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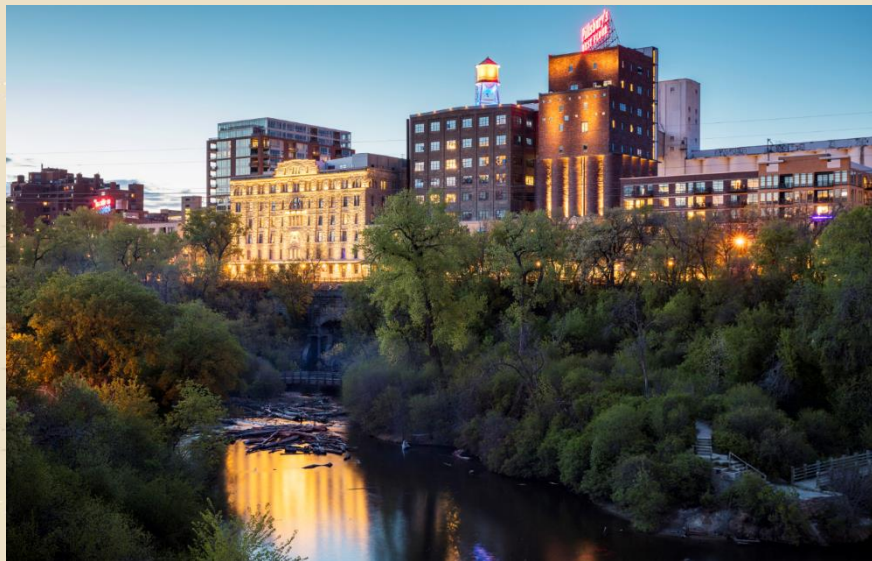


EXTENSION CENTER FOR COMMUNITY VITALITY

Economic Impact of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit: Fiscal Year 2017

AN ECONOMIC IMPACT ANALYSIS PROGRAM REPORT

Authored by Brigid Tuck
Contribution from Denis Gardner, Minnesota Historical Society



IN PARTNERSHIP WITH: MINNESOTA HISTORICAL SOCIETY, STATE HISTORIC PRESERVATION OFFICE
PHOTO: PILLSBURY "A" MILL BUILDING; PHOTO CREDIT: BKV GROUP



MINNESOTA HISTORICAL SOCIETY
HERITAGE PRESERVATION

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January 2018

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Notes on the Analysis:

As part of Minnesota's historic tax credit legislation, the Minnesota Historical Society "must annually determine the economic impact to the state from the rehabilitation of property for which credits or grants are provided" ([Minnesota Statutes, Chapter 290.0681, Subdivision 9](#)). To complete this charge, the Minnesota Historical Society has contracted annually with University of Minnesota Extension's Economic Impact Analysis (EIA) program. Pursuant to Minnesota Statutes, Chapter 3.197 regarding the cost of reports, the total for this study was \$2,500.

The data, analysis, and findings described in this report are specific to the geography, time period, and project requirements of Minnesota Historic Rehabilitation Tax Credit. Findings are not transferable to other jurisdictions. Extension neither approves nor endorses the use or application of findings and other contents in this report by other jurisdictions.



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EXECUTIVE SUMMARY: ECONOMIC IMPACT OF PROJECTS LEVERAGED BY THE MINNESOTA HISTORIC REHABILITATION TAX CREDIT IN FISCAL YEAR 2017

In 2010, Minnesota passed legislation creating the Minnesota Historic Rehabilitation Tax Credit. In conjunction with the National Park Service, the program strives to preserve historic places that create character in America's communities. The Minnesota State Historic Preservation Office and the Minnesota Department of Revenue administer the tax credit in Minnesota.

Each year, the Minnesota Historical Society contracts with Extension to determine the economic contribution of the state credit. The study has three components. One, it quantifies the economic impact of the tax credit in fiscal year 2017. Two, it provides a summary of three completed projects. Three, it summarizes the impact of the credit during the seven years it has been available in Minnesota.

Key conclusions from the study follow.

- **Output Effects:** In FY 2017, the total estimated economic impact of the Minnesota Historic Rehabilitation Tax Credit was \$66.4 million. Directly, through rehabilitation, the credit created \$37.4 million of construction activity. This construction activity then generated \$29.0 million of output in other industries in Minnesota. Sectors most impacted include wholesale trade, real estate, and health care.
- **Employment Effects:** In FY 2017, the Minnesota Historic Rehabilitation Tax Credit supported an estimated 285 full-time equivalent (FTE) jobs in the state. This includes the 130 jobs at rehabilitation sites during the construction activity (direct effect). It also includes 155 jobs at supporting industries. Sectors most impacted include wholesale trade, real estate, and dining.
- **Labor Income Effects:** In FY 2017, the Minnesota Historic Rehabilitation Tax Credit generated an estimated \$20.0 million in labor income. Directly, the rehabilitation activities created \$10.0 million in labor income. Because of spending for rehabilitation, another \$10.0 million of labor income was generated across all industries in Minnesota.
- **Tax Credit:** The projects, upon completion, will be eligible for \$6.7 million of tax credit. Thus, for every dollar of tax credit, private developers plan to invest \$6.97 of their own funds. Given a total impact of \$66.4 million of activity, each dollar of the Minnesota Historic Rehabilitation Tax Credit generates \$9.99 of economic activity in the state.
- **Total Impact 2011-2017:** Since the tax credit became available in 2011, more than 100 projects have received initial approval. Those projects have generated an estimated \$2.2 billion of economic activity in the state. This includes \$745.1 million in labor income (dollar figures are adjusted to 2017 dollars). The tax credit has supported 12,900 jobs.
- **Highlighted Completed Projects:** This study features three completed projects—the Pillsbury “A” Mill, Fergus Falls State Hospital, and the Upham Building. Combined the projects generated \$342.1 million in economic activity.



INTRODUCTION

Historic preservation reflects the multi-faceted history of the United States, capturing the importance of events, people, places, and ideas in American history. Historic preservation, however, was not always a priority. Following World War II, America moved into a period of postwar expansion. Urban renewal emerged during this period, changing the face of American cities.

During this growth and renewal, an awareness arose regarding the importance of preserving key components of our nation's history. This awareness led to the National Historic Preservation Act of 1966. The Act included the Federal Historic Preservation Tax Incentives Program (the Program). The Program began offering federal incentives for historic preservation in 1976. The Program strives to preserve historic places that create character in America's communities.¹

“Historic preservation is a conversation with our past about our future. Through historic preservation, we look at history in different ways, ask different questions of the past, and learn new things about history and ourselves” (National Park Service).

The availability of the state and federal tax credit is contingent on the state having corresponding legislation. In April 2010, the Minnesota Historic Rehabilitation Tax Credit was signed into law. The goal was to stimulate job growth, increase local tax bases, and revitalize communities across the state. Unless reauthorized, the tax credit is set to expire after fiscal year 2021. The Minnesota tax credit mirrors the federal historic preservation credit.

The Minnesota State Historic Preservation Office and the Minnesota Department of Revenue administer the state tax credit in Minnesota. The federal historic preservation tax credit is administered by the National Park Service in partnership with the Internal Revenue Service.

Properties must meet established criteria to be eligible for the Minnesota Historic Rehabilitation Tax Credit. First, the property must be a certified historic structure—it must be listed on the National Register of Historic Places or certified as contributing to a registered historic district. Second, rehabilitation needs to be for an income-producing use, and the project must meet a substantial rehabilitation test. All work on the property must meet the U.S. Secretary of Interior's Standards for Rehabilitation. After the U.S. National Park Service approves all completed work, the credit is awarded.

The credit law allows for either a state income tax credit or a grant in lieu of the credit. A state income tax credit up to 20 percent of qualifying expenses is available if a property meets eligibility requirements. Alternatively, a grant in lieu of a credit (equal to 90 percent of allowable credit) is available to property owners. Properties must meet eligibility requirements for the federal credit to qualify for the state credit.² While properties can receive the Minnesota Historic Rehabilitation Tax Credit (state credit) and the Federal Historic Tax Credit, the information in this report focuses on the state credit.³

By law, the Minnesota Historical Society “must annually determine the economic impact to the state from the rehabilitation of property for which credits or grants are provided.” Since 2011, the University of Minnesota Extension has been analyzing and reporting on the economic impact of the

¹ General history summarized from National Park Service. More history and information is available at <https://www.nps.gov/subjects/historicpreservation/index.htm>.

² Learn more about the Minnesota Historic Rehabilitation Tax Credit at http://www.mnhs.org/shpo/grants/docs_pdfs/SHPOtaxcreditbrochure.pdf.

³ The focus is on the state credit in this report. However, since the credits essentially work together, both contribute to the economic activity generated. In this report, references to tax credits awarded are for the state credit.

state tax credit. During that period, more than 100 projects have received initial approval for the state credit and/or grant.

This report presents the findings related to the economic impact of the Minnesota Historic Rehabilitation Tax Credit. The first section of the report examines the economic impact of the credit during the 2017 fiscal year (July 1, 2016 to June 30, 2017). The second contains case studies of completed projects. The third summarizes the economic contribution of the tax credit during the past seven years. Given the state law, this report focuses on the state tax credit.

ECONOMIC IMPACT IN FISCAL YEAR 2017

Economic impact is comprised of direct, indirect, and induced effects. In this analysis, the direct effect is the construction activity occurring at sites receiving the historic tax credit. In calculating economic impact, the first step is to quantify the direct effect.

Once quantified, the direct effect is entered into an input-output model. Input-output models trace the flow of goods and services throughout an economy. Based on these established relationships, one can measure how a change in one part of the economy will affect other parts. Indirect and induced effects measure the change in other parts of the economy created by the direct effect.

The Minnesota Historical Society's State Historic Preservation Office provided Extension with details on the projects approved for the tax credit in fiscal year 2017. This is the direct effect. Extension used the input-output model IMPLAN to calculate the indirect and induced effects.⁴

Direct Effect in Fiscal Year 2017

As described, the Minnesota Historic Rehabilitation Tax Credit creates a direct effect through the construction occurring at rehabilitation properties. Those seeking the tax credit must follow established procedures. Both the National Park Service and the State Historic Preservation Office have documents that must be filed before, during, and after the rehabilitation work.⁵

Before beginning work, an applicant, if required, will submit a National Park Service Part I application.⁶ All properties must file for National Park Service Part II approval. To earn Part II approval, project developers submit an estimate of total rehabilitation costs to the State Historic Preservation Office.

These rehabilitation costs are the direct effect of the credit for the fiscal year in which it was approved. The state tax credit, however, is not awarded until all work is completed and approved by the National Park Service in a process known as Part III certification.

In fiscal year 2017, seven properties received the initial Part II approval (Table 1).

⁴ IMPLAN software from MIG, Inc. Learn more at implan.com.

⁵ The National Park Service documentation includes Part I, II, and III. State Historic Preservation Office documentation uses alphabetical labeling.

⁶ To learn more about Part I, II, and III, visit <https://www.nps.gov/tps/tax-incentives/application-process.htm>.



Table 1: Minnesota Historic Rehabilitation Tax Credit Projects Receiving National Park Service Part II Approval between July 1, 2016 and June 30, 2017

Historic Property Name	Current Property Name	Proposed Use	Location
Union Railway Storage Company	The Soap Factory	Gallery/Office	Minneapolis
Baker Importing Company		Mixed Use	Minneapolis
Lowry and Morrison Block		Office	Minneapolis
Allen Building		Commercial	St. Paul
Michaud Brothers Building	Jax Manufacturing Company	Residential	St. Paul
Rochat Building		Commercial/ Residential	St. Paul
H.H. Jewell Building		Commercial	Wabasha

Source: Part A applications submitted to the Minnesota Historical Society

Project developers estimated that total rehabilitation costs for the seven projects would be \$46.4 million (Table 2). Included in this amount are costs for items such as property acquisition, site development and grading, demolition, construction supplies, furnishings, electrical and plumbing work, permits, and fees.

Table 2: Direct Impact of Fiscal Year 2017 Minnesota Historic Rehabilitation Tax Credit Projects

Total Estimated Rehabilitation Project Costs	Total Estimated Rehabilitation Project Costs (Excluding Acquisition)	Estimated Minnesota Historic Rehabilitation Tax Credit (state)
\$46,361,242	\$37,447,242	\$6,654,647

Acquisition costs do not create an economic impact. They are a transfer of wealth (cash for land and/or a building). Thus, under the theory of economic impact analysis, acquisition costs are not included in the direct impact. Costs post-acquisition, such as demolition and grading, are included. Project costs, with acquisition fees removed, were an estimated \$37.4 million in FY 2017. This is the direct impact of the tax credit.

Project developers are expected to be awarded an estimated \$6.7 million in *state* tax credits or grants and an additional \$6.7 million in federal historic tax credits.⁷ For every dollar of the Minnesota Historic Rehabilitation Tax Credit (state credit), private developers in FY 2017 plan to invest \$6.97 of their own funds.

⁷ The estimated tax credit is not equal to 20 percent of project costs, as not all costs qualify for the tax credit.

Indirect and Induced Effects

Indirect effects are associated with business spending on goods and services. In this case, these are the changes in the local economy stemming from developers purchasing construction materials (i.e., lumber, cement, or equipment) and construction-related services (i.e., architectural and engineering). These are often called business-to-business impacts.

Induced effects are associated with a change in economic activity stemming from spending by the employees of businesses (labor) and by households. In this analysis, these are primarily economic changes related to spending by construction workers and are often called business-to-consumer impacts.

Extension used the input-output model IMPLAN to calculate the indirect and induced effects.⁸ The next section of the report highlights the results from the model.

Total Impact in Fiscal Year 2017

The Minnesota Historic Rehabilitation Tax Credit generated an estimated \$66.4 million of economic activity in fiscal year 2017 (Table 3). This includes \$20.0 million in labor income paid to an estimated 285 full-time equivalent (FTE) workers.

The following are specific contributions for FY 2017:

- Direct impacts include an estimated \$37.4 million in new construction-related sales (output), 130 FTE construction jobs, and \$10.0 million in payments to construction workers. Direct output accounts for 56 percent of the total impact.
- Business-to-business transactions accounted for 22 percent of the tax credit impact. In FY 2017, the tax credit indirectly generated an estimated \$14.5 million in sales (output), including 75 FTE jobs in all sectors of the economy, and \$5.2 million in payments to workers.
- Twenty-two percent of the tax credit impact was via business-to-consumer transactions. Induced impacts generated an estimated \$14.5 million in sales (output) in Minnesota in FY 2017. This includes 80 FTE jobs in all sectors of the economy and \$4.8 million in labor income.

In FY 2017, the Minnesota Historic Rehabilitation Tax Credit supported \$66.4 million of economic activity and 285 jobs.

Table 3: Total Economic Impact of Projects Leveraged by Minnesota Historic Rehabilitation Tax Credit in the Fiscal Year 2017

	Direct	Indirect	Induced	Total
Output (millions)	\$37.4	\$14.5	\$14.5	\$66.4
Employment (FTE's)	130	75	80	285
Labor Income (millions)	\$10.0	\$5.2	\$4.8	\$20.0

Estimates by the University of Minnesota Extension Center for Community Vitality

⁸ This analysis used the IMPLAN v.3 model with type SAM multipliers.



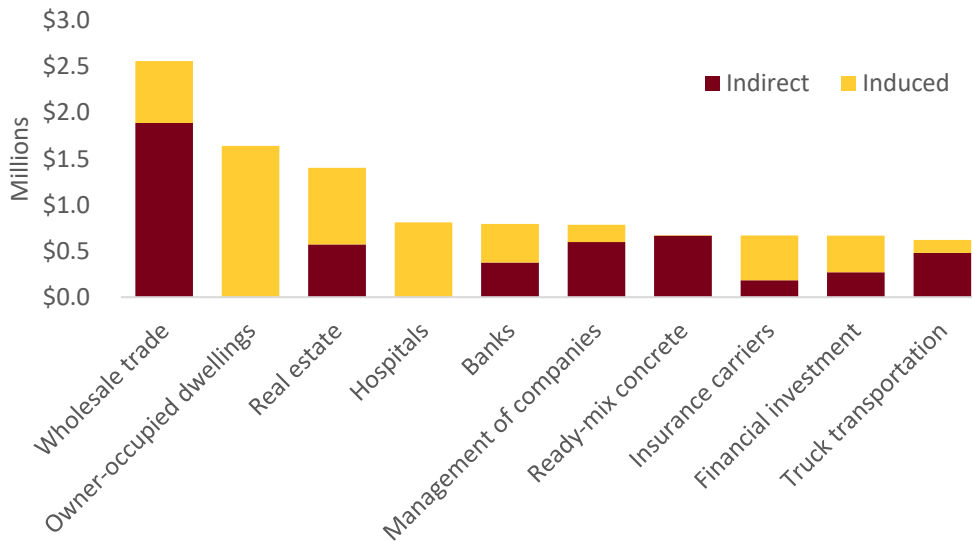
Project developers will receive \$6.7 million of Minnesota Historic Rehabilitation Tax credits or grants and an additional estimated \$6.7 million in federal historic tax credits upon successful completion of their planned projects. Given a total economic impact of \$66.4 million, this means that for every dollar of state tax credit or grant awarded, \$9.99 in economic activity will be generated in Minnesota. This \$9.99 includes the total investment by private developers, along with the indirect and induced effects of construction-related spending.

Top Sectors Impacted

The Minnesota Historic Rehabilitation Tax Credit supported an estimated \$66.4 million of economic activity in FY 2017. Of this, 56 percent was from direct construction activity. The remaining 44 percent was from supporting industries. Understanding the industries most affected by the credit can provide useful information about its benefit.

The highest output effects were in the wholesale trade, housing (owner-occupied dwellings and real estate), and hospital sectors (Chart 1).⁹ Projects undertaken by contractors will create approximately \$2.6 million in activity within the wholesale trade sector. Of this amount, roughly two-thirds is the result of spending by the contractors for supplies and services (indirect effects), and one-third is the result of spending by employees of the contracting firms (induced effects).

Chart 1: Top Sectors Impacted by the Minnesota Historic Rehabilitation Tax Credit, FY 2017, Sorted by Output



Not surprisingly, the highest *indirect* impacts were in the wholesale trade, banking, concrete manufacturing, and trucking sectors. These are primary components of the construction supply chain. Companies can often source these components within Minnesota, increasing the impact.¹⁰

⁹ “The wholesaling process is an intermediate step in the distribution of merchandise. Wholesalers are organized to sell or arrange the purchase or sale of (a) goods for resale (i.e., goods sold to other wholesalers or retailers), (b) capital or durable nonconsumer goods, and (c) raw and intermediate materials and supplies used in production.” — www.naics.com

¹⁰ The IMPLAN model estimates the percent of purchases made within the state. Purchases outside the state are leakages and do not create indirect or induced effects. Read more at <https://implanhelp.zendesk.com/hc/en-us/articles/115009674588-Regional-Purchase-Coefficients>.

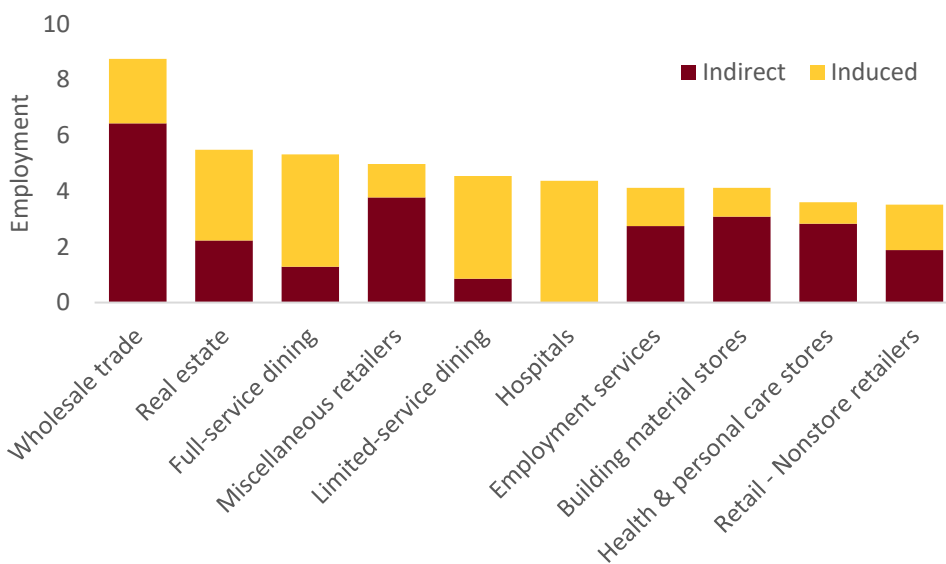
High *induced* impacts were in the housing market (both owner-occupied and rental), as well as health care (including hospital and insurance carriers). These results are indicative of average household spending, which is often concentrated in housing and health care.

The Minnesota Historic Rehabilitation Tax Credit supported an estimated 285 FTE jobs in Minnesota. The direct effect, at rehabilitation sites, totaled 130 jobs. Therefore, the tax credit supported an estimated 155 jobs in other sectors across the state.

The tax credit supported jobs in multiple sectors. Sectors most impacted by the credit include wholesale trade, real estate, and full-service dining. Dining is one of the top impacted sectors when measured by employment. However, it is not a top sector when measured by output. This is because dining often has a higher ratio of part-time employees.

Indirect employment impacts are highest within sectors related to the construction supply chain (e.g., wholesale suppliers, building materials, and retail trade). Induced employment impacts, on the other hand, are highest in sectors that provide goods and services to employees of the contractors (e.g., housing, health care, and dining).

Chart 2: Top Sectors Impacted by Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit, FY 2017, Sorted by Employment

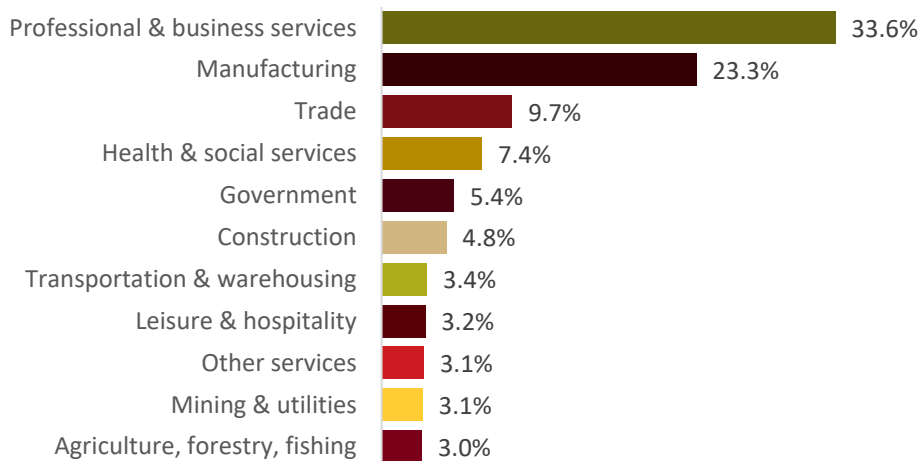


Fiscal Year 2017 Economic Impact in Context of Minnesota’s Economy

In fiscal year 2017, the Minnesota Historic Rehabilitation Tax Credit generated \$66.4 million of economic activity. In comparison, Minnesota’s economy produced \$649.3 billion of output.¹¹ The professional and business services sector generated approximately one-third of the state’s output (Chart 3).

¹¹ Data is for 2015, the most recent IMPLAN data available.

Chart 3: Percent of Output by Industry, Minnesota, 2015



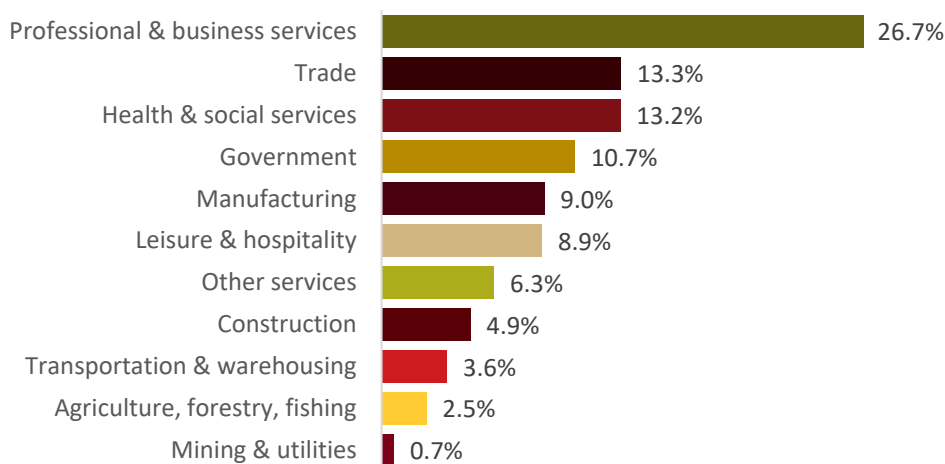
The construction industry generated around 5 percent of all output. This equates to \$31.3 billion. The tax credit, through direct construction effects, supported \$37.4 million of construction activity.

As mentioned, indirect and induced effects were strong in the trade, health care, and leisure and hospitality industries. Real estate is included in the professional and business services industry.

Results show the tax credit also supported 285 jobs in Minnesota. In comparison, Minnesota provided 3.7 million jobs.

Nearly one-third of these jobs were in the professional and business services industry (Chart 4). Other major industry employers include trade and health and social services.

Chart 4: Percent of Employment by Industry, Minnesota, 2015



The construction industry employed around 5 percent of Minnesota's workforce. There were approximately 181,000 jobs in the industry. The tax credit directly supported 130 of those jobs.

CASE STUDIES OF COMPLETED PROJECTS

Since the Minnesota Historic Rehabilitation Tax Credit became law, more than 100 properties have received initial approval. During its seven-year history, many projects have moved from Part II approval to completion. This section of the report highlights three completed projects.



Photo Credit: BKV Group

ADDRESS	301 Main Street SE Minneapolis, Minnesota
DATE BUILT	1881-1919
REHABILITATION	2012-2016
DEVELOPER	Dominium
ORIGINAL USE	Flour Mill
CURRENT USE	Affordable Live/Work Artist Lofts

Background

In 1879, flour-manufacturing titan, Charles A. Pillsbury, announced plans to build the largest and most advanced milling facility in the world. In 1880, construction began on the facility. In addition to its size and modern equipment, Pillsbury also placed an emphasis on design and visual appeal. Pillsbury hired architect LeRoy Buffington to oversee the project. Buffington's work featured Platteville limestone blocks and timber.

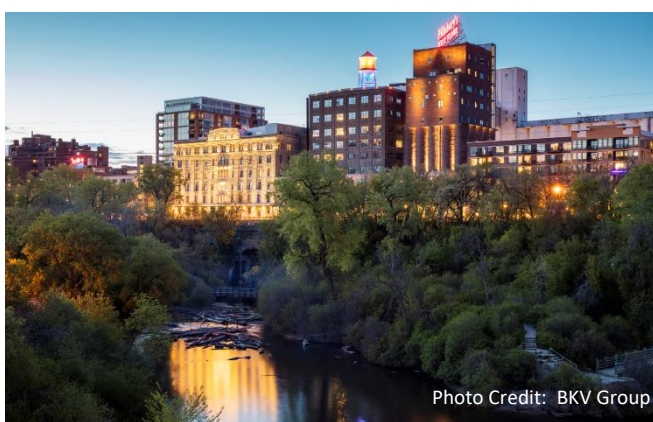
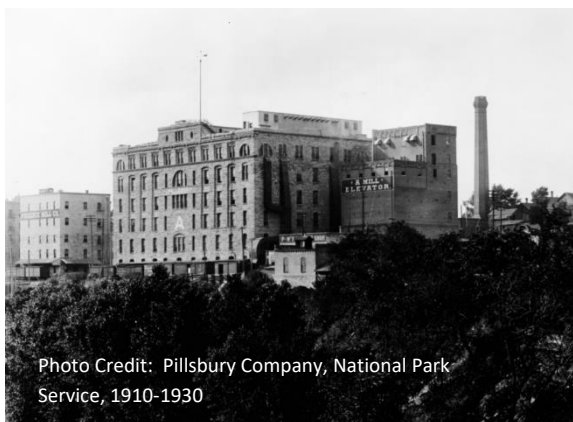
At maximum capacity in the 1890s, the mill could produce 9,000 barrels a day. By comparison, during this period, a large mill produced 500 barrels a day. The sheer size presented engineering challenges. While Buffington's skills resulted in an architecturally pleasing building, he had little experience in engineering such a facility. As a result, vibrations from the large equipment led to building damage. By the early 1900s, the mill added steel columns and beams to fortify the structure.

A defining feature of the building was the diversion of water to power the mill. The mill pulled water from nearby Saint Anthony Falls on the Mississippi River. The mill contained two powerful direct-drive waterwheels.

Rehabilitation work focused on converting interior space into studio, one, two, and three bedroom apartments. Also featured in the building are artist work spaces, including studios for clay art, painting, photography, and dance.



The work also preserved the subterranean hydropower infrastructure, repointed the exterior stonework, and repaired and replaced floor joists. Focus was placed on preserving the mill history, including suspending the original flour bins from the ceiling.¹²



Project Financing and Economic Impact

Dominium received initial approval for the project in FY 2012. At the time, it estimated project costs qualifying for the tax credit would be \$113 million. The estimated state tax credit based on that investment was \$19.8 million. In addition to historic tax credits, the Pillsbury A project also received the Low Income Housing Tax Credit (LIHTC).¹³ The two credits were paired to make this project feasible.

On November 13, 2015, the project was completed when the Pillsbury “A” Mill building was placed into service. Dominion reported spending a total \$180.9 million, of which \$170.7 million were costs qualifying for the tax credit (Table 4). In the end, the project received \$34.1 million in state tax credits.

During rehabilitation, the Pillsbury “A” Mill project generated an estimated \$333.7 million of economic activity. As a result, for each dollar of state tax credit invested, the project created \$9.90 of activity. This includes private investments by the developer and the induced and indirect effects generated by the project.¹⁴

In addition to economic activity, the project also increased the property value of the building. Before rehabilitation, the property value was \$3.5 million. Upon project completion, the property value increased by 1,226 percent to \$46.4 million.


¹² Summary drawn from the National Trust for Historic Preservation (<https://savingplaces.org/stories/from-endangered-to-enviable-pillsbury-a-mill-complex#.WcqaCKhSxPY>), Dominion Properties (<http://www.a-millartistlofts.com/about/#history>), and Wikipedia (https://en.wikipedia.org/wiki/Pillsbury_A-Mill).

¹³ For more the LIHTC in Minnesota, visit www.mnhousing.gov.

¹⁴ The ratio of total economic activity per dollar of tax credit can vary, depending on the nature of the project. Two factors influence the ratio. One, the amount of additional investment by the developer (beyond the tax credit). Two, the nature of the project and the type of spending influence the magnitude of indirect and induced impacts.

Table 4: Project Financing and Economic Impact of the Pillsbury “A” Mill Building

Total Final Project Costs (millions)	\$180.9
Total Qualifying Rehabilitation Costs (millions)	\$170.7
State Tax Credit (millions)	\$34.1
Economic Impact of Construction (millions)	\$333.7
Total Economic Activity Per Dollar of Tax Credit	\$9.90
Property Value 2012 (millions)	\$3.5
Property Value 2017 (millions) ¹⁵	\$46.4



FERGUS FALLS
STATE HOSPITAL

ADDRESS	1447 & 1628 Patterson Loop Fergus Falls, Minnesota
DATE BUILT	1888-1912
REHABILITATION	2014-2016
DEVELOPER	Campus Development Group
ORIGINAL USE	Medical
CURRENT USE	Apartments

Photo Credit: Campus Development Group

Background

Toward the end of the 1880s, Minnesota’s two mental health hospitals were located in St. Peter and Rochester. They were overcrowded. The State Board of Health commissioned a third hospital in Fergus Falls. Construction on the Fergus Falls State Hospital started in 1888. While several detached buildings were completed in time for the official opening, the main building and wings were completed by 1912.

Aesthetics were critical to the building and campus design. During this period, a physician named Thomas Kirkbride designed hospitals for patients with mental health issues. A key tenant of his design were uniform and precise buildings. Also critical to the improvement of mental health, in Kirkbride’s theory, was the role of occupational training. Exercise, farming, entertainment, sewing, and reading were all encouraged in a patient’s treatment.

¹⁵ Property value is estimated market value. Property tax values accessed via City of Minneapolis PropertyInfo. Listed in property tax records as 100 3rd Ave SE.

The Fergus Falls State Hospital was built on Kirkbride’s founding principles. The result was a sprawling campus of 650 acres. In keeping with those principles, the hospital added buildings as the number of patients increased and needs evolved. In many ways, the hospital became its own community with a fully functional farm, gardens, and orchards. At its peak, the campus had more than 50 buildings, including specialized hospital structures, staff quarters, barns, and outbuildings. The buildings included a variety of architectural styles that ranged from Romanesque to Tudor Revival and from Craftsman to modernism of the postwar era.

After its initial founding, the number of patients at the facility grew quickly. Originally designed to accommodate 1,000 patients, the facility reached more than 2,000 patients in the late 1930s. Subsequent changes in approaches to mental health treatment led to a slow decline in the number of patients at the hospital. It officially closed in 2005.

In 2007, the State of Minnesota sold the facility to the City of Fergus Falls. Since then, the city, along with dedicated supporters, has worked to redevelop the site. The Campus Development Group (affiliated with a Fargo-based real estate firm) purchased several of the former staff quarter buildings for rehabilitation. With the historic rehabilitation tax credit, the group rehabilitated employee dormitories into the Campus View Apartments.¹⁶

Project Financing and Economic Impact

The Campus Development Group received initial approval for the project in FY 2015. At the time, the developer estimated project costs to be \$1.6 million. Based on this, the applicable state tax credit was estimated at \$305,000.

The project ended on December 1, 2016 when the Campus Development Group placed the Fergus Falls State Hospital Buildings 5 (1447 Patterson Loop) and 6 (1628 Patterson Loop) into service. Upon project completion, the developer reported total spending of \$3.9 million on the project, of which \$3.7 million were costs qualifying for the tax credit (Table 5). As a result, the Campus Development Group received \$738,700 in state tax credits.

The project generated an estimated \$7.9 million in economic activity during the rehabilitation phase. For every one dollar of tax credit invested, the project generated \$10.70 of economic activity.¹⁷

Table 5: Project Financing and Economic Impact of Fergus Falls State Hospital, Buildings 5 & 6

Total Final Project Costs (millions)	\$3.9
Total Qualifying Rehabilitation Costs (millions)	\$3.7
State Tax Credit (millions)	\$0.74
Economic Impact of Construction (millions)	\$7.9
Total Economic Activity Per Dollar of Tax Credit	\$10.70

¹⁶ Summary drawn from National Park Service (<https://www.nps.gov/places/fergus-falls-state-hospital.htm>), Imagine Fergus Falls (<http://imaginefergusfalls.tumblr.com/kirkbride>), The Daily Journal (<http://www.fergusfallsjournal.com/2016/10/kirkbride-bldg-tour-prepares-officials/>), Inforum (<http://www.inforum.com/news/3712290-apartment-building-opens-kirkbride-complex-fergus-falls>), Campus View Apartments (<http://www.campusviewff.com/>), and Wikipedia (https://en.wikipedia.org/wiki/Fergus_Falls_Regional_Treatment_Center).

¹⁷ The ratio of total economic activity per dollar of tax credit includes private developer investment, as well as the indirect and induced effects. Property tax data was not included for this property. The Fergus Falls Hospital property has historically been government-owned and thus exempt from property taxes, making establishing property values difficult for this case study.



Photo Credit: PVN

ADDRESS	2389-2401 University Ave W 759-767 Raymond Ave Saint Paul, Minnesota
DATE BUILT	1910, 1917
REHABILITATION	2015-2016
DEVELOPER	Brown Family Properties
ORIGINAL USE	Commercial
CURRENT USE	Mixed Use

Background

Real estate agent and St. Paul businessperson, E.A. Upham, developed the Upham Building located on University and Raymond Avenues in St. Paul. Building design included commercial space on the lower level and apartments on the upper levels. Construction of the building occurred in 1910, with an expansion in 1917. Architect Olin Round designed the building. Round’s influences included progressive designers of the era, including Frank Lloyd Wright and Purcell & Elmslie.

A variety of tenants have occupied the Upham Building. In the early years, the University Avenue side featured a drug store, chemical laboratory, and the Clark-Rishoff Company, a printing operation. A post office also occupied a Raymond Avenue storefront.

The building received some notoriety in 1917 when federal agents investigated reports of antigovernment propaganda being printed and distributed in the building. At the time, a faction of the Machinists Union had office space in the building. Agents, while listening in on conversations, uncovered plans for a statewide strike resulting from disagreements over a streetcar company.

In the late 1920s, the building became known as the Security Building. In 1930, the building was home to three physicians, a dentist, four window display companies, three unions, and the Twin City Milk Producers Association.¹⁸

Today the Security Building is a mixed-use building with storefronts, offices, and apartments. Using historic tax credits, the building underwent significant masonry work on the exterior. These were substantive maintenance investments in the building.

¹⁸ Summary drawn from the The 106 Group Company (<https://metro council.org/METC/files/2a/2aa41b36-cf8c-44a3-8b73-ff1092bcbf5f.pdf>) and the Minnesota Historical Society (<http://collections.mnhs.org/mnhistorymagazine/articles/50/v50i01p002-017.pdf>).





Project Financing and Economic Impact

During FY 2016, Brown Family Properties received approval to begin the Upham Building project. In the initial application, the developer estimated project costs at \$212,300. Based on this, the potential state tax credit was estimated at \$42,500 (Table 6).

The project ended on November 21, 2016 when the Upham Building was placed into service. Upon project completion, the developer reported spending \$295,000, all of which qualified for the tax credit. Brown Family Properties received \$59,000 in state tax credits.

Based on these final reported expenditures, the project generated an estimated \$544,000 in economic activity during the rehabilitation phase. For every one dollar of tax credit invested, the project generated \$9.20 of economic activity.¹⁹

Property values also increased because of rehabilitation. Prior to the project, the property value was \$1.4 million (2014 taxes value based on 2013 assessment). Upon project completion, the property value increased by 28 percent to \$1.8 million.

Table 6: Project Financing and Economic Impact of Upham Building

Total Project Cost (millions)	\$0.295
Total Qualifying Rehabilitation Costs (millions)	\$0.295
State Tax Credit (millions)	\$0.059
Economic Impact of Construction (millions)	\$0.544
Total Economic Activity Per Dollar of Tax Credit	\$9.20
2014 Property Tax Value (millions)	\$1.4
2018 Property Tax Value (millions) ²⁰	\$1.8

¹⁹ The ratio of total economic activity per dollar of tax credit includes private developer investment, as well as the indirect and induced effects.

²⁰ Property tax value is estimated market value. Retrieved from <https://www.ramseycounty.us/residents/property-home/property-tax-and-value-lookup>.

SUMMARY OF PAST RESEARCH

University of Minnesota has quantified the economic contribution of the tax credit since 2011. This section compiles seven years of results for a comprehensive look at its impact.²¹

Total Impacts: Fiscal Years 2011 to 2017

The Minnesota Historic Rehabilitation Tax Credit generated an estimated \$2.2 billion (in 2017 dollars) of output in the state’s economy between FY 2011 and FY 2017 (Table 7). The credit supported an estimated 12,926 FTE jobs and generated \$745.1 million in labor income. During the same period, the projects receiving approval requested state credits and grants totaling \$231.7 million.²² For every state dollar of tax credit or grant allowed during the seven years, \$9.60 (in 2017 dollars) in economic activity was generated in Minnesota.

The Minnesota Historic Rehabilitation Tax Credit has supported \$2.2 billion of economic activity since fiscal year 2011.

Direct effect is included in total impact. Directly, the tax credit has leveraged an estimated \$1.2 billion (in 2017 dollars) in construction activity since its inception. This includes 6,674 FTE construction jobs and \$398.9 million in payments to construction workers. These are direct impacts of the tax credit.

Table 7: Total Economic Impact of Projects Leveraged by the Minnesota Historic Rehabilitation Tax Credit, Fiscal Years 2011 to 2017

	Direct	Indirect	Induced	Total
Output (millions 2017 dollars)	\$1,221.6	\$471.9	\$532.3	\$2,225.8
Employment (FTE’s)	6,674	2,771	3,481	12,926
Labor Income (millions 2017 dollars)	\$398.9	\$168.2	\$178.0	\$745.1

Estimates by the University of Minnesota Extension Center for Community Vitality

Total Impacts by Fiscal Year

Table 8 details the economic impact of the Minnesota Historic Rehabilitation Tax Credit by fiscal year. The impact can vary by year, based on the proposed investments by developers. In certain years—FY 2012, for example—developers received approval for projects with direct investments of \$292.4 million. This amount leveraged a total economic impact of \$558.7 million. In fiscal year 2017, developers received approval for projects with a direct investment of \$37.4 million, leveraging \$66.4 million in economic activity.

The differences in total direct effect can vary based on several factors. First, the number of projects being submitted matters. In fiscal year 2012, there were 16 projects receiving initial approval from the State Historic Preservation Office. Second, the size of the projects affects the direct effect. In some years, large projects receive Part A approval. Finally, timing matters. Receiving approval

²¹ Full reports detailing the analysis by fiscal year are available at <http://www.extension.umn.edu/community/economic-impact-analysis/reports/>.

²² These are estimated tax credits and grants, given the applications submitted and are distributed over time. Final tax credits and grants are not awarded until projects are completed.

depends on submitting written documentation. There may be years where projects are pending but have not yet received full approval.

Table 8 shows the current, most accurate economic impact figures by fiscal year. On occasion, a project shifts from one year to another. Since Extension has been analyzing the credit, this has happened twice. In 2011, a project shifted from the 2011 project year to 2012. The figures in Table 8 reflect this (and thus do not match the 2011 report). In 2016, due to oversight, a project was not included in the analysis. We have corrected this error, so the 2016 figure is higher than the number published in the previous report.

Table 8: Total Economic Impact of Projects Leveraged Between Fiscal Year 2011 and FY 2017 by the Minnesota Historic Rehabilitation Tax Credit

	Output (millions, 2017 \$)	Employment (FTEs)	Labor Income (millions, 2017 \$)
FY 2011	\$472.9	2,880	\$158.1
FY 2012	\$597.8	3,502	\$193.1
FY 2013	\$145.7	1,200	\$48.8
FY 2014	\$246.7	1,338	\$89.4
FY 2015	\$467.4	2,607	\$164.1
FY 2016	\$228.8	1,115	\$71.4
FY 2017	\$66.4	285	\$20.0
Total	\$2,225.8	12,926	\$745.0

Estimates by the University of Minnesota Extension
Center for Community Vitality

APPENDIX 1: DEFINITION OF TERMS

Special models, called input-output models, exist to conduct economic impact analysis. There are several input-output models available, and IMPLAN (Impact Analysis for PLANning, MIG, Inc.) is one such model. Many economists use IMPLAN for economic contribution analysis because it can measure output and employment impacts, is available on a county-by-county basis, and is flexible for the user. While IMPLAN has some limitations and qualifications, it is one of the best tools available to economists for input-output modeling. Understanding the IMPLAN tool's capabilities and limitations helps ensure the best results from the model.

One of the most critical aspects of understanding economic impact analysis is the distinction between the "local" and "non-local" economy. The model-building process identifies the local economy. Either the group requesting the study or the analyst defines the local area. Typically, the study area (the local economy) is a county or a group of counties that share economic linkages. In this report, the study area is the entire state of Minnesota.

A few definitions are essential to properly interpret the results of an IMPLAN analysis. These terms and their definitions are provided below.

Output

Output is measured in dollars is equivalent to total sales. The output measure can include significant "double counting." Think of limestone, for example. The value of limestone is counted when it is sold as a component in the manufacturing of cement, again when the cement is sold to the contractor, and yet again when the contractor charges the building owner. The value of the limestone is built into the price of each of these items, and then the sale of each item is added to determine total sales (or output).

Employment

IMPLAN includes total wage and salaried employees, as well as the self-employed, in employment estimates. Because employment is measured in jobs and not in dollar values, it tends to be a very stable metric.

Labor Income

Labor income measures the value added to the product by the labor component. So, in the limestone example, when the limestone is sold to the cement manufacturing company, a certain percentage of the sale is for the labor to quarry the limestone. Then when the cement is sold to the contractor, it includes some markup for its labor costs in the price. When the contractor charges the building owner, he/she includes a value for the labor. These individual value increments for labor can be measured, which amounts to labor income. Labor income does *not* include double counting.

Labor income includes both employee compensation and proprietor income. It is measured as wages, salaries, and benefits.

Direct Impact

Direct impact is equivalent to the initial activity in the economy. In this study, it is construction spending generated by projects leveraged by the Minnesota Historic Rehabilitation Tax Credit.



Indirect Impact

The indirect impact is the summation of changes in the local economy that occur due to spending for inputs (goods and services) by the industry or industries directly impacted. For instance, if employment in a manufacturing plant increases by 100 jobs, this implies a corresponding increase in output by the plant. As the plant increases output, it must also purchase more inputs, such as electricity, steel, and equipment. As the plant increases purchases of these items, its suppliers must also increase production, and so forth. As these ripples move through the economy, they can be captured and measured. Ripples related to the purchase of goods and services are indirect impacts. In this study, indirect impacts are those associated with spending by the developers to purchase construction materials (lumber, cement, equipment, and so forth) and construction-related services (i.e., architectural and engineering).

Induced Impact

The induced impact is the summation of changes in the local economy that occur due to spending by labor—that is, spending by employees in the industry or industries directly impacted. For instance, if employment in a manufacturing plant increases by 100 jobs, the new employees will have more money to spend on housing, groceries, and going out to dinner. As they spend their new income, more activity occurs in the local economy. This can be quantified and is called the induced impact. Primarily, in this study, the induced impacts are economic changes related to spending by construction workers hired to perform the rehabilitation work.

Total Impact

The total impact is the summation of the direct, indirect, and induced impacts.