits received by taxpayers who claim the MHTC are at the expense of other taxpayers. In fact, the rehabilitation of vacant or underutilized buildings provides many direct and indirect benefits to all taxpayers. Stakeholders shared that the MHTC "cleans-up dilapidated buildings" and "helps turn a blight into something vibrant." Building rehabilitations strengthen the local tax base by putting buildings back on property tax rolls. Vacant buildings are often subject to more vandalism, vagrancy and condemnation than occupied buildings, thereby costing more in taxpayer expenses. Putting historic buildings back into productive use by using the MHTC removes those taxpayer expenses and instead increases taxpayer benefits.

**3. Does the credit have out-of-state beneficiaries?**

The MHTC provides direct benefits to in-state people and restricts benefits to out-of-state people given the lack of transferability and requirement that project investors effectively need 100% Montana sourced income (ARM 42-4-2904(6)). Two stakeholders were critical of this rule, believing it limits investment in the state. They advocated for an amendment allowing partial Montana ownership. Such a change would allow "the State credit to be utilized more often - resulting in more direct investment in Montana with more buildings being preserved."

One stakeholder claimed the MHTC in only two out of six federal historic tax credit projects because of this limitation. The reuse of the Livingston Memorial Hospital as the Bluebunch Flats affordable housing complex, an

MHTC project completed in 2020, saw 99% (\$9.1 million) of the total project cost spent in Montana, illustrating the direct return on investment to Montana's economy. No matter the origin of project investment, whether in-state or out-of-state, approximately 75 percent of the economic benefits of historic rehabilitation projects remain in the communities where the buildings are located, according to a report by the National Trust for Historic Preservation.<sup>1</sup>

#### **4. What is the timing of costs/benefits of the credit? How long is the credit effective?**

The MHTC is awarded after a project is completed, so significant private investment must happen before there is any cost to the state treasury. Since the MHTC was established in 1997, an estimated \$7.2 million in state historic tax credits and \$28.7 million in federal historic tax credits have leveraged \$144 million in private investment for 69 projects in 18 Montana communities. It has also created an estimated 1,600 jobs. There are long-term benefits to the treasury through increased tax revenue and economically thriving downtowns and communities.

The tax credit has a seven-year carryover period. Data provided by the Montana Legislature Office of Research & Policy Analysis indicates that some taxpayers may not have the tax liability to use the credit each year. Providing transferability options of the MHTC would help solve this issue.

#### **5. Are there adverse impacts of the credit or its elimination? Do the benefits of continuation or elimination outweigh adverse impacts?**

There appear to be no adverse impacts of the MHTC; none were shared by stakeholders. They overwhelmingly advocated retaining the MHTC and its measurable benefits. Reducing short-term tax income for the state has had a minimal impact to the state treasury--\$2.3 million in MHTCs claimed by taxpayers between 1997 and 2022 leveraged an estimated \$128 million of private investment in Montana.

There would be many adverse impacts if the MHTC were to be eliminated. It would significantly reduce the number of building rehabilitation projects and the opportunity for investment in Montana's communities and unique heritage. Without a state historic tax credit, more blighted buildings would remain in Montana's cities and towns, costing communities money and deterring other investment. Skilled job creation would be hindered and the pressure to use farmland and open space for new construction could increase because economic development in areas with existing infrastructure would be de-prioritized.

#### **6. To what extent do benefits of the credit affect the larger economy?**

Since 1997, the MHTC has leveraged an estimated \$144 million in private investment across Montana. The tax credit program is growing at a rapid pace, with thirteen tax credit projects currently underway that would result in an estimated \$145 million of private investment to Montana and its people, doubling the MHTC investment from 1997 to 2024. The larger economy benefits from the MHTC in many ways: creating high-wage local jobs, attracting private capital to areas that have not seen public investment in decades, leveraging private investment, revitalizing urban and rural areas, saving money through use of existing infrastructure, providing housing for all income levels, growing heritage tourism, and protecting cultural assets that attract Montanans and visitors alike. Combined, these MHTC benefits create a stronger economy for Montana.

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<sup>1</sup> National Trust for Historic Preservation, *State Historic Tax Credit Resource Guide*, January 2023, 3. Accessible at [https://cdn.savingplaces.org/2023/03/31/15/02/36/841/NTHP\\_HTC\\_2023\\_StateGuide.pdf](https://cdn.savingplaces.org/2023/03/31/15/02/36/841/NTHP_HTC_2023_StateGuide.pdf).