OFFICE OF AUDITOR OF STATE

STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

Contact: Mary Mosiman
515/281-5835
or Tami Kusian
515/281-5834

FOR RELEASE March 18, 2015

Auditor of State Mary Mosiman today released a report on the Historic Preservation and Cultural and Entertainment District Tax Credit program (HPTC program) administered by the State Historic Preservation Office (SHPO) within the State Historical Society of Iowa, a division of the Department of Cultural Affairs, for the period July 1, 2000 through June 30, 2013. The review was conducted in conjunction with the audit of the financial statements of the State of Iowa and in accordance with Chapter 11 of the *Code of Iowa* to identify all tax credit programs administered by the State and review a selected number of tax credit programs to determine whether tax credits awarded meet the intent of the programs, return on investment (ROI) is calculated and evaluated, and administration of the programs complies with applicable *Code* sections.

Mosiman reported the HPTC program was established in July 2000 under Chapter 404A of the *Code of Iowa* and Chapter 223-48 of the Iowa Administrative Code (IAC) to encourage the rehabilitation of historic properties throughout the State. Section 404A.4(4) of the *Code of Iowa* establishes the maximum Historic Preservation and Cultural and Entertainment District (HP) tax credits available for a given fiscal year, which is allocated among 5 rehabilitation project types, as follows:

- Cultural and entertainment districts (CEDs) and Iowa Great Places (GP) – 30% is allocated for projects located in a certified CED or a project identified in an Iowa GP agreement,
- Disaster recovery – 20% is allocated for projects located in areas declared as disaster areas by the Governor of Iowa or by the President of the United States,
- New permanent jobs – 20% is allocated for projects involving the creation of more than 500 new permanent jobs within 2 years from the date the HP tax credit certificate is issued,
- Statewide – 20% is allocated for other eligible projects located throughout the State, and
- Small – 10% is allocated for projects with final rehabilitation costs totaling $500,000 or less.

The primary requirement for any eligible project, regardless of project type, is the inclusion of the property on the National Register of Historic Places, the designation of the property as a building contributing to historic significance, the designation of the property or district as a local landmark or the identification of the property as a barn constructed prior to 1937.

The maximum HP tax credits authorized by the Legislature, total reserved HP tax credits and total unreserved HP tax credits as of June 30 for fiscal years 2001 through 2015 are as follows:

Fiscal Year	**Maximum Authorized Tax Credits**	**Total Reserved Tax Credits**	**Total Unreserved Tax Credits**
2001	$ 2,400,000	2,400,000	-
2002	2,400,000	2,400,000	-
2003	2,400,000	2,400,000	-
2004	2,400,000	2,400,000	-
2005	2,400,000	2,325,000	75,000*
2006	6,400,000	6,400,000	-
2007	6,400,000	6,400,000	-
2008	10,000,000	10,000,000	-
2009	15,000,000	14,966,069	33,931*
2010	50,000,000	49,307,282	692,718*
2011	50,000,000	49,875,000	125,000*
2012	50,000,000	47,466,729	2,533,271*
2013	45,000,000	40,229,886	4,770,114^
2014	45,000,000	40,485,404	4,514,596^
2015	45,000,000	40,286,771	4,713,229^
Total	$ 334,800,000	317,342,141	17,457,859
Expired unreserved tax credits			(3,459,920)
Total unreserved tax credits as of June 30, 2013			$13,997,939

* - Unreserved tax credits which expired in accordance with the 3-year limitation established by section 404A.4(4)(e) of the *Code*.
^ - Unreserved tax credits as of June 30, 2013 for fiscal years 2013 through 2015.

Mosiman reported the SHPO has only utilized the new permanent jobs project type once since its inception in fiscal year 2010. According to a representative of the SHPO, the project type was created almost exclusively for a specific vendor as an incentive to rehabilitate the Roshek Building in Dubuque and create over 500 jobs upon completion of the project. Of the $20 million allocated to the new permanent jobs project type in fiscal years 2010 and 2011, the SHPO reserved $10,666,022 for the Roshek Building project. As a result, $9,333,978 of the $20 million allocated to the new permanent jobs project type was unreserved as of June 30, 2011 and was subsequently reallocated to other project types in accordance with section 404A.4(4)(c) of the *Code of Iowa*. According to a report prepared by the National Park Service on federal tax incentives in fiscal year 2012, the Roshek Building project was considered a successful rehabilitation project resulting in the creation of 1,000 new jobs at the vendor receiving the incentive and 40 new jobs at other tenants in the building.

Mosiman also reported the SHPO has not consistently completed the annual reports for each fiscal year required by section 404A.5 of the *Code of Iowa*. As a result, the Legislature, the Legislative Services Agency (LSA), the Legislative Tax Expenditure Committee (Committee) and the Iowa Department of Revenue (IDR) did not have the information necessary to evaluate the economic impact of the HPTC program and calculate ROI. In 2005, the Legislature directed the IDR to perform periodic evaluations of the various tax credits administered by the State, and the Committee was formed in 2010 by section 2.48 of the *Code of Iowa* to calculate the ROI for each of the State's tax credits at least every 5 years to determine whether the benefits of the tax credits are worth the State's cost of providing the tax credits. In May 2014, SHPO hired an independent consultant to review the economic impact of the HPTC program, and a report was provided to SHPO. Subsequently, IDR, in conjunction with SHPO, prepared a preliminary HPTC program report, which was submitted to the Committee for review in December 2014. While the report addresses the economic impact of the HPTC program, the economic model used includes significant assumptions, and the report acknowledges the existence of significant limitations makes further study necessary. Based on our procedures, ROI is not currently calculated for the HPTC program, and there is no comprehensive method in place to measure its success.

In addition, Mosiman reported recipients of HP tax credits are able to transfer the HP tax credits awarded to any person or entity. The ability to transfer the HP tax credits complicates tracking by the IDR and creates uncertainty about when the HP tax credits will be claimed. However, according to a representative of the IDR, the ability to transfer HP tax credits provides applicants immediate access to the funds to satisfy obligations incurred during the project. In addition, while other tax credits are able to be transferred at any time, recipients of HP tax credits do not receive the HP tax credit certificate until the project has been certified as complete. As a result, the SHPO can ensure the project has met specifications prior to issuance of the HP tax credit certificate.

Although site visits are performed, a representative of the SHPO stated not as many site visits have been performed recently due to limitations in staffing combined with an increased work load resulting from an increase in HPTC program applications. In addition, the SHPO does not have established written policies and procedures for conducting site visits, and there is no method in place to monitor site visits to determine which projects have been visited and the frequency of visits. As a result, SHPO personnel are not able to observe the impact of the projects on the surrounding communities.

Mosiman recommended the SHPO, in consultation with the Legislature, consider revising section 404A.4 of the *Code of Iowa* and rules 223-48.7 and 228-48.13 of the IAC to discontinue the new permanent jobs project type. Mosiman also recommended the SHPO submit the required annual reports on the HPTC program to the Legislature and the LSA, as required by section 404A.5 of the *Code of Iowa*. In addition, Mosiman recommended the SHPO and the IDR ensure the economic impact data collected for the HPTC program supports the calculation of ROI and verify the information provided to ensure the accuracy of future ROI calculations performed by the Committee.

A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at http://auditor.iowa.gov/specials/1060-8990-B0P4.pdf.

# # #

A REVIEW OF THE HISTORIC PRESERVATION AND CULTURAL AND ENTERTAINMENT DISTRICT TAX CREDIT PROGRAM ADMINISTERED BY THE STATE HISTORIC PRESERVATION OFFICE WITHIN THE STATE HISTORICAL SOCIETY OF IOWA, A DIVISION OF THE DEPARTMENT OF CULTURAL AFFAIRS

FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2013

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OFFICE OF AUDITOR OF STATE

STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Auditor's Transmittal Letter

To the Governor, Members of the General Assembly
and the Director of the Department of Cultural Affairs:

In conjunction with our audit of the financial statements of the State of Iowa and in accordance with Chapter 11 of the *Code of Iowa,* we have conducted a review of the Historic Preservation and Cultural and Entertainment District Tax Credit program (HPTC program) administered by the State Historic Preservation Office (SHPO) within the State Historical Society of Iowa, a division of the Department of Cultural Affairs (DCA), for the period July 1, 2000 through June 30, 2013. We reviewed the HPTC program to determine whether the Historic Preservation and Cultural and Entertainment District (HP) tax credits awarded meet the intent of the program, return on investment (ROI) is calculated and evaluated, and administration of the HPTC program complies with Chapter 404A of the *Code of Iowa* and Chapter 223-48 of the Iowa Administrative Code (IAC). In conducting our review, we performed the following procedures:

(1) Obtained a listing of all tax credit programs currently administered by the State and reviewed the programs' descriptions to determine the nature and intent of the available tax credits.

(2) Reviewed the "State of Iowa Agency Reports on Tax Credits" prepared by the Department of Management, in consultation with other state agencies, to determine which state agencies are responsible for administering tax credits, which tax credits had sunset dates and subsequent disposition of the tax credits.

(3) Interviewed personnel from the SHPO and the Iowa Department of Revenue (IDR) and reviewed applicable laws, rules and guidelines to gain an understanding of the HPTC program and determine if ROI is measured for the HPTC program.

(4) Interviewed personnel from the SHPO to determine the intended purpose of the HPTC program and identify the monitoring and evaluation procedures implemented for HP tax credits awarded under Chapter 404A of the *Code of Iowa* and Chapter 223-48 of the IAC.

(5) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.

(6) Reviewed tax credit reports and other relevant information available from IDR's Tax Credits Tracking and Analysis System (TCTAS), such as "Iowa's Historic Preservation and Cultural and Entertainment District Tax Credit Program Evaluation Study March 2009" and the "Tax Credits Users' Manual: A Descriptive Guide to Iowa's Tax Credits" to determine the extent and results of previous evaluations of the HPTC program and ROI.

(7) Tested selected projects for compliance with Chapter 404A of the *Code of Iowa* and Chapter 223-48 of the IAC and reviewed the selected projects to determine if the intended purpose of the rehabilitation was met.

(8) Tested selected projects to determine the use of the building before and after the rehabilitation and to determine if project files contained sufficient documentation, as required by the *Code of Iowa*, the IAC, and other relevant guidelines.

(9) Reviewed HP tax credit allocations and reserves by project type to determine if the SHPO allocates and reserves the maximum HP tax credits in accordance with section 404A.4(4) of the *Code of Iowa*.

(10) Examined annual reports completed by the SHPO to determine compliance with section 404A.5 of the *Code of Iowa*.

Based on these procedures, we determined the SHPO has only utilized the new permanent jobs project type once since its inception in fiscal year 2010. According to a representative of the SHPO, the project type was created almost exclusively for a specific vendor as an incentive to rehabilitate the Roshek Building in Dubuque and create over 500 jobs upon completion of the project. Of the $20 million allocated to the new permanent jobs project type in fiscal years 2010 and 2011, the SHPO reserved $10,666,022 for the Roshek Building project. As a result, $9,333,978 of the $20 million allocated to the new permanent jobs project type was unreserved as of June 30, 2011 and was subsequently reallocated to other project types by the SHPO in accordance with section 404A.4(4)(c) of the *Code of Iowa*.

We also determined the SHPO has not consistently completed the required annual reports for each fiscal year in accordance with section 404A.5 of the *Code of Iowa*. As a result, the Legislature, the LSA, the Legislative Tax Expenditure Committee (the Committee) and the IDR did not have the information necessary to evaluate the economic impact of the HPTC program and calculate ROI. The Committee is required by section 2.48 of the *Code of Iowa* to calculate the ROI for each of the State's tax credits at least every 5 years. In May 2014, SHPO hired an independent consultant to review the economic impact of the HPTC program, and a report was provided to SHPO. Subsequently, IDR, in conjunction with SHPO, prepared a preliminary HPTC program report, which was submitted to the Committee for review in December 2014. While the report attempts to address the economic impact of the HPTC program, the economic model used includes significant assumptions, and the report acknowledges the existence of significant limitations makes further study necessary. Based on our procedures, ROI is not currently calculated for the HPTC program, and there is no comprehensive method in place to measure its success.

In addition, although site visits are performed, a representative of the SHPO stated not as many site visits have been performed recently due to limitations in staffing combined with an increased work load resulting from an increase in HPTC program applications. In addition, the SHPO does not have established written policies and procedures for conducting site visits, and there is no method in place to monitor site visits to determine which projects have been visited and the frequency of visits. As a result, SHPO personnel are not able to observe the impact of the projects on the surrounding communities.

We have developed certain recommendations and other relevant information we believe should be considered by the Governor, the General Assembly, and the Department of Cultural Affairs.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the Department of Cultural Affairs and the Iowa Department of Revenue throughout our review.

Mary Mosiman

MARY MOSIMAN, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 18, 2014

Introduction

According to the "Tax Credits Tracking and Analysis System Report to the General Assembly December 2005" prepared by the Iowa Department of Revenue (IDR), "Many of the programs that are funded through the use of tax credits have annual reporting requirements. The requirements, however, are not consistent across all programs. There is currently no means to efficiently match information related to the awarding and claiming of tax credits. These deficiencies in existing monitoring and reporting systems make it difficult to account for the amounts of State tax revenue foregone because of the different types of tax credits. Evaluating the effectiveness of the tax credit programs in promoting the goals for which they were created is even more difficult."

Because these deficiencies existed prior to December 2005, the Legislature authorized the IDR to establish the Tax Credits Tracking and Analysis System (TCTAS) to track tax credit awards and claims. The goal of TCTAS is to provide a central repository for information concerning the award, use and effectiveness of tax credits. In addition, the IDR was directed by the Legislature to perform periodic evaluations of the various tax credits administered by the State. As a result, the IDR implemented the "IA 148 Tax Credits Schedule" in calendar year 2006. Many of the State's tax credits are claimed by taxpayers on this schedule, including Historic Preservation and Cultural and Entertainment District (HP) tax credits, which allows the IDR to identify the various tax credits claimed by taxpayers. Tax credits allow taxpayers to reduce their tax liability by applying tax credits against individual income tax and/or corporate income tax owed. Tax credits, such as Child and Dependent Care, Earned Income, and Tuition and Textbook, are claimed on a separate line on a taxpayer's tax return and are not included on the "IA 148 Tax Credits Schedule."

The IDR also implemented the "Tax Credits Users' Manual: A Descriptive Guide to Iowa's State Tax Credits" (Manual). The Manual includes references to the applicable sections of the *Code of Iowa* authorizing each of the 36 tax credits currently administered by the State, the related administrative rules, the year enacted or modified, a program description, any certification requirements and other relevant information, such as transferability provisions and which tax credits are refundable. **Appendix A** includes a brief summary of each tax credit program currently administered by state agencies and the State's community colleges, except the Historic Preservation and Cultural and Entertainment District Tax Credit program (HPTC program), which is discussed in this report.

On November 19, 2009, Governor Culver requested a review of all state tax credits as a result of concerns identified with the Film, Television and Video Production Promotion Program. The Directors of each state agency responsible for the administration of a tax credit were directed to submit a review of their Department's tax credits and join the Tax Credit Review Panel (Panel), along with the Department of Management. All tax credits were reviewed to address oversight, accountability, transparency, public reporting, cost-benefit, transferability, refundability, and which tax credits should be continued, modified, and/or eliminated. The Panel issued a report dated January 8, 2010 which included an in-depth review of all existing tax credits. **Appendix B** includes definitions of key terms and a brief summary of the findings and recommendations included in the Panel's report.

In addition, at the request of Governor Culver and the Iowa Economic Development Authority (IEDA), formerly known as the Department of Economic Development, the Office of Auditor of State conducted a review of the Film, Television and Video Production Promotion Program administered by the Film Office within the IEDA for the period May 14, 2007 through September 21, 2009. The request was made as a result of concerns regarding certain expenditures and investments in certain films, television, and video projects for which tax credit certificates were issued. The special investigation report on the Film, Television, and Video Production Promotion Program was issued on October 26, 2010. Because of the significant concerns identified in that report, we judgmentally selected other tax credit programs administered by the State for review.

Historic Preservation – The focus of this report is the HPTC program, formerly known as the Property Rehabilitation tax credit, authorized by Chapter 404A of the *Code*, effective July 1, 2000 for qualified rehabilitation costs incurred on or after July 1, 2000. The State Historic Preservation Office (SHPO) within the State Historical Society of Iowa, a division of the Department of Cultural Affairs (DCA), is responsible for administering the HPTC program. The purpose of the HPTC program is to encourage rehabilitation of historic properties throughout the State by providing a 25% HP tax credit for investments made by corporations or individuals in the rehabilitation of eligible historic properties. To administer the authorized HP tax credits and regulations specified in the *Code*, the SHPO established Chapter 48, "Historic Preservation and Cultural and Entertainment District Tax Credits," within the Iowa Administrative Code (IAC) [223] Historical Division.

HP tax credits may be claimed against individual income tax, corporate income tax, franchise tax, or insurance premium tax. According to section 404A.1(2) of the *Code*, eligible property for which a taxpayer may receive an HP tax credit under the HPTC program includes:

- property listed, or eligible to be listed, on the National Register of Historic Places,
- property designated, or eligible to be designated, as a place of "historic significance" to a district listed in the National Register of Historic Places,
- property or a district designated as a local landmark by city or county ordinance, or
- a barn constructed prior to 1937.

On an annual basis, the Legislature approves the maximum HP tax credits which may be reserved by the SHPO for the HPTC program and periodically approves increases or decreases to the maximum based on the number of rehabilitation project applications received by the SHPO in a fiscal year. The SHPO is required to allocate the maximum HP tax credits for each fiscal year to the 5 rehabilitation project types in accordance with section 404A.4(4) of the *Code* and rule 223-48.7 of the IAC, as follows:

- Cultural and Entertainment Districts (CEDs) and Iowa Great Places (GP) – 30% is allocated for projects located in a CED certified in accordance with section 303.3B of the *Code* or for projects identified in an Iowa GP agreement developed in accordance with section 303.3C of the *Code*. A CED is a well-recognized, labeled, mixed-use, compact area of a community in which a high concentration of cultural facilities serves as the anchor established to encourage city and county governments to partner with local community nonprofit or for-profit organizations, businesses and individuals to enhance the quality of life for citizens of the State. The Iowa GP program was authorized by the Legislature in 2005 to allocate resources of state government to invigorate and invest in the infrastructure and cultural attractions of Iowa towns and neighborhoods.
- Disaster recovery – 20% is allocated for projects located in an area declared a disaster area by the Governor of Iowa or the President of the United States. The eligible property must have been physically impacted as a result of the natural disaster as documented in accordance with the current SHPO forms and instructions.
- New permanent jobs – 20% is allocated for projects involving the creation of more than 500 new permanent jobs within 2 years from the date the HP tax credit certificate is issued.
- Statewide – 20% is allocated for eligible projects throughout the State. If the statewide allocation is fully reserved before the end of any given fiscal year, subsequent applications received by the SHPO are included in the sequencing and prioritization process, described in the "Historic Preservation Tax Credit Program" section of this report, and are eligible for the next fiscal year's allocation.
- Small – 10% is allocated for projects with final qualified rehabilitation costs totaling $500,000 or less.

- Any HP tax credits which have not been reserved at the end of each fiscal year are available for small projects in subsequent fiscal years.
- If the HP tax credits allocated to small projects are fully reserved, any additional applications received for small projects may be eligible under the statewide allocation.

In addition, the SHPO is required by section 404A.4(4)(c) of the *Code* and rule 223-48.7(7) of the IAC to reallocate unreserved HP tax credits at the end of the allowable time period to file applications in any fiscal year, as follows:

- Unreserved CED-GP and new permanent jobs HP tax credits must be reallocated to disaster recovery.
- Unreserved disaster recovery HP tax credits must be reallocated to the statewide allocation or carried forward. The SHPO established a rollover, which is treated as part of the statewide allocation, to track unreserved HP tax credits reallocated as statewide in any fiscal year.

For HP tax credits reserved prior to July 1, 2007, the SHPO was able to reserve HP tax credits for unlimited future years. For example, an HP tax credit reserved in fiscal year 2005 may not have been eligible to be claimed until fiscal year 2013. However, for HP tax credits reserved after July 1, 2007, section 404A.4(4)(e) of the *Code* restricted the reservation of HP tax credits to no more than 3 years. As a result, the SHPO reserves HP tax credits for the current fiscal year and the 2 subsequent fiscal years. For example, in fiscal year 2013, the SHPO reserved HP tax credits for fiscal years 2013 through 2015. According to a representative of the IDR, if the Legislature established a sunset date, as defined in **Appendix A**, for the HPTC program, the IDR would accept tax returns with awarded HP tax credits for 3 years beyond the sunset date.

Any unreserved HP tax credits expire on July 1 of the following fiscal year. For example, on July 1, 2012, the SHPO was no longer able to reserve HP tax credits from the allocation for fiscal year 2012. According to a representative of the SHPO, the allocation for small projects is not typically fully reserved because not enough applications are received for that project type. The SHPO representative further stated the Legislature is considering revisions to section 404A.4(4)(e) of the *Code*, which would restrict the reservation of HP tax credits to the current fiscal year but allow for a carryforward to the subsequent fiscal year if an unreserved balance remains at June 30.

Table 1 summarizes the maximum HP tax credits authorized by the Legislature, total reserved HP tax credits, and total unreserved HP tax credits as of June 30 for fiscal years 2001 through 2015. HP tax credits not reserved as of June 30, 2013 for fiscal years 2013 through 2015 are identified by the SHPO as unreserved HP tax credits.

Table 1

Fiscal Year	Maximum Authorized Tax Credits	Total Reserved Tax Credits	Total Unreserved Tax Credits
2001	$ 2,400,000	2,400,000	-
2002	2,400,000	2,400,000	-
2003	2,400,000	2,400,000	-
2004	2,400,000	2,400,000	-
2005	2,400,000	2,325,000	75,000*
2006	6,400,000	6,400,000	-
2007	6,400,000	6,400,000	-
2008	10,000,000	10,000,000	-
2009	15,000,000	14,966,069	33,931*
2010	50,000,000	49,307,282	692,718*
2011	50,000,000	49,875,000	125,000*
2012	50,000,000	47,466,729	2,533,271*
2013	45,000,000	40,229,886	4,770,114^
2014	45,000,000	40,485,404	4,514,596^
2015	45,000,000	40,286,771	4,713,229^
Total	$ 334,800,000	317,342,141	17,457,859
Expired unreserved tax credits			(3,459,920)
Total unreserved tax credits as of June 30, 2013			$13,997,939

* - Unreserved tax credits which expired in accordance with the 3-year limitation established by section 404A.4(4)(e) of the *Code*.

^ - Unreserved tax credits as of June 30, 2013 for fiscal years 2013 through 2015.

As illustrated by **Table 1**, the initial maximum HP tax credits were established at $2.4 million and remained at that level through June 30, 2005. Subsequent to June 30, 2005, the Legislature approved the following changes to the HPTC program:

- Prior to July 1, 2005, all rehabilitation projects were classified as statewide. Effective July 1, 2005, the SHPO was authorized to classify projects as either statewide or CED and the maximum HP tax credits were increased by $4 million to $6.4 million.
- The maximum HP tax credits were increased by $3.6 million to $10 million, effective July 1, 2007, and by $5 million to $15 million, effective July 1, 2008. Beginning in fiscal year 2008, the Legislature authorized the small projects classification. In addition, HP tax credits were made fully refundable and the allocation percentages were established, as follows:
  - 50% for statewide projects,
  - 40% for projects located in a CED or an Iowa GP agreement, and
  - 10% for small projects.
- Effective July 1, 2009, the maximum HP tax credits were increased by $35 million to $50 million. According to a representative of the SHPO, funding was increased in response to the significant number of applications received each fiscal year. In addition, new funding allocations were added for disaster recovery projects and

projects involving the creation of more than 500 new permanent jobs, each at 20% of total reserved HP tax credits. As a result, the other funding types were reallocated, as follows:

- 30% for CED-GPs,
- 20% for statewide projects and
- 10% for small projects.

- Effective July 1, 2012, the maximum HP tax credits were reduced by $5 million to $45 million.

Schedule 1 summarizes the HP tax credit allocation percentages, the maximum HP tax credits, total reserved HP tax credits, total unreserved HP tax credits and the total number of reserved projects by fiscal year by project type for fiscal years 2001 through 2015 as of June 30, 2013. **Table 2** summarizes the reserved HP tax credits by project type for fiscal years 2001 through 2015 as of June 30, 2013.

Table 2

Fiscal Year	CED-GP	Disaster Recovery	New Permanent Jobs	Small Projects	Statewide Projects	Total
2001-2005	$ -	-	-	-	11,925,000	11,925,000
2006-2010	38,085,895	9,443,105	10,000,000	4,674,633	24,869,718	87,073,351
2011	15,000,000	6,309,429	666,022	4,875,000	23,024,549	49,875,000
2012	14,339,051	-	-	2,466,728	30,660,950	47,466,729
2013	13,474,091	8,978,500	-	-	17,777,295	40,229,886
2014	13,489,140	6,991,417	-	340,393	19,664,454	40,485,404
2015	13,412,677	9,000,000	-	-	17,874,094	40,286,771
Total	$ 107,800,854	40,722,451	10,666,022	12,356,754	145,796,060	317,342,141

Objectives, Scope and Methodology

Our review was conducted to determine whether:

- The HPTC program was administered in accordance with Chapter 404A of the *Code* and Chapter 223-48 of the IAC,
- The HPTC program is meeting the intent of the Legislature, and
- Return on investment (ROI) was measured and the overall economic impact of the rehabilitation of eligible projects was determined.

To gain an understanding of the HPTC program, we:

- Obtained a listing of all tax credit programs currently administered by the State and reviewed the programs' descriptions to determine the nature and intent of the available tax credit programs.
- Reviewed the "State of Iowa Agency Reports on Tax Credits" prepared by the Department of Management, in consultation with other state agencies, to determine which state agencies are responsible for administering tax credits, which tax credits had sunset dates and the subsequent disposition of the tax credits.
- Interviewed personnel from the SHPO and the Iowa Department of Revenue (IDR) and reviewed applicable laws, rules, and guidelines to gain an understanding of the HPTC program and determine if ROI was measured for the HPTC program.

- Interviewed personnel from the SHPO to determine the intended purpose of the HPTC program and identify the monitoring and evaluation procedures implemented for HP tax credits awarded under Chapter 404A of the *Code* and Chapter 223-48 of the IAC.
- Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- Reviewed tax credit reports and other relevant information available from IDR's Tax Credits Tracking and Analysis System (TCTAS), such as "Iowa's Historic Preservation and Cultural and Entertainment District Tax Credit Program Evaluation Study March 2009" and the "Tax Credits Users' Manual: A Descriptive Guide to Iowa's Tax Credits" to determine the extent and results of previous evaluations of the HPTC program and ROI.
- Tested selected projects for compliance with Chapter 404A of the *Code* and Chapter 223-48 of the IAC and reviewed the selected projects to determine if the intended purpose of the rehabilitation was met.
- Tested selected projects to determine the use of the building before and after the rehabilitation and to determine if project files contained sufficient documentation, as required by the *Code*, the IAC and other relevant guidelines.
- Reviewed HP tax credit allocations and reserves by project type to determine if the SHPO allocates and reserves the maximum HP tax credit reserve amounts in accordance with section 404A.4(4) of the *Code*.
- Examined annual reports completed by the SHPO to determine compliance with section 404A.5 of the *Code*.

Historic Preservation Tax Credit Program (Legislatively Established as the Historic Preservation and Cultural and Entertainment District Tax Credit Program)

As previously stated, the SHPO within the State Historical Society of Iowa, a division of the DCA, is responsible for administering the HPTC program. According to section 404A.2 of the *Code*, HP tax credits equal 25% of the qualified rehabilitation costs incurred for the substantial rehabilitation of eligible property. For commercial property, rehabilitation is considered substantial when rehabilitation costs equal at least 50% of the assessed value of the property, excluding land, prior to the rehabilitation. For residential property or barns, rehabilitation costs must equal at least $25,000 or 25% of the fair market value, excluding land, prior to the rehabilitation, whichever is less. Also, for eligible property classified as residential or commercial with multifamily residential units, the rehabilitation costs must not exceed $100,000 per residential unit.

The SHPO established selection criteria and standards for rehabilitation projects involving eligible property, as required by section 404A.3(2) of the *Code*. The primary focus of the standards is to ensure a rehabilitation project maintains the integrity of the eligible property. In addition, to the extent applicable, the standards must be consistent with the U.S. Secretary of the Interior's Standards for Rehabilitation (federal standards) of eligible property, which are incorporated by reference in Chapter 223-48 of the IAC. The federal standards apply to both the exterior and interior of historic buildings of all periods, styles, and types, including the materials used and building size. In addition, the standards apply to related landscape features, the building's site and environment, and attached, adjacent or related new construction. The specific federal standards applicable to rehabilitation projects approved by the SHPO are as follows:

- "A property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment.
- The historic character of a property shall be retained and preserved. The removal of historic materials or alteration of features and spaces that characterize a property shall be avoided.

- Each property shall be recognized as a physical record of its time, place, and use. Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings, shall not be undertaken.
- Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.
- Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a historic property shall be preserved.
- Deteriorated historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.
- Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest means possible.
- Significant archeological resources affected by a project shall be protected and preserved. If such resources must be disturbed, mitigation measures shall be undertaken.
- New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.
- New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired."

The federal rehabilitation tax credit is only available for properties which will be used for a business or other income-producing purpose. In addition, a substantial amount of the total project costs must be used for rehabilitating the historic building and the building needs to be certified as a historic structure by the National Park Service (NPS). The SHPO's selection process ensures a person qualifying for the federal rehabilitation tax credit automatically qualifies for the HPTC program.

The SHPO implemented a 3-part application process for administering the HPTC program. All 3 parts of the application must be approved and signed by an authorized representative of the SHPO. In accordance with rule 223-48.6(1) of the IAC, applicants must use the current application forms and provide all information specified in the application instructions to be considered for review. The first part of the application is accepted year-round and allows the SHPO to evaluate the property and project eligibility and requires applicants to provide the:

- historic name of the property,
- name of the project, including the property's address,
- name of the project manager,
- name of the applicant and the preparer, if other than the applicant,
- historic status of the property, as required by section 404A.1(2) of the *Code*,
- property type, such as commercial or residential,
- assessed value of the property minus the land value,
- estimated qualified rehabilitation costs of the project,

- approximate start and completion dates of the rehabilitation project, and
- project type. Only one project type may be selected by the applicant.

The first part of the application must also include:

- numbered color photographs documenting the name and location of the property and the pre-rehabilitation condition of all buildings on the property, the interior and all exterior sides of the buildings, and the surroundings,
- a map clearly identifying the lot on which the building is located,
- a site plan,
- the property tax assessor's statement, and
- verification of the construction date if the property is a barn.

After reviewing the first part of the application, the SHPO notifies applicants whether they are eligible to submit the second part of the application. The second part of the application must also clearly state the project type for which the applicant is applying to ensure the HP tax credits are reserved under the correct project type. If an application does not indicate a specific project type or is not eligible for the project type selected, the SHPO considers the application for the statewide allocation. In addition, the second part of the application requires applicants to describe the rehabilitation project and must be received by the SHPO during the first 10 working days of a fiscal year. According to a representative of the SHPO, the allowable time period for filing applications varies from year to year, depending on the timing of revisions to the legislation and the changes this necessitates in the IAC. For example, the July 15, 2011 application due date for fiscal year 2012 was extended to August 5, 2011, and the July 16, 2012 application due date for fiscal year 2013 was extended to July 31, 2012.

Due to the large number of applications received by the SHPO for CEDs, disaster recovery projects and statewide projects, a sequencing and prioritization process was implemented beginning in fiscal year 2008 to ensure fair and adequate consideration of all applications in accordance with rule 223-48.8 of the IAC. As a result, at the start of each fiscal year, the SHPO utilizes the established process to determine the order in which the second part of the applications for projects with qualified rehabilitation costs in excess of $500,000 are reviewed in accordance with rule 223-48.8 of the IAC. The sequencing and prioritization process includes:

- an initial sequencing process during which all applications, excluding those for small projects, are classified by the SHPO in accordance with rule 223-48.8(3) of the IAC as either an unfunded project, a previous applicant or a new applicant,
- a secondary sequencing process during which a representative of the Office of Auditor of State provides a random number generated using computer software as the starting point for assignment of a unique random number to each application and acts as the independent observer to certify the 2 sequencing processes and development of the master sequence list in accordance with rules 223-48.8(4) through 223-48.8(6) of the IAC and
- prioritization of the applications in accordance with rule 223-48.8(7) of the IAC. According to a representative of the SHPO, unfunded projects, which are both eligible and completed, are typically given first priority because there were not sufficient HP tax credits available in previous fiscal years to reserve HP tax credits for the project. Second priority is given to previous applicants whose projects were determined to be eligible but were not yet completed.

On May 27, 2014, legislation was approved to implement changes to the selection process, effective July 1, 2014. As a result, the SHPO is in the process of developing a point system based on certain criteria to evaluate the applications submitted. The intention of the new selection method is to ensure increased project readiness. As of October 3, 2014, a representative of the

SHPO stated the formal criteria had not been finalized, but the intention was to have the new system implemented in January 2015. He further stated examples of the criteria being considered include demonstration of compliance with zoning requirements and documentation of secured financing.

The second part of the applications for small projects with qualified rehabilitation costs of $500,000 or less are accepted and reviewed by the SHPO throughout the calendar year until all available HP tax credits for that project type are reserved. If all available small project HP tax credits are reserved, subsequent applications received in that calendar year are accepted by the SHPO and included in the sequencing and prioritization process described previously.

As previously stated, the second part of the application requires applicants to describe the rehabilitation project, including:

- data on the building and rehabilitation project, such as use(s) before rehabilitation, proposed use(s) after rehabilitation, number of housing units before and after rehabilitation, project start date, and project completion date,
- a detailed description of the rehabilitation/preservation work, including site work, new construction, and alterations,
- updated color photographs documenting both the interior and exterior conditions, including the site and environment, prior to any rehabilitation work. The photos must be labeled and show the areas of proposed or completed work, all elevations of the building, and all major interior spaces of the buildings and significant features, and
- architectural drawings and sketches.

Effective June 16, 2009, the SHPO began charging a nonrefundable processing fee to applicants submitting the second part of the application based on the amount of qualified rehabilitation costs for a project in accordance with rule 223-48.16 of the IAC, as follows:

- No cost for $50,000 or less,
- $250 for $50,001 to $100,000,
- $500 for $100,001 to $500,000,
- $750 for $500,001 to $1,000,000,
- $1,000 for $1,000,001 to $6,000,000, and
- $1,500 for greater than $6,000,000.

The SHPO reserves the HP tax credits for a project in the fiscal year the second part of the application is approved. Approved projects must begin before the end of that fiscal year and must be completed within 3 years of the approval date. Each applicant must submit a project commencement report to the SHPO within the first 10 working days of the fiscal year immediately following the fiscal year in which the SHPO approved the second part of the application in accordance with rule 223-48.10(1) of the IAC. A project commencement report consists of a Qualified Rehabilitation Cost (QRC) Schedule outlining the qualified rehabilitation costs expended on or before June 30 and a cover letter certifying the commencement date on which rehabilitation work began. **Appendix C** includes a copy of the QRC Schedule.

If the applicant wants to change the scope of the work to be performed, the applicant is required to complete and submit a continuation/amendment form to the SHPO describing the changes. This form is also used to identify any work not meeting the federal standards. Work changes and work performed which is not in compliance with the federal standards must be approved by the SHPO prior to submitting the third part of the application.

In accordance with rule 223-48.6(1)(c) of the IAC, for HP tax credits reserved by the SHPO prior to July 1, 2009, applicants must submit the third part of the application to the SHPO within 6 months of when the rehabilitated building was placed in service. For projects approved and HP tax credits reserved by the SHPO on or after July 1, 2009, the third part of the application must be submitted to the SHPO within 24 months of the date the rehabilitation period ends. The rehabilitation period begins the date the first qualified rehabilitation cost is incurred and ends at the close of the taxable year in which the property is placed in service.

The third part of the application requires applicants provide:

- the date the rehabilitated building was placed in service,
- updated color photographs documenting the completed work for both the exterior and interior of the building,
- a photo key for floor plans with directional arrows numbered to correspond with each photograph provided,
- the costs attributed solely to the rehabilitation of the building, and
- the costs attributed solely to any new construction, such as parking lots and landscaping.

In addition, for projects exceeding $500,000 of qualified rehabilitation costs, the applicant must also provide a statement from a Certified Public Accountant (CPA) verifying the expenses only include qualified rehabilitation costs incurred during the time period allowed for the project in accordance with rule 223-48.4(2) of the IAC. Beginning in fiscal year 2010, the IDR implemented a survey, in consultation with the SHPO, which must be completed for each project and submitted to the IDR for approval prior to issuance of HP tax credit certificates. As a result, the third part of the application requires applicants submit the completed survey to the IDR before an HP tax credit certificate can be issued. Rules 223-48.6(1) and 701-52.18(2)(c) of the IAC require HPTC program applicants include all information and documentation requested on the application forms in order for the applications to be processed.

Similar to the second part of the application, effective June 16, 2009, the SHPO began charging applicants submitting the third part of the application a nonrefundable processing fee for review of completed rehabilitation work in accordance with rule 223-48.16 of the IAC. The fees charged are based on the amount of qualified rehabilitation costs for a project, as follows:

- No cost for $50,000 or less,
- $250 for $50,001 to $100,000,
- $500 for $100,001 to $500,000,
- 0.5% of qualified rehabilitation costs for $500,001 to $6,000,000, and
- $30,000 for greater than $6,000,000.

According to a representative of the DCA, application fees collected are used to offset the cost of administering the HPTC program, including payroll for SHPO employees, purchases of office supplies and other operating costs. **Table 3** summarizes the application fees collected by the SHPO for the second and third parts of the applications for fiscal years 2009 through 2013.

Table 3

Fiscal Year	Fees Collected
2009	$ 47,250
2010	305,588
2011	388,748
2012	393,527
2013	526,832
Total	$ 1,661,945

As of June 30, 2013, the unspent balance of application fees collected was $854,256. According to a representative of the DCA, the balance is reflective of 2 full-time positions which had not been filled for a few years. The DCA is currently working to fill those vacant positions. In addition, the representative of the DCA stated the plan is to continue to accumulate the fees and use the balance to offset the payroll expenses for current and future employees and the costs of administering the HPTC program.

Carrying a balance of $854,256 appears excessive. Based on a review of the expenditures charged to the HPTC program in the State's accounting system, the cost of administering the HPTC program is initially recorded in the General Fund. The HPTC program subsequently reimburses the General Fund from the fees collected. Although there are vacant positions within the HPTC program, the fees collected currently exceed the amount necessary to administer the program. See **Finding A**.

According to section 404A.4 of the *Code*, upon completion of the rehabilitation project, a certification of completion must be obtained by the taxpayer from the SHPO. The certification of completion must identify the taxpayer claiming the HP tax credit and the rehabilitation costs incurred up to the 2 years preceding the completion date. Applicants must submit an HP tax credit application and request for certification of completed work, signed and dated by the project manager, to the SHPO, including:

- the project name and address,
- the project manager's name, address, contact information and social security or taxpayer identification number,
- photographs of the completed work,
- the project start date,
- the project completion or placed in service date, and
- the project costs solely attributable to rehabilitation of the building incurred during the allowable timeframe.

The SHPO reviews the HP tax credit application and request for certification of completed work and determines if the rehabilitation project meets the federal standards and is consistent with the historic character of the property or the district in which it is located. According to section 404A.3 of the *Code*, in order for costs of a rehabilitation project to qualify for an HP tax credit, the rehabilitation project must receive approval from the SHPO. Upon approval, the SHPO notifies the project manager HP tax credits have been awarded and issues a property rehabilitation tax credit certificate on the IDR's "Iowa Tax Credit Certificate." For HP tax credits, the SHPO calculates the amount specified on the HP tax credit certificate by multiplying the final qualified rehabilitation costs by 25%.

According to SHPO representatives, the SHPO performs site visits of as many rehabilitation projects as possible during the various stages of the projects and for a variety of purposes, such as:

- To review project eligibility or in response to applicants' questions regarding the first part of the application,
- To make observations, such as structure type, building placement, structural system, number of stories, and type of construction materials,
- To suggest architectural approaches for rehabilitation of the building,
- To highlight character defining features of buildings which must be preserved,
- To tour a building to obtain a physical and visual assessment of the character of a project,

- To determine whether an individual building or a group of buildings are eligible for the National Register of Historic Places or worthy of preservation, or
- To review projects which also have an application in the federal historic tax credit program at various stages if requested by the NPS.

However, according to a representative of the SHPO, not as many site visits have been performed recently due to staffing limitations combined with an increased work load resulting from an increase in HPTC program applications. The SHPO has not established written policies and procedures for conducting site visits. In addition, the SHPO does not have a method in place to monitor site visits to determine which projects have been visited and the frequency of visits. See **Finding B**.

HP tax credits became transferable in fiscal year 2003, allowing taxpayers to transfer HP tax credits awarded to any person or entity. Within 90 days of the transfer, the recipient of the HP tax credits must submit the transferred certificate to the IDR, which has 30 days to issue a replacement certificate to the taxpayer. A representative of the IDR must review and approve all transfers of tax credit certificates. In addition, according to a representative of the IDR, the IDR tracks all transfers by maintaining and updating a transfer database. When asked about the benefit of transferability, a representative of the IDR stated the ability to transfer HP tax credit certificates provides applicants immediate access to funds, which allows the applicants to satisfy obligations incurred during the project.

According to the Panel's January 2010 report, transferability allows taxpayers awarded tax credits to sell the tax credits, often below value, to a third party who claims the tax credits for full value. Therefore, taxpayers with little to no tax liability still benefit from the tax credits by receiving immediate payment rather than waiting to claim the tax credits on their tax return. In addition, the Panel's report identified the following concerns about transferability:

- The ability to transfer tax credits complicates the IDR's projection of revenues and the tracking of tax credits and creates uncertainty about when the tax credits will be claimed.
- The individual or entity which ultimately benefits from the tax credits is not the individual or entity which applied for and completed the project.
- After tax credits are transferred, the State has limited recourse to recover funds claimed if the taxpayer originally awarded the tax credits does not fulfill the contracted obligations or if the tax credits were awarded in error.

The Panel concluded transferability does not contribute to an effective tax credit program and has contributed, in some instances, to abuse and recommended the State eliminate the ability to transfer all tax credits. Although the Panel did not further explain or provide specific examples of such abuse in its report, the Panel recommended the State eliminate the ability to transfer all tax credits, including HP tax credits. However, as of fiscal year 2013, HP tax credits remained transferable.

The Panel's conclusion was based on a review of the 7 tax credits which were transferable at the time of the report. However, based on our understanding of HP tax credits, the Panel's conclusion regarding transferability does not apply to HP tax credits because they cannot be transferred until the HP tax credit certificate is issued. As previously stated, the HP tax credit certificate is only issued by the SHPO after the project is certified by the SHPO as complete. As a result, the SHPO can ensure the project has met specifications prior to issuance of the HP tax credit certificate.

In addition, although we did not identify any instances of abuse, it is possible abuse may occur. According to a representative of the SHPO, it would be possible to create a fraudulent HP tax credit certificate; however, because multiple employees within the SHPO are involved in the application, HP tax credit certificate issuance, and approval processes at the SHPO, any fraudulent HP tax credits would be detected within a limited period of time. Also, IDR employees would inquire of SHPO staff if there was no record of a specific HP tax credit certificate in the data received from the SHPO. According to a representative of the IDR, the IDR is responsible for the transfer of HP tax credits, and all transfers require receipt of the original HP tax credit certificate signed by the SHPO. While reviewing claims which may identify fraudulent transfers or claims of HP tax credits, the IDR performs various verification procedures, such as comparing to HP tax credit information provided by the SHPO to ensure the maximum HP tax credits are not exceeded, ensuring the HP tax credit certificate number is valid, ensuring the taxpayer identification number (TIN) of the taxpayer making the claim matches the TIN on the HP tax credit certificate, and reviewing employee tax returns to ensure erroneous HP tax credit claims are not filed.

We obtained a summary of the number of HP tax credit transfers and the total amount transferred from the IDR as of October 10, 2014. However, the IDR did not comprehensively track tax credit transfers prior to tax year 2006. As a result, the information provided for July 1, 2000 through December 31, 2005 is not complete. In addition, according to a representative of the IDR, none of the tax credit transfer information is available for fiscal year 2004, and the tax credit transfer information for tax credits claimed in 2012 and 2013 is still being reviewed and verified by the IDR.

Table 4 summarizes the number and amount of HP tax credits awarded and the number and amount of HP tax credits transferred by fiscal year for fiscal years 2001 through 2015. In addition, according to a representative of the IDR, if a tax credit is split and transferred to multiple third parties, the transfer may be counted more than once. As a result, 5 HP tax credit transfers included in the **Table** are counted twice because the transfers were made to 2 different entity types, such as a bank and an insurance company.

Table 4

Fiscal Year	Number of Awards	Total Awarded	Number of Transfers	Total Transferred
2001	18	$ 2,400,000	3	$ 125,443
2002	14	2,400,000	3	94,208
2003	8	2,400,000	2	933,710
2004	5	2,400,000	*	*
2005	7	2,325,000	1	29,750
2006	16	6,400,000	3	1,438,255
2007	18	6,400,000	6	2,622,533
2008	23	10,000,000	8	3,364,795
2009	47	14,966,069	16	8,307,104
2010	100	41,534,369	28	26,833,334
2011	143	38,053,751	51	15,870,215
2012	33	14,619,355	10	12,521,129
2013	34	31,142,038	15	19,744,177
2014	42	12,444,241	13	7,725,372
2015	17	4,404,836	8	1,829,000
Total	655	$ 191,889,659	167	$101,439,025

***** - Transfer information for fiscal year 2004 is not available from the IDR.

As illustrated by the **Table**, approximately $101.4 million of the $191.9 million awarded, or 52.9%, was transferred by the original applicants to third parties. Based on a review of the information provided by the IDR, the HP tax credits were transferred to a mix of corporations, banks, individuals, and insurance companies.

Recipients of HP tax credits must claim HP tax credits in the year for which the HP tax credit certificate is valid. To do this, the taxpayer must attach the approved certificate of completion and the "Iowa Tax Credit Certificate" to the "IA 148 Tax Credits Schedule" included with the taxpayer's tax return the year the HP tax credit is claimed. The "Iowa Tax Credit Certificate" includes:

- the taxpayer's name, address and social security or tax identification number,
- the name and location of the historic property,
- the project completion date,
- the calculated tax credit amount,
- the beginning year of the tax credit, and
- the name and tax identification number of the transferee and the amount of tax credit being transferred, if applicable.

During the 2007 legislative session, the Legislature amended section 404A.4(3) of the *Code* to make HP tax credits in excess of the taxpayers' tax liability refundable, including interest. In addition, in lieu of claiming a refund, taxpayers may elect to have excess HP tax credits applied to their tax liability for the following tax year.

We obtained a summary of the number of claims and refunds and the total amount of HP tax credits claimed and refunded from the IDR as of October 10, 2014. However, as previously stated, the IDR did not comprehensively track tax credit claims prior to tax year 2006. As a result, the information provided for July 1, 2000 through December 31, 2005 is not complete. In addition, according to a representative of the IDR, the tax credit claim information for tax credits claimed in 2012 and 2013 is still being reviewed and verified by the IDR. **Table 5** summarizes the number and amount of HP tax credits claimed and refunded for tax years 2005 through 2013.

Table 5

Tax Year	Number of Claims	Amount Claimed	Amount Refunded^
2005	2	$ 23,000	-
2006	27	4,848,996	-
2007	36	6,118,216	1,341,346
2008	57	14,932,856	6,566,870
2009	64	8,926,769	6,020,619
2010	114	33,826,439	28,617,854
2011	103	23,810,995	23,315,522
2012	100	38,808,202	35,754,621
2013	48	4,423,956	4,152,929
Total	551	$ 135,719,429	105,769,761

^ - HP tax credits were not refundable prior to tax year 2007.

As illustrated by the **Table**, approximately $135.7 million of the $191.9 million awarded, or 70.7%, has been claimed by taxpayers as of October 10, 2014. In addition, approximately $105.8 million of the $135.7 million claimed, or 78%, was refunded to taxpayers. According to the SHPO, because small businesses and homeowners do not have much tax liability, a refund allows these taxpayers to satisfy project-related debt immediately.

<u>Project Files</u> – We obtained a listing of all projects, regardless of the application stage, for the period July 1, 2000 through June 30, 2013 from the SHPO. We selected 20 projects to test for compliance with the requirements of Chapter 404A of the *Code* and Chapter 223-48 of the IAC, including whether the property was eligible, the applications were complete and approved by the SHPO and the HP tax credits received equaled 25% of the qualified rehabilitation costs. As a

result, we determined the selected projects were administered in compliance with Chapter 404A of the *Code* and Chapter 223-48 of the IAC.

As previously stated, rule 223-48.6(1) of the IAC requires applicants to use the current application forms and provide all information specified in the application instructions to be considered for review. We selected and reviewed 18 project files maintained by the SHPO to determine if they contained the following in accordance with the application instructions and additional guidance provided to applicants by the SHPO in approval and notification letters:

- all parts of the application and supporting documentation required by the instructions of each application,
- any amendments to the applications,
- documentation of the SHPO's review of project eligibility,
- any correspondence with the applicant,
- the project commencement report received from the applicant,
- site visit documentation, including before and after rehabilitation pictures,
- approval and notification letters,
- the QRC Schedule,
- the project completion report, including a CPA statement certifying any rehabilitation project costs exceeding $500,000, and
- the approved HP tax credit certificate.

Based on the project files reviewed, we determined the SHPO maintained all required documentation for each part of the application.

<u>New Permanent Jobs</u> – The new permanent jobs project type was implemented in fiscal year 2010, as authorized by the Legislature in the 2009 legislative session. We determined the project type has only been utilized once since its inception. According to a representative of the SHPO, the new permanent jobs project type was created almost exclusively for a specific vendor as an incentive to rehabilitate the Roshek Building in Dubuque and create over 500 jobs upon completion of the project. In fiscal year 2010, the SHPO reserved the entire $10 million allocated to the new permanent jobs project type for the Roshek Building project and reserved an additional $666,022 for the project in fiscal year 2011.

According to a report prepared by the NPS on federal tax incentives in fiscal year 2012, the Roshek Building project was considered a successful rehabilitation project resulting in the creation of 1,000 new jobs at the vendor receiving the incentive and 40 new jobs at other commercial and retail tenants in the building. According to a representative of the SHPO, the new jobs created as a result of the Roshek Building project were not verified by the SHPO but were verified by the IEDA. According to rule 223-48.6(10) of the IAC, the process for verifying job information reported by applicants is to be performed by the IEDA in accordance with Chapter 261-188 of the IAC. According to a representative of the IEDA, the SHPO requested verification of the new jobs created as a result of the Roshek Building project; and, based on the supporting documentation provided, the IEDA verified more than 1,000 jobs were created.

The remaining $9,333,978 of the $10 million allocated to the new permanent jobs project type in fiscal year 2011 was unreserved as of June 30, 2011. As a result, the SHPO reallocated the $9,333,978 of unreserved HP tax credits to the disaster recovery project type in accordance with section 404A.4(4)(c) of the *Code* and rule 223-48.7(7) of the IAC. Additional unreserved new permanent jobs HP tax credits of $10 million for fiscal year 2012 and $9 million each year for fiscal years 2013 through 2015 were also reallocated by the SHPO. See **Finding C**.

Annual Report – The SHPO is required to submit an annual report to the Legislature and the Legislative Services Agency (LSA) in accordance with section 404A.5 of the *Code*, including, but not limited to:

- the number and potential value of rehabilitation projects begun during the latest 12-month period,
- total HP tax credits originally granted during the latest 12-month period,
- the potential reduction in state revenues for HP tax credits unused and eligible for refund,
- the potential increase in local property tax revenues as a result of rehabilitated projects, and
- any recommendations on whether the maximum HP tax credits should be adjusted, the need for a broader or more restrictive definition of eligible property and any other adjustments to the HPTC program.

We reviewed the combined annual report submitted by the SHPO for fiscal years 2001 through 2006 and fiscal years 2007 through 2009. The combined annual report for fiscal years 2001 through 2006 included before and after pictures of each completed project as of June 30, 2006 and examples of the positive economic effects of the HPTC program, as follows:

- The E. Rohde & Sons Building located in State Center, rehabilitation of a main street storefront and building for commercial office suites, was a small project with $60,000 of total qualified rehabilitation costs and $12,250 of HP tax credits.
- Welch Apartments located in Muscatine, rehabilitation of historic mixed use buildings into 20 low to moderate income housing units, was a large project with $3,351,805 of total qualified rehabilitation costs and $553,798 of HP tax credits.
- The General William Worth Belknap House located in Keokuk, rehabilitation from a residence into lodging, was a small project with $175,000 of total qualified rehabilitation costs and $35,750 of HP tax credits.
- The Englert Theatre located in Iowa City, rehabilitation of a performing arts theatre, was a large project with $4,713,291 of total qualified rehabilitation costs and $1,187,467 of HP tax credits.

Beginning in fiscal year 2009, the Board of Trustees of the State Historical Society of Iowa recognized outstanding examples of successfully completed projects through the Preservation Projects of Merit Awards program. The award recipients were evaluated based on the application of the federal standards, the impact on the local historic preservation community and the impact on economic development in the local community for their projects. The combined annual report for fiscal years 2007 through 2009 listed the 8 projects which received awards for fiscal years 2008 and 2009 for outstanding preservation, including:

- a residential property – awarded to the Albert B. Cummin's Home of Des Moines for 2008 and the Sterneman House of Muscatine for 2009,
- a small project – awarded to the R.A. Buck Building of State Center for 2008 and the Seth Richards Commercial Block (Johnny's Hall of Fame) of Des Moines for 2009,
- a large project – awarded to Antler's Hotel of Spirit Lake for 2008 and the Fowler Building of Waterloo for 2009 and
- a project which best exemplified the use of the federal standards – awarded to the German Bank of Dubuque for 2008 and the John T. Carey and Marietta (Greek) House of Denison for 2009.

However, the report did not detail the reasons these projects were selected for awards or provide specifics of the impact these projects had on the local community. As a result, it is not possible to measure the success of the HPTC program in these communities or substantiate any positive impact was a direct result of these projects. The annual report also included a summary of the affordable housing units created as a result of the HPTC program, such as new housing units where none existed and conversion of large hotels, several large vacant warehouses, and an abandoned college campus into housing units.

In addition, the SHPO estimated HPTC program projects would generate more than $11 million of increased property tax revenue over the course of fiscal years 2001 through 2009 based on the increase in the assessed value of each property. According to the SHPO combined annual report for fiscal years 2007 through 2009, "the assessed value of property after rehab is calculated based on an assumed 50% increase in value after the rehab project is completed." This assumption was derived from discussions held between SHPO staff and certain county assessors. However, no subsequent analysis was performed using actual amounts to determine the reasonableness of the estimate. In addition, the annual report did not include an overall summary and/or conclusion on the success of the HPTC program. See **Finding D**.

We reviewed the SHPO's compliance with the annual report requirement of the *Code* for fiscal years 2001 through 2013, including review of available annual reports to determine if the information required by section 404A.5 of the *Code* was included. As a result, we determined the SHPO submitted separate annual reports for fiscal years 2001, 2002, 2004 and 2005 and a combined 2-year report for fiscal years 2003 and 2004. The SHPO also submitted an annual report for fiscal year 2006 which included the 6-year period from July 1, 2000 through June 30, 2006. However, the fiscal year 2006 report is not dated. In addition, the SHPO submitted a combined 3-year report to the Legislature and the LSA which included activity for fiscal years 2007 through 2009.

We determined the SHPO has not consistently completed annual reports for each fiscal year, as required by section 404A.5 of the *Code*, as follows:

- A separate annual report was not issued for fiscal year 2003. Fiscal years 2003 and 2004 were included in a combined report submitted to the Legislature and the LSA in the spring of 2005.
- Although a brief overview report was submitted by the SHPO for fiscal year 2007, the report did not contain sufficient content to demonstrate compliance with the requirements of the *Code* because sufficient detail was not provided regarding the economic impact of the rehabilitation projects. Economic impact information for fiscal year 2007 was subsequently reported by the SHPO in a combined report for fiscal years 2007 through 2009.
- A separate annual report was not issued for fiscal year 2008. Fiscal years 2007 through 2009 were included in a combined report submitted on August 24, 2010.
- No annual reports were submitted by the SHPO for fiscal years 2010 through 2012.

According to an SHPO representative, the SHPO hired a private consultant to prepare an economic impact report for the HPTC program since its inception. The consultant report was provided to SHPO in May 2014. Subsequently, IDR, in conjunction with SHPO, submitted a preliminary multi-year report to the Committee, covering the period July 1, 2009 through June 30, 2014, in December 2014. According to a representative of SHPO, a final report will be submitted to the Committee during the 2015 legislative session. However, the issuance of multi-year reports does not comply with section 404A.5 of the *Code*. In addition, we determined section 404A.5 of the *Code* does not include a required submission date for the annual report. See **Finding D**.

<u>Return on Investment (ROI)</u> – The SHPO is not required to calculate the ROI but is responsible for determining and reporting on the overall economic impact of the rehabilitation projects in accordance with section 404A.5 of the *Code*. During the 2005 legislative session, the Legislature

directed the IDR to perform periodic evaluations of the various tax credit programs, including evaluation of economic impact, to:

- provide a comparison of Iowa's tax credits to similar federal and other states' tax credits,
- summarize information related to the usage of Iowa's tax credits, and
- evaluate the economic impact of the tax credits.

As a result, the IDR periodically obtained, summarized, analyzed, and reported on tax credit information as requested. According to a representative of the IDR, the IDR attempted to collect, analyze, and comprehensively report on the economic impact of the HPTC program. In 2007 and 2008, the IDR sent 2 surveys to HP tax credit recipients; however, 34 of the 76 surveys were not returned. As a result, it was not possible to evaluate the statewide economic impact of the HPTC program because the IDR did not have comprehensive information available to complete an overall evaluation. In March 2009, the IDR issued an evaluation report on the HPTC program which included limited information and analysis regarding the economic impact of 2 case studies, including projects in Dubuque and Davenport, such as:

- A comparison of the property values of historic properties in the City of Dubuque before and after the rehabilitation projects showed the average property value rose from $150,000 to $1.15 million, or approximately 667%, while the average property value in the City of Dubuque rose from $100,000 to $126,000, or 26%, during the same period. The average investment cost of the rehabilitation projects is more than $3 million per property for the projects in the City of Dubuque, and the assessed property values before the rehabilitation projects plus the investment costs exceeds the assessed property values after the projects. As a result, ROI for rehabilitation projects is negative when calculated based on assessed property values.
- The average assessed property values within the "buffer zones," a 0.1 mile radius, of rehabilitation projects in the City of Dubuque increased at an annual rate of 9.7% between 2000 and 2007 compared to an annual rate of 3.7% for other downtown properties in the City of Dubuque. As a result, the IDR concluded rehabilitation projects had a positive impact on the neighboring properties in the City of Dubuque.
- The IDR also analyzed the "spill-over effects" of the rehabilitation projects, such as retail sales activity and employment within the "buffer zones" of each project and determined the following for the City of Dubuque:
  - The annualized growth rate for average sales revenue of retail businesses, restaurants and hotels was 7.8% within the "buffer zones" and 3.8% outside the "buffer zones" in the City of Dubuque from 2000 through 2007. However, the number of retail businesses, restaurants and hotels fell from 81 in 2000 to 62 in 2007, an annual decrease of 3.3% within the "buffer zones," while the number of businesses outside the "buffer zones" only decreased 1.1% in the City of Dubuque.
  - The average annual non-farm employment in the "buffer zones" increased 8.9% each year from 2000 to 2007 while the annual growth rate outside the "buffer zones" was 2.8%. However, the number of employers inside the "buffer zones" increased at an annual rate of 3.6% compared to an annual rate of 6.4% outside the "buffer zones," and the median salary increased 1.9% annually inside the "buffer zones" compared to an annual increase of 2.7% outside the "buffer zones." Although the employment growth in the "buffer zones" out-performed the growth outside the "buffer zones," the wage growth rate inside the "buffer zones" was lower.

  The IDR determined the following for the City of Davenport:

  - The average retail, restaurant, and hotel sales revenue inside the "buffer zones" decreased at an annual rate of 2.4% compared to a growth rate of 4.4% outside the "buffer zones."

- From 2000 to 2007, the average annual employment decreased at a rate of 2.4% inside the "buffer zones" compared to an increase of 3.6% annually outside the "buffer zones." In addition, the number of employers inside the "buffer zones" increased at a rate of 5.5% compared to 6.2% outside the "buffer zones." However, the median salary growth of 4.5% annually inside the "buffer zones" exceeded the growth of 2% annually outside the "buffer zones."

In the March 2009 evaluation report, the IDR concluded the impact of projects receiving HP tax credits on local communities is mixed for the cities of Dubuque and Davenport. In addition, the evaluation report included recommendations regarding the fiscal impact of the HPTC program, such as the completion of future studies to more fully investigate the fiscal effects of the HPTC program on state tax revenue and the tax base of local communities.

Based on a review of the March 2009 evaluation report, we are unable to determine the extent, if any, to which the HPTC program is meeting the intent of the Legislature. While the evaluation methods used by the IDR analyze statistical trends within the communities with rehabilitation projects, such as sales revenue growth, median salary growth, or property tax value increases, there is no way to determine whether any increases in those statistical trends are a direct result of the rehabilitation projects. In addition, because the evaluation report only included the cities of Dubuque and Davenport, the overall economic impact of the rehabilitation of eligible projects was not determined. According to the evaluation report, the cities of Dubuque and Davenport were chosen because they were 2 of the top locations receiving HP tax credits. However, the evaluation report did not include an examination of all project locations because sufficient data was not available. As previously stated, 34 of the 76 surveys sent to HP tax credit recipients were not returned. In addition, the 34 survey responses received by the IDR were not independently verified. As a result, the evaluation performed by the IDR was not comprehensive, and the results and conclusions were based on a limited review of HPTC program data. See **Finding E**.

As previously stated, effective July 1, 2009, the SHPO required HP tax credit applicants to respond to the IDR "Historic Preservation Tax Credits Survey" as part of the third part of their applications in accordance with rule 223-48.6(1)(c) of the IAC. **Appendix D** includes a copy of the current IDR "Historic Preservation Tax Credits Survey" and instructions for completion of the survey. The primary purposes of the survey are to:

- gather information on the property being rehabilitated and to provide a basis for evaluating the economic impact of the project, including original year of construction, the year the property was purchased by the current owner and a description of the property's use,
- provide project information, such as the rehabilitation work starting date, completion date, usable floors and space, and the actual or anticipated use of space after completion of rehabilitation work,
- obtain project finance information, including project costs and all sources of project financing,
- obtain rehabilitation project resources and costs, including salaries and benefits paid for labor, cost of materials and other costs incurred for the project, such as architectural and engineering fees, permit fees and utilities, and
- obtain distribution of expenditures, including estimated percentages of labor, materials and other expenditures made within the county where the project is located, elsewhere in Iowa and outside of Iowa.

The survey information is used by the IDR as the basis for analysis of the economic impact of the HPTC program and to complete the "Report on Data from the Historic Preservation Tax Credits Survey," which informs the Legislature and the Legislative Tax Expenditure Committee (the Committee) about the economic impact of projects awarded HP tax credits. The IDR also provides a copy of the report to the SHPO. The most recent report includes data from fiscal years 2010 through 2012. According to a representative of the IDR, the IDR verifies some, but not all, of the information reported by the applicants on the surveys. For example, property values reported are compared to the values recorded by the county assessors. In addition, a representative of the SHPO stated the SHPO compares the cost information reported to the supporting documentation maintained in the project files and the QRC Schedule submitted with the second part of the application. The SHPO representative further stated the SHPO is reviewing project information only because the IDR reviews the economic impact information. There is no independent verification of the job information, if any, reported by the applicants. See **Finding E**.

During the 2010 legislative session, the Legislature authorized section 2.48 of the *Code* which established the Committee to review tax incentive programs based on a schedule summarized in section 2.48(3) of the *Code*, including calculation of ROI. The Committee was required to complete a review of the HPTC program in 2014 and is to perform a review at least every 5 years thereafter, including a statement of the policy goals of the HPTC program, an ROI calculation and a determination of whether the benefits of the HPTC program are worth the cost to the State of providing the HP tax credits. The IDR's economic impact report is considered by the Committee in calculating ROI for the HPTC program.

As previously stated, according to an SHPO representative, the SHPO hired a consulting firm to complete an economic impact report for the HPTC program in 2014, which covered the HPTC program from its inception through calendar year 2013. Subsequently, IDR, in conjunction with SHPO, submitted a preliminary multi-year report to the Committee in December 2014 and plans to submit a final report during the 2015 legislative session. While the report addresses the economic impact of the HPTC program, the economic model used includes significant assumptions. In addition, according to the preliminary report submitted, there are still some important limitations, including inconsistent reporting of expenditures and funding of the projects and construction jobs supported by rehabilitation expenditures which were not reported properly. Because of these limitations, the report stated further study was deemed necessary.

As previously stated, a calculation of, and report on, ROI was not specifically required by the *Code* for fiscal years 2001 through 2010. However, the Panel's January 2010 report included a summary of the benefits and costs of the HPTC program, as follows:

- For every $1.00 of HP tax credits awarded, $3.77 of federal and private funds is invested,
- Actual project costs often exceed the costs which qualify for HP tax credits,
- Overall ROI needs to consider the construction jobs necessary to complete the work, the materials purchased during construction, the localized economic stimulus during construction and any resulting property tax value increase, and
- Other factors to be considered when evaluating the economic impact of the HPTC program include the resulting long-term retail, office or housing units created as a result of the rehabilitation.

The Panel concluded, "The ROI the state receives far outweighs the tax credit that is offered." However, the IDR was unable to provide supporting documentation for the statistics and conclusion presented in the Panel's report. As a result, we are unable to determine how the Panel arrived at the conclusion included in the report. Based on a review of available information and discussions with representatives of the SHPO and the IDR, we determined the economic impact of the HPTC program is difficult to measure and sufficient verifiable data may not be available to ensure an accurate, reliable ROI can be calculated. For example, data, such as the construction jobs necessary to complete the work and the localized economic stimulus during construction, are not easily measured. As a result, the SHPO and the IDR cannot easily measure and conclude on the success of the HPTC program. See **Finding E**.

As previously stated, the Legislature revised section 404A.4(3) of the *Code* during the 2007 legislative session to make HP tax credits in excess of the taxpayers' tax liability refundable. As illustrated by **Table 6**, approximately 76% of the HP tax credits claimed were refunded to taxpayers. However, because the ROI of the HPTC program is not currently calculated, it is not possible to measure the economic impact of the reduced tax liability or tax refund created by the HP tax credits. See **Finding E**.

According to a representative of the SHPO, other states and the NPS report on the economic impact of historic preservation projects completed in their state and nationwide. For example, the Utah Division of State History issued a report prepared by an independent consultant entitled, "Profits through Preservation, The Economic Impact of Historic Preservation in Utah" in 2011 which reported on the impact of the tax credit program on jobs, household income, heritage tourism, property values, environmental responsibility, and fiscal responsibility, such as stabilized neighborhoods, revitalized downtowns, sales tax, and property tax. However, the methodology used to prepare the report was not documented. As a result, we are unable to determine whether the information reported was independently verified by the consultant. According to Utah's report, good stewardship of long-term assets provides significant short-term dividends, such as:

- creation of jobs and generation of income, including more jobs and income per $1 million of output than the vast majority of industries in Utah,
- revitalization of downtown measured by new businesses, increased sales, reduced vacancies, increased tax revenues, and increased property values,
- increased heritage visitors whose share of tourism has immense economic impact, and
- increased property values of historic districts in times of appreciation which helps stabilize property values in weak real estate markets.

In addition, according to the "Annual Report on the Economic Impact of the Federal Historic Tax Credit for FY 2012" issued by the NPS, the federal historic tax credit (HTC) is a tax expenditure and has a public cost. However, according to the report, the HTC yields a net benefit to the U.S. Treasury, generating $25.9 billion in federal tax receipts over the life of the program compared to $20.5 billion in tax credits allocated. The NPS uses a comprehensive preservation economic impact model developed by Rutgers University to analyze and evaluate the impact of the HTC. The NPS report concluded the HTC is a good investment for local communities, individual states and the nation and summarized cumulative impacts of the HTC to support this conclusion, such as:

- The HTC leverages private investment. An inflation-adjusted $20.5 billion in HTC cost encouraged a significantly greater investment in historic rehabilitation of $106.1 billion.
- The HTC generated approximately 2.4 million new jobs and billions of dollars of direct and secondary economic gains.
- The HTC had a positive cumulative impact, including $245.2 billion in national economic output, $121.2 billion in gross domestic product, $89.1 billion in income, $35.5 billion in taxes and $25.9 billion in federal tax receipts.

Findings and Recommendations

We reviewed the HPTC program to determine compliance with Chapter 404A of the *Code* and Chapter 223-48 of the IAC for fiscal years 2001 through 2013. We also reviewed the HPTC program to determine if the Department of Cultural Affairs and/or the Department of Revenue measure the ROI. As a result, we identified certain findings and recommendations relating to the HPTC program which should be considered by the Department of Cultural Affairs, the Iowa Department of Revenue and the Legislature.

FINDING A – Historic Preservation Fees

The SHPO collects a nonrefundable processing fee from applicants for the second and third parts of the application. The fees collected are used to offset the cost of administering the program. As of June 30, 2013, the unspent balance of application fees collected is $854,256, which appears excessive. Fees collected exceed the amount necessary to administer the program.

Recommendation – The SHPO should evaluate the reasonableness of the application fees collected and determine whether the fee schedule should be revised.

Response – The SHPO will evaluate the reasonableness of the application fees as recommended. Section 404A.3 of the *Code* was amended by the 2014 Iowa Acts, House File 2453. Since this statute was adopted, 2 new full-time staff positions have been incorporated into the SHPO for the primary purpose of assisting with the administration of the HPTC program. At current staff levels and with the anticipation fees will be collected at the same rate and scale moving into the future, the unspent balance will be expended by fiscal year 2018.

Conclusion – Response accepted.

FINDING B – Site Visits

According to a representative of the SHPO, not as many site visits have been performed recently due to staffing limitations combined with an increased work load resulting from an increase in HPTC program applications. The SHPO does not have established written policies and procedures for conducting site visits. In addition, the SHPO does not have a method in place to monitor site visits to determine which projects have been visited and the frequency of visits. As a result, the SHPO personnel are not able to observe the impact of the projects on the surrounding communities.

Recommendation – The SHPO should implement written policies and procedures regarding site visits at rehabilitation projects, including, but not limited to, the frequency of site visits, the selection of projects to be visited and the procedures to be performed during the site visit. In addition, the SHPO should create a database, or another monitoring tool, to ensure compliance with the policies and procedures established.

Response – The SHPO will implement written policies and procedures regarding site visits to rehabilitation projects in accordance with the recommendation.

Conclusion – Response accepted.

FINDING C – New Permanent Jobs

The new permanent jobs project type was implemented in fiscal year 2010. However, we determined it has only been utilized once since its inception. According to a representative of the SHPO, the new permanent jobs project type was created almost exclusively for a specific vendor as an incentive to rehabilitate the Roshek Building in Dubuque and create over 500 jobs upon completion of the project.

In fiscal year 2010, the SHPO reserved the entire $10 million allocated to the new permanent jobs project type for the Roshek Building project and reserved an additional $666,022 for the project in fiscal year 2011. As a result, $9,333,978 of the $10 million allocated to the new permanent jobs project type was unreserved as of June 30, 2011. This amount was subsequently reallocated to the disaster recovery project type in accordance with section 404A.4(4)(c) of the *Code* and rule 223-48.7(7) of the IAC. Additional unreserved new permanent jobs HP tax credits of $10 million for fiscal year 2012 and $9 million each year for fiscal years 2013 through 2015 were also reallocated by the SHPO.

Recommendation – In consultation with the Legislature, the SHPO should consider revising section 404A.4 of the *Code* and rule 223-48.7 of the IAC to rescind the new permanent jobs project type.

Response – As previously stated, section 404A.3 of the *Code* was amended by the 2014 Iowa Acts, House File 2453. The rewritten statute eliminated the previous lottery and reservation system along with the specified allocations for new permanent jobs, disaster recovery, and CEDs. The current statute identifies readiness criteria as the primary consideration for a rehabilitation project to be registered for the HPTC program. The categories identified in the previous statute (new permanent jobs, disaster recovery, and CEDs) are now components in a registration application designed to identify projects which are ready to proceed.

Conclusion – Response accepted.

FINDING D – Annual Report

We determined the SHPO has not consistently completed annual reports for each fiscal year, as required by section 404A.5 of the *Code*, as follows:

- A separate annual report was not issued for fiscal year 2003. Fiscal years 2003 and 2004 were included in a combined report submitted to the Legislature and the LSA in the spring of 2005.
- Although a brief overview report was issued by the SHPO for fiscal year 2007, the report did not contain sufficient content to demonstrate compliance with the requirements of the *Code* because sufficient detail was not provided regarding the economic impact of the rehabilitation projects. Economic impact information for fiscal year 2007 was subsequently reported by the SHPO in a combined report for fiscal years 2007 through 2009.
- A separate annual report was not issued for fiscal year 2008. Fiscal years 2007 through 2009 were included in a combined report submitted on August 24, 2010.
- No annual reports were issued by the SHPO for fiscal years 2010 through 2012.

According to an SHPO representative, the SHPO hired a private consultant to prepare an economic impact report for the HPTC program since its inception. The consultant report was provided to SHPO in May 2014. Subsequently, IDR, in conjunction with SHPO, submitted a preliminary multi-year report covering the period July 1, 2009 through June 30, 2014 to the Committee in December 2014. According to a representative of SHPO, a final report will be submitted to the Committee during the 2015 legislative session. However, the issuance of multi-year reports does not comply with section 404A.5 of the *Code*. In addition, section 404A.5 of the *Code* does not include a required submission date for the annual report.

Although the combined report for fiscal years 2007 through 2009 specified projects which received awards for outstanding preservation, the report did not detail the reasons the projects were selected or provide specifics of the impact the projects had on the local community. As a result, it is not possible to measure the success of the HPTC program in these communities or substantiate any positive impact was a direct result of the projects. In addition, the combined report included estimated increases in the assessed values of property and annual tax revenue. However, no subsequent analysis was performed using actual, verified amounts to determine the reasonableness of the estimates. The combined report also did not contain an overall summary and/or conclusion on the success of the HPTC program.

Recommendation – The SHPO should submit annual reports on the HPTC program to the Legislature and the LSA, as required by section 404A.5 of the *Code*. In addition, the Legislature should consider revising section 404A.5 of the *Code* to require the annual report include an overall summary and/or conclusion on the success of the HPTC program and implement a specific report submission due date.

Response – The SHPO will submit the necessary annual reports as required by section 404A.5 of the *Code*.

Conclusion – Response accepted.

FINDING E – Return on Investment (ROI)

Although the SHPO is not specifically required to calculate ROI for the HPTC program, section 404A.5 of the *Code* requires the SHPO to report the economic impact of the HPTC program in each annual report. During the 2005 legislative session, the Legislature directed the IDR to perform periodic evaluations of the various tax credit programs. In March 2009, the IDR issued an evaluation report on the HPTC program. However, based on a review of the evaluation report, we were unable to determine the extent, if any, to which the HPTC program is meeting the intent of the Legislature. While the evaluation methods used by the IDR analyze statistical trends within the communities with rehabilitation projects, such as sales revenue growth, median salary growth, or property tax value increases, there is no way to determine whether any increases in those statistical trends are a direct result of rehabilitation projects. The evaluation report did not include an examination of all project locations because sufficient data was not available. In addition, the overall economic impact of the rehabilitation of eligible projects was not determined, and the limited survey responses received by the IDR were not independently verified.

Because the SHPO did not consistently submit annual reports to the Legislature and the LSA, as required by the *Code*, the economic impact for each of the latest 12-month periods of the HPTC program was not consistently available to the Legislature and the LSA. Also, the annual reports submitted by the SHPO do not include an overall summary and/or conclusion on the success of the HPTC program. Although the IDR required completion of Historic Preservation Tax Credit Surveys effective July 1, 2009, limited verification procedures are performed on the survey responses by the SHPO and the IDR. For example, there is no independent verification of the job information reported by the applicants.

Although the calculation and report on ROI was not required, the Panel's January 2010 report included a summary of the benefits and costs of the HPTC program. However, the IDR was unable to provide supporting documentation for the statistics and conclusions presented in the Panel's report. As a result, we were unable to determine how the Panel arrived at the conclusions included in the report. In December 2014, IDR, in conjunction with SHPO, submitted a preliminary report to the Committee which included discussion of the economic impact of the HPTC program. However, the economic model used includes significant assumptions, and there are significant limitations which makes further study necessary.

Based on a review of available information and discussions with representatives of the SHPO and the IDR, we determined the economic impact of the HPTC program is difficult to measure and sufficient verifiable data may not be available to ensure an accurate, reliable ROI can be calculated. As a result, the SHPO and the IDR cannot easily measure and conclude on the success of the HPTC program. In addition, because ROI is not currently calculated, it is not possible to measure the economic impact of the reduced tax liability or tax refund created by the HP tax credits.

Recommendation – The SHPO, in conjunction with the IDR, should develop a method to calculate ROI and measure the success of the HPTC program. The SHPO and the IDR should ensure supporting documentation is maintained for all ROI calculations and sufficient, verifiable data is obtained to ensure an accurate, reliable ROI can be calculated. Should surveys continue to be used as a tool to gather information, procedures should be established to verify the information provided by HP tax credit recipients. If the ROI and success of the HPTC program cannot be measured, the SHPO, in conjunction with the IDR, should consider whether HP tax credits should remain refundable.

Response – The SHPO will work with IDR and local (city and county governments) to develop a method to determine the ROI and measure the success of the HPTC program in accordance with the recommendations.

Conclusion – Response accepted.

Schedule

Historic Preservation Tax Credits Allocated and Reserved by Fiscal Year by Project Type
For the Period July 1, 2000 through June 30, 2013

Fiscal Year	Description	CED-GP	Disaster Recovery	New Permanent Jobs
2001	Maximum tax credits	$ -	-	-
	Reserved tax credits	-	-	-
	Unreserved tax credits	-	-	-
	Number of reserved projects	-	-	-
2002	Maximum tax credits	$ -	-	-
	Reserved tax credits	-	-	-
	Unreserved tax credits	-	-	-
	Number of reserved projects	-	-	-
2003	Maximum tax credits	$ -	-	-
	Reserved tax credits	-	-	-
	Unreserved tax credits	-	-	-
	Number of reserved projects	-	-	-
2004	Maximum tax credits	$ -	-	-
	Reserved tax credits	-	-	-
	Unreserved tax credits	-	-	-
	Number of reserved projects	-	-	-
2005	Maximum tax credits	$ -	-	-
	Reserved tax credits	-	-	-
	Unreserved tax credits	-	-	-
	Number of reserved projects	-	-	-
2006	Maximum tax credits	$ 4,000,000	-	-
	Reserved tax credits	3,998,595	-	-
	Unreserved tax credits	1,405	-	-
	Number of reserved projects	9	-	-
2007	Maximum tax credits	$ 4,000,000	-	-
	Reserved tax credits	4,000,000	-	-
	Unreserved tax credits	-	-	-
	Number of reserved projects	5	-	-
2008	Allocation percentage*	40%	-	-
	Maximum tax credits	$ 4,000,000	-	-
	Reserved tax credits	4,405,080	-	-
	Unreserved tax credits	(405,080)	-	-
	Number of reserved projects	8	-	-
2009	Allocation percentage	40%	-	-
	Maximum tax credits	$ 6,000,000	-	-
	Reserved tax credits	10,774,098	-	-
	Unreserved tax credits	(4,774,098)	-	-
	Number of reserved projects	16	-	-

Statewide	Small	Rollover (Statewide)	Total	
2,400,000	-	-	2,400,000	
2,400,000	-	-	2,400,000	
-	-	-	-	
18	-	-	18	
2,400,000	-	-	2,400,000	
2,400,000	-	-	2,400,000	
-	-	-	-	
12	-	-	12	
2,400,000	-	-	2,400,000	
2,400,000	-	-	2,400,000	
-	-	-	-	
8	-	-	8	
2,400,000	-	-	2,400,000	
2,400,000	-	-	2,400,000	
-	-	-	-	
5	-	-	5	
2,400,000	-	-	2,400,000	
2,325,000	-	-	2,325,000	
75,000	-	-	75,000	^
6	-	-	6	
2,400,000	-	-	6,400,000	
2,401,405	-	-	6,400,000	
(1,405)	-	-	-	
7	-	-	16	
2,400,000	-	-	6,400,000	
2,400,000	-	-	6,400,000	
-	-	-	-	
13	-	-	18	
50%	10%	-	100%	
5,000,000	1,000,000	-	10,000,000	
5,572,420	22,500	-	10,000,000	
(572,420)	977,500	-	-	
12	2	-	22	
50%	10%	-	100%	
7,500,000	1,500,000	-	15,000,000	
4,096,654	95,317	-	14,966,069	
3,403,346	1,404,683	-	33,931	^
14	7	-	37	

Historic Preservation Tax Credits Allocated and Reserved by Fiscal Year by Project Type
For the Period July 1, 2000 through June 30, 2013

Fiscal Year	Description	CED-GP	Disaster Recovery	New Permanent Jobs
2010	Allocation percentage	30%	20%	20%
	Maximum tax credits	$ 15,000,000	10,000,000	10,000,000
	Reserved tax credits	14,908,122	9,443,105	10,000,000
	Unreserved tax credits	91,878	556,895	-
	Number of reserved projects	13	18	1
2011	Allocation percentage	30%	20%	20%
	Maximum tax credits	$ 15,000,000	10,000,000	10,000,000
	Reserved tax credits	15,000,000	6,309,429	666,022
	Unreserved tax credits	-	3,690,571	9,333,978
	Number of reserved projects	7	13	1
2012	Allocation percentage	30%	20%	20%
	Maximum tax credits	$ 15,000,000	10,000,000	10,000,000
	Reserved tax credits	14,339,051	-	-
	Unreserved tax credits	660,949	10,000,000	10,000,000
	Number of reserved projects	9	-	-
2013	Allocation percentage	30%	20%	20%
	Maximum tax credits	$ 13,500,000	9,000,000	9,000,000
	Reserved tax credits	13,474,091	8,978,500	-
	Unreserved tax credits	25,909	21,500	9,000,000
	Number of reserved projects	12	8	-
2014	Allocation percentage	30%	20%	20%
	Maximum tax credits	$ 13,500,000	9,000,000	9,000,000
	Reserved tax credits	13,489,140	6,991,417	-
	Unreserved tax credits	10,860	2,008,583	9,000,000
	Number of reserved projects	10	7	-
2015	Allocation percentage	30%	20%	20%
	Maximum tax credits	$ 13,500,000	9,000,000	9,000,000
	Reserved tax credits	13,412,677	9,000,000	-
	Unreserved tax credits	87,323	-	9,000,000
	Number of reserved projects	13	4	-
Totals	Average allocation percentage	30.9%	17.0%	17.0%
	Maximum tax credits	$103,500,000	57,000,000	57,000,000
	Reserved tax credits	107,800,854	40,722,451	10,666,022
	Unreserved tax credits	(4,300,854)	16,277,549	46,333,978
	Number of reserved projects	102	50	2

* - Effective fiscal year 2008, the Legislature specified allocation percentages for each project type in addition to the maximum tax credits.

Statewide	Small	Rollover (Statewide)	Total	
20%	10%	-	100%	
10,000,000	5,000,000	-	50,000,000	
10,357,106	4,556,816	42,133	49,307,282	
(357,106)	443,184	(42,133)	692,718	^
11	72	1	116	
20%	10%	-	100%	
10,000,000	5,000,000	-	50,000,000	
10,000,000	4,875,000	13,024,549	49,875,000	
-	125,000	(13,024,549)	125,000	^
27	122	18	188	
20%	10%	-	100%	
10,000,000	5,000,000	-	50,000,000	
10,598,053	2,466,728	20,062,897	47,466,729	
(598,053)	2,533,272	(20,062,897)	2,533,271	^
6	47	11	73	
20%	10%	-	100%	
9,000,000	4,500,000	-	45,000,000	
9,000,000	-	8,777,295	40,229,886	
-	4,500,000	(8,777,295)	4,770,114	
8	-	17	45	
20%	10%	-	100%	
9,000,000	4,500,000	-	45,000,000	
9,000,000	340,393	10,664,454	40,485,404	
-	4,159,607	(10,664,454)	4,514,596	
13	8	12	50	
20%	10%	-	100%	
9,000,000	4,500,000	-	45,000,000	
8,999,372	-	8,874,722	40,286,771	
628	4,500,000	(8,874,722)	4,713,229	
14	-	10	41	
25.8%	9.3%	-	100%	
86,300,000	31,000,000	-	334,800,000	
84,350,010	12,356,754	61,446,050	317,342,141	
1,949,990	18,643,246	(61,446,050)	17,457,859	#
174	258	69	655	

# - Total unreserved tax credits	$ 17,457,859
^ - Less: Expired unreserved tax credits	3,459,920
Total unreserved tax credits as of June 30, 2013	$ 13,997,939

Staff

This review was conducted by:

Annette K. Campbell, CPA, Director
Jennifer Campbell, CPA, Manager
Melissa J. Knoll-Speer, Senior Auditor II
Mark C. Moklestad, CPA, Senior Auditor

Tamera S. Kusian

Tamera S. Kusian, CPA
Deputy Auditor of State

Appendices

A Review of the
Historic Preservation Tax Credit Program

Summary of Current Tax Credit Programs Administered by the State

The Tax Credits Users' Manual includes a summary of the 36 tax credits currently administered by state agencies, including the Iowa Economic Development Authority (IEDA), the Iowa Department of Revenue (IDR), the Iowa Agricultural Development Authority (IADA) and the Iowa Utilities Board (IUB). In addition, the State's community colleges administer certain tax credits. Tax credits may be:

- Automatic – The tax credit may be claimed on an Iowa return by any taxpayer meeting the eligibility requirements for the program.
- Awarded – The tax credit is awarded by an administering state agency in accordance with eligibility and administrative requirements contained in relevant chapters of the Iowa Administrative Code (IAC).
- Transferable – The tax credit may be sold to other taxpayers to reduce their tax liability. See **Appendix B** for additional information.
- Refundable – The tax credit can reduce the taxpayer's tax liability below zero. As a result, it is possible to receive a tax refund from this type of tax credit. See **Appendix B** for additional information.
- Carried forward – The tax credit can be claimed on future tax returns. The carry forward time period for tax credits vary and are established by specific sections of the *Code of Iowa*.
- Sunsetted – The tax credit may be repealed by the Legislature on a certain date, as required by the relevant section of the *Code*. See **Appendix B** for additional information.

The IEDA is primarily responsible for administering or monitoring the following tax credits:

- Accelerated Career Education Program (ACE) – This withholding credit is administered by Iowa's community colleges and provides credits for employers which sponsor training programs at community colleges.
- Assistive Device – This tax credit is available to taxpayers who make investments in assistive devices which allow for disability workplace accommodations and applies to corporate income tax.
- Endow Iowa – This tax credit is equal to 25% of a taxpayer's endowment gift (up to 5% of the aggregate annual award limit, or $300,000, for a single taxpayer) to a qualified community foundation. Endow Iowa applies to corporate income tax, individual income tax, franchise tax, insurance premium tax and monies and credits tax.
- Enterprise Zone (EZ) – This tax credit is available to encourage investment in Iowa's economically distressed areas. Local and state tax credits, refunds and exemptions are available for qualifying companies expanding or locating in designated EZs. A business locating or expanding in an EZ may receive multiple tax incentives. This tax credit applies as follows:
    - The county or city for which an eligible EZ is certified may exempt from property tax all or a portion of the value added to the property upon which an eligible business locates or expands and which is used in the operation of the eligible business. The exemption shall be authorized by the city or county which would have been entitled to receive the property tax but is electing to forego the tax revenue for an eligible business under this program. The amount of value added for purposes of section 15E.196 of the *Code* shall be the amount of the increase in assessed valuation of the property following the location or expansion of the business in the EZ.

- The new jobs supplemental tax credit applies to withholding tax. An approved business shall receive a new jobs supplemental tax credit from withholding in an amount equal to 1.5% of the gross wages paid by the business, as provided in section 15E.197 of the *Code*. The new jobs supplemental tax credit available under this program is in addition to, and not in lieu of, the program and withholding credit of 1.5% authorized under Chapter 260E of the *Code*.

- A business is eligible for a refund of sales, service and use tax paid to contractors and subcontractors as authorized in section 15.331A of the *Code*. An eligible business may apply for a refund of the sales, service and use tax paid under Chapters 422 and 423 of the *Code* for gas, electricity, water/sewer utility services, goods, wares/merchandise or services rendered, furnished or performed to/for a contractor or subcontractor and used in the fulfillment of a written contract relating to the construction or equipping of a facility within an EZ. Taxes attributable to intangible property and furniture/furnishings shall not be refunded.

- The housing investment tax credit applies to corporate income tax, individual income tax, franchise tax and insurance premium tax. This tax credit equals up to 10% of the new investment which is directly related to the building or rehabilitating of a minimum of 4 single-family homes or 1 multiple dwelling unit building containing 3 or more individual dwelling units located in that part of a city or county in which there is a designated EZ.

- The investment tax credit applies to corporate income tax, individual income tax, franchise tax, insurance premium tax and monies and credits tax. This tax credit is up to 10% of the new investment in machinery and equipment, land, buildings and improvements to existing buildings. This tax credit may be carried forward for up to 7 years. For EZ projects approved on or after July 1, 2005, the investment tax credit must be amortized over a 5-year period.

- The supplemental research activities tax credit applies to corporate income tax and individual income tax and allows taxpayers to as much as double their research activities tax credit, administered by the IDR, for up to 5 years for awards made prior to July 1, 2010. Effective July 1, 2010, the supplemental research activities tax credit is based on gross receipts of the program participants and may be claimed by taxpayers on a corporate or individual tax return over a 5-year period if the total amount of the award is not claimed previously.

* High Quality Jobs Program (HQJP) – HQJP provides tax benefits to eligible companies which create high-paying jobs and make capital investments. HQJP replaced the New Jobs and Income and the New Capital Investment Programs. The amount of tax incentives awarded is dependent on the number of jobs created or retained and the qualifying investment made. Actual award amounts are based on the business' level of need, the quality of the jobs, the percentage of created jobs defined as high-quality and the economic impact of the project. This tax credit applies as follows:

  - The supplemental research activities tax credit, the investment tax credit and the sales tax refund are administered in the same manner as the EZ tax credit.

  - The value-added property tax exemption allows communities to exempt all or a portion of the actual value added by improvements to real property directly related to jobs created or retained by the location or expansion of the approved business and used in the operations of the approved business. The exemption may be allowed for a period not to exceed 20 years beginning the year the improvements are first assessed. Improvements include new construction and rehabilitation of and additions to existing structures. The exemption applies to all taxing districts in which the real property is located. The community is to provide the IEDA and the local assessor with a copy of the resolution adopted by its governing body which indicates the estimated value and duration of the authorized exemption.

  - The corporate tax credit for certain sales tax paid by a third-party developer allows approved businesses to claim a corporate tax credit up to an amount equal to the sales and use tax paid by a third-party developer under Chapter 423 of the *Code* for gas, electricity, water/sewer utility services, goods, wares/ merchandise or services rendered, furnished or performed to/for a contractor or subcontractor and used in the fulfillment of a written contract relating to the construction or equipping of a facility of the approved business. Taxes attributable to intangible property and furniture and furnishings shall not be refunded.

- Innovation Fund – A 25% tax credit is allowed for investments in an innovation fund approved by the IEDA. This fund is focused on making investments in businesses applying novel or original methods to manufacture a product or deliver a service. Innovation Fund applies to corporate income tax, individual income tax, franchise tax, insurance premium tax and monies and credits tax.

- Iowa Industrial New Jobs Training Program – This program, administered by Iowa community colleges, assists businesses which are creating new positions with new employee training. Participating companies divert withholding tax which would be remitted to the IDR to a community college to pay for training for company employees.

- Redevelopment – This tax credit is available to taxpayers investing in redeveloping a brownfield or grayfield site. A brownfield site is defined as an abandoned, idled or underutilized industrial or commercial facility where expansion or redevelopment is complicated by real or perceived environmental contamination. A grayfield site is defined as a property which has been developed and has infrastructure in place but the property's current use is outdated or prevents a better or more efficient use of the property. Such property includes vacant, blighted, obsolete or otherwise underutilized property. This tax credit applies to corporate income tax, individual income tax, franchise tax, insurance premium tax and monies and credits tax.

- Research Activities – Approved businesses may claim a corporate tax credit for increasing research activities in Iowa during the period the approved business participates in the program. Effective January 1, 1985, this tax credit is available for 6.5% of Iowa's apportioned share of qualifying expenditures for increasing research activities. The research activities tax credit is based on the rules governing the federal research and experimentation tax credit, with the Iowa tax credit equal to the ratio of Iowa qualified research expenditures over total qualified research expenditures. In tax years 2000 through 2009, taxpayers could elect to take the alternative incremental research activities tax credit. Beginning in 2010, taxpayers could elect to take the alternative simplified research activities tax credit.

- Targeted Jobs – A withholding tax credit is available to employers who enter into an agreement with pilot project cities approved by the IEDA. Current pilot project cities include Burlington, Council Bluffs, Fort Madison, Keokuk and Sioux City. Because Fort Madison and Keokuk are in the same county and have a total population of fewer than 45,000, they are considered as one pilot city due to changes in the legislation in 2007. This tax credit had a sunset date of June 30, 2013, which was extended to June 30, 2018.

- Venture Capital – Qualified Business or Community-Based Seed Capital Fund – A tax credit is allowed for 20% of the equity investment made in a qualifying business or community-based seed capital fund approved by the IEDA. This credit is focused on "angel investors" who make investments in start-up companies. Effective July 1, 2011, the program has an award cap of $2 million per fiscal year and the administration of the credit was moved from the Iowa Capital Investment Board to the IEDA.

Although the IDR is indirectly involved in the administration and reporting of all tax credits, it is directly responsible for administering the following tax credits:

- Biodiesel Blended Fuel – This tax credit is available to retail dealers who sell biodiesel blended fuel through motor fuel pumps during the tax year. This tax credit had a sunset date of December 31, 2012, which was extended to December 31, 2017.
- Charitable Conservation Contribution – This tax credit is available to individual and corporate taxpayers who make an unconditional charitable donation of a qualified real property interest located in Iowa to a qualified organization exclusively for conservation purposes.
- Child and Dependent Care – This tax credit is available to individual taxpayers who have eligible child and dependent care expenses. Eligible taxpayers must have net income of $45,000 or less.
- Claim of Right – This tax credit may be taken if there was income repaid in the current tax year which was reported and taxed on a prior Iowa tax return. Taxpayers claim the credit, if eligible, on their individual income tax return.
- E15 Plus Gasoline Promotion – This tax credit is available to retail dealers of gasoline who sell blended gasoline classified as E15 or higher, except E85 gasoline, through motor fuel pumps during the tax year. This tax credit applies to qualifying gallons sold on a companywide basis and has a sunset date of January 1, 2018. The amount of the tax credit is determined by multiplying the total number of eligible gallons sold by $.03 for calendar years 2011 through 2014 and $.02 for calendar years 2015 through 2017.
- E85 Gasoline Promotion – This tax credit is available to retail dealers of gasoline who sell E85 gasoline through motor fuel pumps during the tax year. The amount of the credit is $.16 per gallon and the tax credit has a sunset date of January 1, 2018.
- Early Childhood Development – This tax credit is equal to 25% of the first $1,000 of expenses paid for early childhood development expenses for each dependent ages 3 years to 5 years. This tax credit is only available to taxpayers whose net income is less than $45,000. If the taxpayer claims Early Childhood Development, the taxpayer cannot claim Child and Dependent Care.
- Earned Income – This tax credit is available to individual taxpayers who qualify for the federal earned income tax credit and equals 7% of the federal earned income tax credit. During the 2013 legislative session, this tax credit was coupled with the permanent increases in the federal earned income tax credit and increased to 14% for the 2013 tax year and 15% for tax years beginning on or after January 1, 2014.
- Ethanol Promotion – This tax credit is available to retail dealers of ethanol blended gasoline. The amount of the tax credit is based on the actual amount of ethanol gallons sold. This tax credit has a sunset date of January 1, 2021. Ethanol Promotion applies to individual income tax and corporate income tax.
- Farm to Food Donation – This tax credit is available to taxpayers producing a food commodity and donating that commodity to an Iowa food bank or an Iowa emergency feeding organization. Farm to Food Donation applies to corporate income tax and individual income tax. This tax credit, created during the 2013 legislative session, is effective for tax years beginning on or after January 1, 2014.
- Franchise – If a financial institution elects to file as an S corporation for federal income tax purposes and have its income taxed directly to the shareholders, those shareholders qualify for a franchise tax credit equal to their pro-rata share of the Iowa franchise tax paid by the financial institution. The franchise tax credit applies to corporate income and individual income tax.
- Geothermal Heat Pump – This tax credit is available for individual income tax equal to 20% of the federal residential energy efficient property tax credit allowed for geothermal heat pumps provided in section 25D(a)(5) of the Internal Revenue Code for residential property located in Iowa. The federal tax credit is available for property

placed in service before January 1, 2017. As a result, the Iowa tax credit will be available for the 2012 through 2016 tax years. These tax credits do not require an award. Taxpayers claim the tax credit, if eligible, on their individual income tax return.

- Minimum – A taxpayer may be eligible for the minimum tax credit if they paid Iowa minimum tax in previous years based on tax preferences and adjustments. The tax credit is limited to the extent the regular tax less all "other nonrefundable" tax credits exceeds the alternative minimum tax for a tax year.
- Motor Vehicle Fuel – An income tax credit is allowed for the amount of Iowa motor fuel tax paid relating to purchases for off-road use made by individuals and corporations. This tax credit is allowed for taxpayers who do not have a motor fuel refund permit.
- S Corporation Apportionment – Individual resident shareholders of S corporations which conduct business within and outside of Iowa can claim an S corporation apportionment tax credit. This tax credit is structured to tax the S corporation on the greater of income attributable to Iowa under the single sales factor or actual distributions by the S corporation less federal income tax. The intent is to treat S corporations similar to C corporations which are entitled to apportion income within and outside of Iowa.
- School Tuition Organization – This tax credit is available for 65% of the amount of a voluntary cash contribution made by a taxpayer to a school tuition organization. The contribution cannot be used for the direct benefit of any dependent of the taxpayer or any other student designated by the taxpayer.
- Solar Energy System – This tax credit is available for individual income tax and corporate income tax for solar energy systems installed on a residence or business located in Iowa. Total tax credits awarded for systems installed during a calendar year cannot exceed $1.5 million. Awards are made on a first-come, first-served basis.
- Taxpayers Trust Fund – This tax credit is available in any year in which the Iowa Taxpayers Trust Fund balance exceeds $30 million. The first year it was available was tax year 2013 for all individuals who file an Iowa income tax return by October 31, 2014. The tax credit amount, calculated each year by the IDR, equals the amount of the transfer divided by the number of eligible taxpayers who filed timely returns during the prior tax year. The credit is nonrefundable, but is claimed after all credits have been claimed against the individual income tax imposed. Therefore, only taxpayers with an Iowa tax liability can claim the tax credit.
- Tuition and Textbook – This tax credit is available to individual taxpayers who have 1 or more dependents attending grades kindergarten through 12 in an accredited Iowa school. This tax credit does not apply to home schooling expenses.
- Venture Capital – Iowa Fund of Funds (IFOF) – A contingent tax credit is allowed for investments made into the IFOF. The tax credit is only allowed to the extent the actual rate of return on these investments does not meet the rate of return guaranteed to investors. Tax credits are awarded only when investors present mature investment certificates and the Iowa Capital Investment Board certifies the return is lower than the guaranteed rate of return.
- Volunteer Firefighter and Volunteer Emergency Medical Services Personnel – Effective January 1, 2013, this tax credit is applicable to individual income tax for volunteer firefighters and volunteer emergency medical services personnel. A volunteer firefighter must be an active member of an organized volunteer fire department in Iowa who has met the minimum training standards established by the Fire Service Training Bureau. Volunteer emergency medical services personnel must be individuals who are trained to provide emergency medical care and who are certified as first responders and have been issued a certificate by the Iowa Department of Public Health.

The IADA is responsible for administering the Beginning Farmer tax credit, an agricultural assets transfer tax credit allowed for agricultural assets which are subject to a lease or rental agreement. The renter must qualify as a beginning farmer, and the lease must have a term of at least 2, but not more than 5, years. This tax credit equals 7% of the amount paid to the taxpayer under the agreement or 17% of the amount paid to the taxpayer from crops or animals sold under an agreement in which the payment is exclusively made from the sale of crops or animals.

The IUB is responsible for administering the following tax credits:

- Renewable Energy – This tax credit is available for a producer or purchaser of energy from an eligible renewable energy facility approved by the IUB. A power-purchase agreement is signed between the purchaser and producer which sets forth which party will receive the tax credit. The tax credit can also be received for renewable energy produced for on-site consumption by the producer provided the facility is capable of producing no less than three-fourths of a megawatt. A renewable energy facility includes a wind energy conversion facility, a biogas recovery facility, a biomass conversion facility, a methane gas recovery facility or a solar energy conversion facility located in Iowa and placed in service between July 1, 2005 and January 1, 2015. This tax credit has a sunset date of December 31, 2021.
- Wind Energy Production – This tax credit is for electrical production facilities which produce electricity from wind and are approved as eligible by the local board of supervisors and the IUB. The IDR determines the amount of the tax credits and issues the tax credit certificates, which authorize credits to be claimed by eligible applicants. Wind energy production can be claimed by a qualified facility which was originally placed in service on or after July 1, 2005 but before July 1, 2012.

A Review of the
Historic Preservation Tax Credit Program

Summary of the Tax Credit Review Panel's January 2010 Report on Tax Credits

- Accountability and Transparency – The public does not have the information needed to analyze and discuss the effectiveness of the state's tax credit programs. The Panel recommended the Revenue Estimating Conference make available a list of the types and amounts of tax credit claims at each meeting to clearly identify what is being "spent" for that year in the form of tax credits.
- Return on Investment – Each tax credit program should be evaluated using sound cost-effectiveness analysis techniques which incorporate appropriate assumptions. Key considerations to be taken into account should include whether the public investment produced greater business activity by the recipient and whether the tax credit produced a net increase in economic activity.
- Transferability – The ability to transfer tax credits complicates tracking of tax credits, creates uncertainty about when tax credits will be claimed and siphons resources from tax credit recipients through brokerage fees. In addition, the individual or entity which ultimately benefits from the tax credit is not the entity targeted by the program or undertaking the intent of the program. Once a tax credit is transferred, there is limited recourse for the State to recover funds claimed in instances where the business awarded the original tax credit does not fulfill the contracted obligations or if the tax credit was awarded in error. The Panel recommended the State eliminate the ability to transfer all tax credits. At the time of the report, 7 of the 36 tax credits were transferable, including:
    - Redevelopment,
    - Housing investment tax credit within an EZ,
    - Film, Television and Video Production Promotion (subsequently repealed),
    - Historic Preservation,
    - Renewable Energy,
    - Venture Capital – IFOF and
    - Wind Energy Production.
- Capping – In fiscal year 2010, the former Governor proposed a global cap on all uncapped tax credits. The Legislature approved this proposal by adopting a $185 million global cap. However, 7 business-related programs, with no separate individual cap, were not included in the global cap. It is very difficult to have any predictability and stability for the state budget without caps on the tax credit programs. The Panel recommended moving all business-related credits under the $185 million cap for the IEDA.
- Sunsetting – Economic challenges facing the State change regularly and, as a result, the tax credit programs should be reviewed regularly. Having an opportunity to review the effectiveness of a tax credit program on a regular basis would help ensure the State does not maintain a program which is not providing economic activity, creating jobs, helping businesses or achieving the desired results. The Panel recommended the State require a 5 year sunset for each tax credit program to allow policy makers and the public to know which tax credit programs are achieving desired results. At the time of the report, 25 of the 36 tax credit programs did not have a sunset.
- Refundability – This allows a taxpayer with a tax credit claim in excess of any tax liability to receive the difference as a payment with the filing of a tax return. This increases the fiscal impact of a tax credit because a claim is not limited to the tax generated on the income earned by the taxpayer. A taxpayer may receive a refund even though the taxpayer has no tax liability and paid no Iowa income taxes. The Panel recommended the refundability provision of the Research Activities tax credit be eliminated for large companies, defined as those with gross receipts in excess of $20 million annually, and, instead, allow these companies a 5-year carryforward for their research investment.

A Review of the
Historic Preservation Tax Credit Program

Qualified Rehabilitation Cost Schedule

Qualified Rehabilitation Cost (QRC) Schedule

Historic Preservation and Cultural and Entertainment District Tax Credit

Historic Property Name: ____________________ **STC #:** __________

Report Type (select only one and fill in estimated and/or final qualified rehabilitation costs, as appropriate)

☐ Project Commencement Report — Estimated total qualified rehabilitation costs: __________

☐ Project Completion Report — Final qualified rehabilitation costs: __________

Part 2 Approval Date: __________ — Placed in Service Date: __________

Specified Timeframe for QRC Schedule

Start Date: __________

End Date: __________

Project Type (select only one)

☐ Commercial/Multi-family Housing (3+ housing units)

☐ Residential Property (1-2 housing units) or Barn

Item	Qualified Cost	Ineligible Cost	Total Cost
Building/land acquisition	n/a		
Sitework			
Site grading & excavation			
Landscaping, surface parking, roads and walks	n/a		
Site utilities	n/a		
Non-eligible buildings			
Demolition	n/a		
New construction	n/a		
Work on or in eligible property			
Demolition			
Addition: non-code required	n/a		
Addition: code required			
Concrete			
Masonry			
Metals			
Wood			
Thermal and moisture protection (roofing, siding)			
Doors and windows			
Finishes (wall, ceiling, floor, etc)			
Equipment			
Furnishings			
Conveying system (elevators)			
Mechanical (plumbing, HVAC)			
Electrical			
Other & special construction (specify on detail page)			
Fees, Permits, and Soft Costs			
Architect/Engineer/Design			
Attorney/Accountant			
Other Consultants (specify on detail page)			
Historic Tax Credit Fees			
Other Fees (specify on detail page)			
Permits			
Other soft costs (specify on detail page)			
Total Project Costs			

A Review of the
Historic Preservation Tax Credit Program

Qualified Rehabilitation Cost Schedule

Qualified Rehabilitation Cost (QRC) Schedule - Detail Page

Other Work on Eligible Property	Qualified Cost	Ineligible Cost	Total Cost
(enter details here)			
Total Costs for Other Work on Eligible Property			

Other Consultants	Qualified Cost	Ineligible Cost	Total Cost
(enter details here)			
Total Costs for Other Consultants			

Other Fees	Qualified Cost	Ineligible Cost	Total Cost
(enter details here)			
Total Costs for Other Fees			

Other Soft Costs	Qualified Cost	Ineligible Cost	Total Cost
(enter details here)			
Total Costs for Other Soft Costs			

A Review of the
Historic Preservation Tax Credit Program

Historic Preservation Tax Credits Survey

IOWA Department of REVENUE

Historic Preservation Tax Credits Survey
Complete a Separate Form for Each Project
Return to Department of Revenue (See instructions.)

Reset Form Print Form

Part 1: Property Information
A: Owner Information

Property Name: ____________________
STC Project Number: ____________________
Project Address:
Street Address: ____________ City ____________ Zip ________
Building Owner: ____________________
Contact Person: ____________ Company: ____________
Phone Number: ____________ E-Mail Address: ____________
Mailing Address:
Street Address: ____________ City ____________ State ___ Zip______

B: Building Information

1. Year Building Constructed: ________ 2. Year Building Purchased: ________

3. Building Use Prior to Rehabilitation Project: ____________________

C: Project Information

1. Project Start Date: ________ 2. Project Completion Date: ________

3. Number of Stories Above Grade: ______

4. Total Building Square Footage Above Grade: ________

5. Building Use After Rehabilitation Project ____________________

6. Building Usage (or Measures) Before and After Rehabilitation:

	Before	After
Total Residential Space (units)	______	______
Low-Income Residential Space (units)	______	______
Retail Space (square feet)	______	______
Restaurant/ Bar Space (square feet)	______	______
Office Space (square feet)	______	______
Warehouse Space (square feet)	______	______
Manufacturing Space (square feet)	______	______
Educational\ Museum\ Library Space (square feet)	______	______
Hotel or Other Lodging (guest rooms)	______	______
Parking Spaces (number)	______	______
Other ____________________	______	______

D: Property Valuation and Taxation

1. Is this building eligible for the State Historic Property Tax Exemption? Yes ☐ No ☐
2. Have property taxes been abated for this building? Yes ☐ No ☐

4/8/2013 Revised April 2013 1/2

A Review of the
Historic Preservation Tax Credit Program

Historic Preservation Tax Credits Survey

Historic Preservation
Tax Credits Survey

3. If property taxes have been abated, please describe the nature of the abatement:
   ____
   ____
4. Assessed Value of Property in Year Prior to Project Start 4. $ ____________
5. Assessed or Appraised Value After Project Completion 5. $ ____________

Part 2: Project Finance (complete once per project)

A: Project Costs

1. Total Qualified Rehabilitation Cost 1. $ ____________
2. Other Non-Qualified Project Costs 2. $ ____________
   a. Total Project Cost (Line 1 + Line 2) a. $ ____________

B: Project Financing

1. Private External Financing (debt or equity)
   a. Debt 1a. $ ____________
   b. Equity 1b. $ ____________
2. Internal Financing 2. $ ____________
3. State Historic Preservation Tax Credit 3. $ ____________
4. Federal Historic Preservation Investment Tax Credit 4. $ ____________
5. Federal Low Income Housing Tax Credit 5. $ ____________
6. Iowa Enterprise Zone Program Tax Credits 6. $ ____________
7. Local Forgivable Loans 7. $ ____________
8. City Grants 8. $ ____________
9. Low Interest Loans 9. $ ____________
10. Other (specify) ____________________ 10. $ ____________
11. Other (specify) ____________________ 11. $ ____________
    a. Total Financing (Add Section B, Lines 1 through 11) a. $ ____________
    Should equal Section A, Line 2a.

C: Rehabilitation Project Resources and Costs

1. Labor Costs: ____________ 1a. Number of Workers: ____________
2. Materials Costs: ____________ Description of "Other" Costs: ____________
3. Other Costs: ____________ ______________________________
4. Total Costs: ____________ ______________________________
   (Add Section C, Lines 1 through 3) ______________________________
   Should equal Section A, Line 2a.

D: Distribution of Expenditures (percentages)

	Location County	Other Iowa	Outside Iowa
1. Labor	________	________	________
2. Materials	________	________	________
3. Other	________	________	________

For Department of Revenue Use:
Acceptance Date ____________

2/2

A Review of the
Historic Preservation Tax Credit Program

Historic Preservation Tax Credits Survey

Instructions for Historic Preservation Tax Credit Survey

The completed survey form either may be emailed to Kathy.mcaninch@iowa.gov or mailed to Kathy McAninch, Tax Research and Analysis Division, Iowa Department of Revenue, P O Box 14461, Des Moines, IA 50306-3461. Please include a copy of the completed survey with your Part 3, Certification of Completed Work submitted to the Iowa Department of Cultural Affairs, State Historical Society of Iowa.

Your completion of this survey is greatly appreciated. A fillable PDF version of the survey form is provided on the Department of Cultural Affairs web site at: http://www.iowahistory.org/historic-preservation/tax-incentives-for-rehabilitation/state-tax-credits/state-tax-credits-instructions.html, which may be saved and emailed to the address provided above. The information you provide will be used to inform the members of the Legislature and other policymakers on the economic impact of projects aided by Historic Preservation and Cultural and Entertainment District Tax Credits.

Part 1: Property Information
A: Owner Information
Enter the information in accordance with your approved application for the Historic Preservation and Cultural and Entertainment District Tax Credit as submitted to the Department of Cultural Affairs, State Historical Society of Iowa. (The State Tax Credit (STC) Project Number is provided by the Department of Cultural Affairs at the time a tax credit application is received. The number is of the form YY-CC-SSS, where YY are the last two digits of the year for which the tax credits are reserved, CC is the 2-digit county number, and SSS is a 3-digit project number).

B: Building Information
The purpose of this part is to gather information on the property being rehabilitated and to provide a basis for evaluating the economic impact of the project. If the project involves the rehabilitation of more than one property (building) complete a separate Part 1, Section B for each property; however, other project details can be combined.

1. Provide the original year of construction for the property.
2. Proved the year the property was purchased by the current owner.
3. Briefly describe the use of the property immediately prior to the initiation of the rehabilitation project, such as: furniture store first floor and apartments on the two upper floors.

C: Project Information

1. Provide the starting date for the rehabilitation work. Month and year is adequate.
2. Provide the completion date for the rehabilitation work. Month and year is adequate.
3. Enter the number of above grade usable floors in the rehabilitated property. Do not count utility penthouses.
4. Enter the total above grade usable space square footage for the rehabilitated property.
5. Briefly describe the actual or anticipated use of the property after the rehabilitation work is completed.
6. Enter the actual measures of building use prior to the rehabilitation project and either the measures of actual or anticipated use after the project is completed, providing information for all relevant usage categories.

A Review of the
Historic Preservation Tax Credit Program

Historic Preservation Tax Credits Survey

D: Property Valuation and Taxation

1. Indicate if the property is eligible for the temporary State Historic Property Tax Exemption provided for in Iowa Code, Section 427.16.
2. Indicate if property taxes have been abated for the property.
3. If property taxes have been abated describe the nature of the abatement, such as:
   a. Abatement is only for historic preservation qualifying improvements – 1st year 100%, 2nd year 75%, etc.
4. Enter the official assessed value of the property for the year prior to initiation of rehabilitation work. If the project involved more than one property (building), provide separate assessed values for each, and provide some means for distinguishing the separate properties, such as address or parcel number.
5. Enter the official assessed value of the property for the year the project is completed. If the project involved more than one property (building), provide separate assessed values for each, and provide some means for distinguishing the separate properties, such as address or parcel number. If the county or city assessor has not yet completed a new assessment of the property following completion of the rehabilitation work, please provide either the property's value as determined by a private appraisal or the value for which the property is insured following completion of the project.

Part 2: Project Finance

The purpose of this part is to gather information on all sources of financing for the project for which Historic Preservation Tax Credits have been reserved by the Department of Cultural Affairs. If a project is being undertaken in stages and separate tax credit applications are submitted for each stage of the project, then separate survey forms should be completed after each stage is completed.

A: Project Costs

1. Enter the total amount for all qualified rehabilitation costs; include only the amount for the rehabilitation work approved by the Department of Cultural Affairs as qualified rehabilitation costs.
2. If the project includes other than qualified rehabilitation work, enter the amount of non-qualified project costs.
   a. Add lines 1 and 2 to calculate total project cost.

B: Project Financing

1. Enter the amount of financing from private sources.
   a. Funds borrowed from private sources (banks, insurance companies, or other private sector lenders).
   b. Funds invested by other individuals or businesses in exchange for an ownership interest in the project.
2. Enter the amount of funds invested from personal sources.
3. Enter the amount of Iowa Historic Preservation Tax Credits reserved by the Department of Cultural Affairs for the project.
4. Enter the amount of awarded Federal Historic Preservation Investment Tax Credits.
5. Enter the amount of awarded Federal Low Income Housing Tax Credits.
6. Enter the amount of awarded Iowa Enterprise Zone Program Tax Credits.
7. Enter the amount of local forgivable loans.
8. Enter the amount of grants from the city.
9. Enter the amount of low interest loans.

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10-11. Enter any subsidies you obtained from federal, state, county, or city governments, including but not limited to grants, loans, property tax abatements, etc. that have not been entered on a prior line. List each of these other funding sources on a separate line. If more space is needed please attach on a separate page and label it as an addendum to Part 2, Section B.

11a. Often applicants front the entire cost of the project with either borrowed or personal funds. If this is the case and the State Historic Preservation Tax Credits will be applied to pay down one or more of these other sources of funding, please reduce those amounts by the State Historic Preservation Tax Credits so that the sum of lines 1 through 11 in Part 2, Section B equals the amount of Section A, Line 2a.

C: Rehabilitation Project Resources and Costs

1. Enter total salary and benefits you paid for labor. If payroll records are not readily available provide a reasonable estimate and label the amount as an estimate.
    a. Provide the number of workers employed during the project.
2. Enter total cost of materials used in the project.
3. Enter total other costs incurred through the duration of project, such as architectural and engineering fees, permit fees, utilities, etc.
4. The total of labor, materials, and other costs for this question should equal the amount entered in Part 2, Section A, Line 2a.

D: Distribution of Expenditures (percentages)

Estimate as near as possible the shares of labor, materials, and other expenditures made within the county where the project is located, elsewhere in Iowa, and outside Iowa.

1. For labor costs, base the shares on workers' places of residence, or if labor is provided by subcontractors on the official locations of the subcontractors' places of business.
2. For materials, base the shares on the suppliers' business locations.
3. For other costs, base the shares on the business locations of the predominant suppliers.

If there are any questions regarding this survey, please contact Kathy McAninch, Tax Research and Analysis Division, Iowa Department of Revenue at (515) 281-7653 or Kathy.mcaninch@iowa.gov.

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