

Memorandum



DATE October 30, 2015

TO Members of the Economic Development Committee:
Rickey D. Callahan (Chair), Casey Thomas, II (Vice Chair), Lee M. Kleinman,
Adam Medrano, Carolyn King Arnold, B. Adam McGough

SUBJECT **Proposed Revision to the Historic Preservation Tax Exemptions and Economic Development Incentives for Historic Properties**

On Monday, November 2, 2015, the Economic Development Committee will be briefed on the Proposed Amendments to the Historic Tax Exemption Program with consideration of revisions to Chapter 51A, Dallas Development Code, Article XI, Division 51A-11.100 to City of Dallas Historic Preservation Tax Exemptions and Economic Development Incentives for Historic Properties. Briefing material is attached.

Should you have any questions, please contact me at (214) 670-3296.



Ryan S. Evans
First Assistant City Manager

C: The Honorable Mayor and Members of the City Council
A.C. Gonzalez, City Manager
Warren M.S. Ernst, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Eric D. Campbell, Assistant City Manager

Jill A. Jordan, P.E., Assistant City Manager
Mark McDaniel, Assistant City Manager
Joey Zapata, Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager – Mayor & Council

Proposed Revision to the Historic Preservation Tax Exemptions and Economic Development Incentives for Historic Properties

Economic Development Committee

November 2, 2015



Background

- Current program sunsets on December 31, 2015.
- In February, an Historic Tax Incentive Task Force was appointed by the Landmark Commission to evaluate the existing program and make a recommendation to maintain the current program or offer recommendations for amendments.
 - Comprised of downtown stakeholders, preservationists, developers, architects, and non-profit advocates.
- The Task Force met five times over five months to review the existing program.
- Staff held two community meetings in June to gather input from residents of historic districts. Over 80 people attended the meetings held at the Texas Theater and the Hall of State.
- On September 8, 2015 Landmark Commission recommended approval of the changes.

Historic Tax Exemption Program Purpose

- Revitalize older neighborhoods to build and capture a stable tax base.
- Support the private sector investment in historic properties.
- Encourage home ownership.
- Promote pedestrian oriented, ground floor retail in the Urban Historic Districts.
- Support new uses for vacant and deteriorated historic buildings.
- Encourage low and moderate income families to invest in Revitalizing Historic Districts.
- To be eligible for the program, a building must be a contributing or a potentially contributing historic structure in a City of Dallas district or individually listed.

Existing Historic Preservation Tax Exemption Program

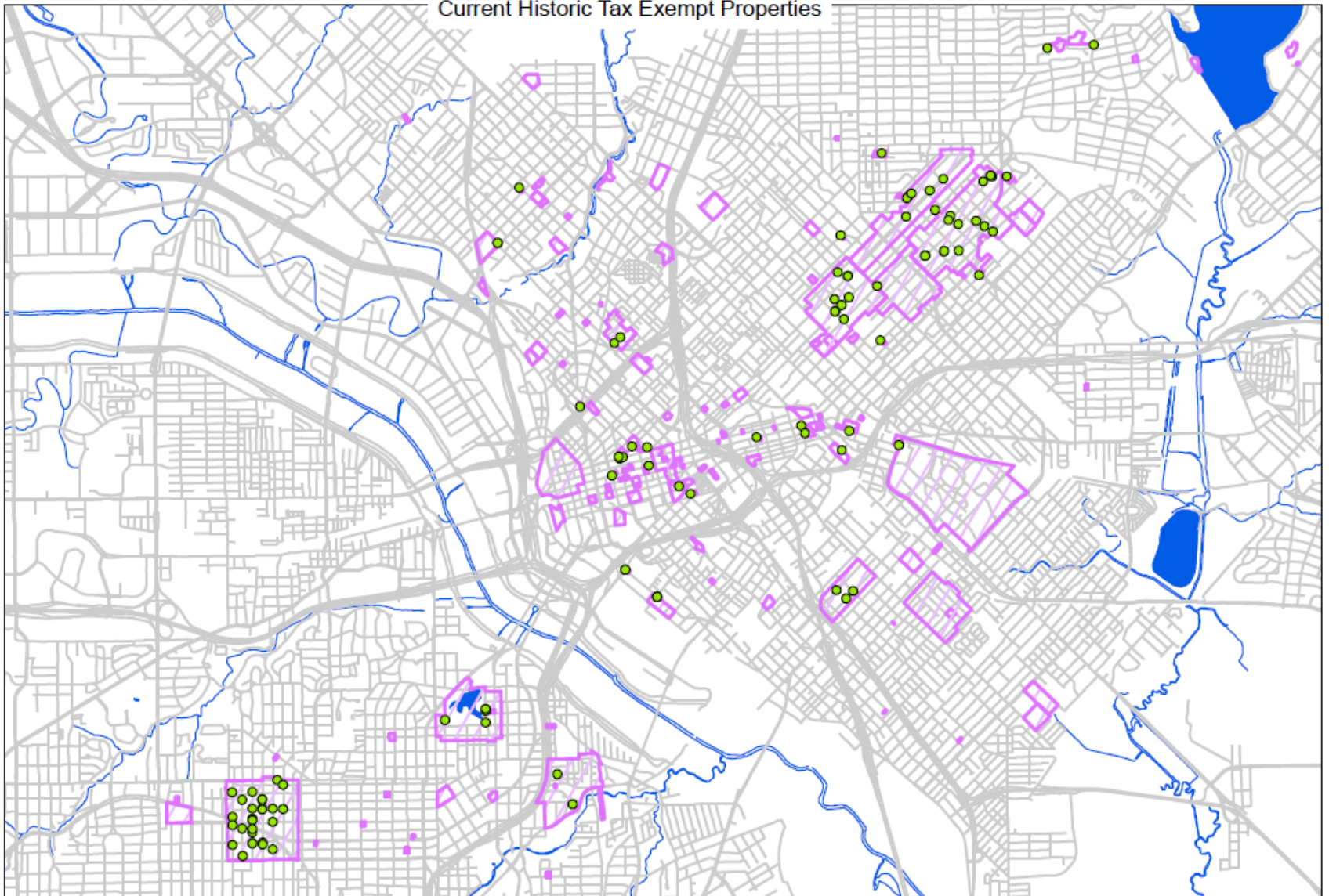
Category	Type	Required Expenditures	Amount	Duration	Renewable
Urban Neighborhood	Based on Rehab	75%	100%	10 years	Yes
	Based on Rehab	50%	Added Value	10 years	Yes
	Residential / ground floor conversion	50% must be converted to residential and 65% of ground floor must be converted to retail	100%	5 years	No
Revitalizing Historic Districts	Based on Rehab	25%	100%	10 years	Yes
	Maintenance	3%	Added Value	3 years	Yes
"Citywide"	Based on Rehab	50%	Added Value	10 years	Yes
	Endangered Property	25%	100%	10 years	Yes
Non-profit	Non-profit	Be a not-for-profit with a designated historic landmark that is open to the public	100%	As long as the building remains a not-for-profit that is open to the public	Annually

Current Participation

- 96 historic properties currently receive exemptions.
- Total value of the exemptions for 2014 was \$205,932,688.

* This figure includes large redevelopment projects such as the Old Parkland Hospital, the Mercantile, and 1409 S. Lamar.

Current Historic Tax Exempt Properties





**212 Landis Street
Tenth Street Historic District**

**6015 Bryan Parkway
Swiss Avenue Historic District**



**6220 Worth Street
Parks Estate**



Mercantile Tower



Republic Tower

Proposed Changes to Existing Program

1. Extend the tax exemption from 10 years to 15 years starting with the 2015 cycle.
2. Create a new 'Endangered Neighborhood' category for Wheatley Place and Tenth Street Historic Districts with the same requirements for the 'Revitalizing Neighborhood' exemption.
3. Allow 'Routine Maintenance' exemption for all categories and expand the timeframe from three years time to eight years.
4. Remove the five year 'sunset' provision. The Landmark Commission can review the Historic Tax Exemption Program at any given time and recommend modifications.

Additional Recommendations

- The Task Force voiced support for the recommendations from the Downtown Dallas Historic Preservation Task Force released April 1, 2015 with emphasis on advocacy and incentives for historic preservation.
- The Task Force further suggested review of the following issues to help encourage preservation of historic resources:
 - Adoption of an existing or ‘smart’ building code with revisions to Fire and Development codes. The Preservation Solutions Committee is investigating this issue as part of the Downtown Task Force recommendations.
 - Waiving development or building fees for permits within historic neighborhoods, especially ‘Endangered Neighborhoods’ in Southern Dallas. Sustainable Development and Construction Staff and City Attorney’s Office will investigate the possibility of waiving fees.
 - Explore expanding items that can be included as ‘eligible expenses’ as part of the tax abatement. Sustainable Development and Construction Staff will consider adding eligible expenses to the current list.
 - Encourage property owners to pursue the Dallas County historic tax exemption in conjunction with the City program. Staff will consider adding information to our educational efforts.

Staff Recommendation

- Adopt the recommendations of the Landmark Commission for amendments to the Historic Tax Exemption Program with the following exceptions:
 - Refer the proposal to extend the tax exemption program from 10 to 15 years to the preservation solutions committee for consideration as part of a broader strategy with consideration given to setting more specific criteria to qualify for the longer exemption period.
 - Keep sunset provision to ensure consistent evaluation and review of effectiveness of program.

Next Step

- Scheduled for the December 10, 2015, City Council Agenda

Appendix

Pre and Post Evaluation Examples

Project	Address	Final Year of Abatement	Pre-exemption Value	Current Taxable Value	% Increase	Pre-exemption Tax Revenue	Current/ Anticipated City Tax Revenue
American Beauty Mill	2400 Ervay	2013	\$37,320	\$3,166,250	8384%	\$297	\$25,235
private home	4612 Swiss	2013	\$87,890	\$317,576	261%	\$700	\$2,531
private home	310 S Edgefield	2014	\$73,490	\$169,760	131%	\$586	\$1,353
Magnolia Hotel	1401 Commerce	2011	\$833,240	\$29,100,000	3392%	\$6,641	\$231,927
DP&L	1512 Commerce	2011	\$3,290,430	\$6,088,470	85%	\$26,225	\$48,525
509 Elm	509 Elm	2013	\$1,043,700	\$4,363,806	318%	\$8,318	\$34,780
South Side on Lamar*	1409 S Lamar	2015	\$5,922,800	\$31,759,850	436%	\$47,205	\$253,126
*2015 is final year for South Side on Lamar. Current County values used to estimate 2016 tax value							

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General Information:

- **Reward for private investment:** This tax exemption is a reward for those who invest in historic resources. The tax exemptions apply only to the city property taxes, not to other property taxes, such as Dallas County and Dallas Independent School District. This exemption is not a grant, and there are not monies available to assist in the restoration of the structure under this program.
- **Who can receive a tax exemption:** To be eligible for the Historic Preservation Incentive Program, your building must be a contributing structure within any city historic district. It must be designated as a City of Dallas historic district or an individual historic district. The type of incentive available depends on how much you invest in rehabilitation and where your property is located.
- **Types of exemptions:** The program is divided into three areas (see the map at the end of this packet):
 - Urban historic districts
 - Revitalizing historic districts
 - All other areas

Where the property is located determines the minimum required expenditures to be eligible. This amount of money is a percentage of the Dallas Central Appraisal District's appraised (or market) value of the historic structure.

- **What work qualifies:** Qualified expenditures include labor and materials for interior or exterior repair or replacement of features that help preserve a structure, such as, but not limited to, roofing, windows, sheetrocking, carpentry, electrical, plumbing, mechanical, flooring, and replacing fixtures such as sinks, bath tubs and toilets. See page 6 for a more complete list.
- **Procedure for application:** Make an application to the Landmark Commission to determine eligibility of the property and the proposed work. Once the work is completed, submit an application to staff for verification of the work completed. After the city issues a letter of verification, the owner must make an annual request to DCAD to receive the exemption. The applicant should coordinate with staff regarding any additional application requirements.
- **How are the minimum expenditures determined:** Staff uses the Improvement Value listed on the DCAD website for the year prior to the date of the application. If the application is made on September 13, 2007, staff will use the 2006 Market Value to determine the required expenditures.

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- **What if the work has already been completed:** Generally, only work done after issuance of the Certificate of Eligibility may be counted (the Landmark Commission may, however, approve work done prior to issuance of the Certificate of Eligibility if the work was done within the last three years and will further the purpose of the program). Exemptions cannot be applied for or issued retroactively. Applicants will need to make a Step 1 Application to the Landmark Commission, and once the work is completed, submit a Step 2 Application to staff for verification.
- **Renewals:** Additional terms for tax exemptions may be applied for at any time. The new application must meet all the requirements of a new application in terms of required expenditures, based on the appraised value on the DCAD website for the year prior to the new application. The expenditures may ONLY be spent on façade improvements.
- **New owners of the property during the term of the tax exemption:** The exemption travels with the property, however the new owner will still be required to file the exemption renewal form with DCAD annually.

Appendix

Step 1— Application to the Landmark Commission

Apply for a determination of eligibility for a tax exemption, and apply for any required Certificate of Appropriateness.

The Landmark Commission determines eligibility based on whether the structure is a contributing structure in an existing or pending historic district, and whether the proposed rehabilitation work helps preserve the historic property. Complete the application to determine eligibility and submit it to staff prior to the **first Thursday of each month** for consideration by the Landmark Commission at next available monthly public hearing the following month. Staff can help you fill out the application. You may attend the Landmark Commission hearing, or wait for notification of the Landmark Commission decision from city staff.

Approval is also required from City Council for all tax exemptions in excess of \$50,000 (i.e. all past and future projected tax foregone by the city as a result of the historic tax exemptions). To figure out the total amount of tax foregone by the city over the term of the exemption, you can go to www.dallascad.org , search for appraisals for your property, and scroll down to view the estimated taxes, calculate the amount that will be exempt, and multiply that by the number of years the exemption will be in place.

Applications to determine eligibility for tax exemptions should be submitted to the Landmark Commission before the rehabilitation work is started, however, the Landmark Commission may approve work completed within three years prior to the Landmark Commission hearing if the work completed would further the preservation of the property. In these cases, applicants should submit the documents required in Step 1 and Step 2 of the application procedure.

After the Landmark Commission approval, complete the rehabilitation work, and be sure to keep your receipts!

If the application is approved and all required certificates of appropriateness are approved, you may begin the rehabilitation work. Before doing any exterior work at a historic property, you must first obtain a certificate of appropriateness. All work must comply with the terms of the certificate of appropriateness. You must also obtain all necessary building permits and related city inspections. Keep track of all expenditures with receipts, checks, invoices and other documentation to prove expenditures, or, if you are using an architect or engineer, pay affidavits or schedules of value may provide sufficient documentation.

Appendix

Step 2— Verification

Now that the work is completed, staff needs to verify that the work has been completed.

You may apply for a letter of verification only after completing approved rehabilitation work that satisfies the minimum required expenditure set forth in the application for determination of eligibility. You must submit proof of expenditures for the required minimum amount, and provide all documents listed in the application for a letter of verification.

One of the documents required as part of this step in the application process is a commitment to repay, which outlines the property information, value and duration of the exemption, and permanently obligates the owner to repay any taxes that were exempted under this program if the historic property is ever demolished or materially altered by the willful act or negligence of the owner without necessary city approvals. Staff will provide the applicant with a completed commitment to repay document.

The owner must sign a commitment to repay, on a standard legal form for tax exempt properties, and record it in the real property records for the property. The commitment to repay must be signed and notarized by all the property owners and all lienholders. The signed document must be returned to City Hall to be approved as to form by the City Attorney. It will then be returned to the applicant to be recorded in the Dallas County real property records, at the Records Building, 500 South Main Street. Once the commitment to repay is recorded by the county, a copy must be returned to city staff.

Step 3—Annual application to DCAD

The city's paperwork is done, and now the applicant needs to turn in their annual application to DCAD to continue receiving the exemption.

The property will be evaluated by city staff each year to determine whether the owner is in compliance with the terms of the tax exemption. If the owner is in compliance, city staff will send a letter to the Dallas Central Appraisal District to verify eligibility.

The property owner must also make an **annual application** to the Dallas Central Appraisal District or the tax exemption will not be allowed for that year. If you do not receive an annual application from the Dallas Central Appraisal District by March 1 of the year, please contact DCAD directly at (214) 631-1342.

Appendix

Cost Estimates

The following list is a general guide to determine what may be used towards expenditures for the exemptions, which includes but is not limited to: labor and materials for interior or exterior repair or replacement of features that help preserve a structure, such as, but not limited to, roofing, windows, sheetrocking, carpentry, electrical, plumbing, mechanical, flooring, and replacing fixtures such as sinks, bath tubs and toilets.

Eligible exterior work:

- Architectural and engineering services if directly related to the eligible costs described above
- Carpentry
- Demolition and cleanup if directly related to the eligible costs described
- Electrical
- Elevators determined to be necessary to utilize the building
- Exterior doors
- Exterior brick veneers or treatments
- Facade items
- Flooring
- Foundation
- Gutter where necessary for structural integrity
- Heating and cooling
- Interior work that becomes a permanent part of the building that will help preserve the structure
- Mechanical
- Painting (exterior and interior)
- Porch
- Plumbing
- Rehabilitation of a contributing structure used for the required parking
- Roofing
- Security and/or fire protection systems
- Sheetrocking
- Siding
- Structural walls
- Structural subfloors
- Structural ceilings
- Termite damage and treatment
- Windows
- Other items deemed necessary by the Landmark Commission that assist in preserving of the historic structure

Ineligible costs include, but are not limited to, the following:

- Landscaping
- Legal and accounting fees
- Overhead
- Plumbing and electrical fixtures; provided, however, documented replacement of historic fixtures may be considered eligible
- Purchasing tools
- Repairs of construction equipment
- Supervisor payroll
- Taxes
- Any other items not directly related to the exterior appearance or the structural integrity or viability of the building