NATIONAL TRUST
for HISTORIC PRESERVATION

Richard Moe
President

June 29, 2001

Acting Director
Community Development Financial Institutions Fund
U.S. Department of Treasury
601 13th Street, N.W., Suite 200 South
Washington, DC 2005

RE: Guidance, New Markets Tax Credit Program: Pending Issues

Dear Sir/Madam:

The Treasury Department issued a request for comments for its notice on Guidance on the New Markets Tax Credit (NMTC) Program published on May 1, 2001. In response, the National Trust for Historic Preservation respectfully submits the following comments regarding the pending issues concerning the implementation of this tax credit program under the aegis of the Community Development Financial Institutions (CDFI) Fund.

The National Trust has extensive experience in revitalizing commercial districts, chiefly through its National Main Street Center and, more recently, through its Community Partners Program. In its work with more than 1,600 towns and cities, our Main Street Center has consistently found that the market distinctiveness which older and historic buildings provide has real economic value for older commercial districts; that adaptive use of existing buildings is the most cost effective and environmentally sensible alternative to demolition and new construction; and that locally owned businesses – 'moms-and-pops' – offer greater economic and cultural benefits to a community than chain stores. Our approach has been very successful: the communities participating in the Main Street program currently leverage an average of $39.22 in new investment for every dollar the community invests in administering its local revitalization program.

Based on this track record of success, the National Trust would like to open a dialogue with Treasury and offer up our services and experience (i.e., training, education and technical assistance) using the Main Street approach in conjunction with the NMTC. As part of this dialogue, the National Trust would like to explore the possibility of serving as an intermediary Community Development Entity between its affiliates and the CDFI Fund in implementing the NMTC program.

The National Trust believes the New Markets Tax Credit can play a role in revitalizing low-income commercial districts and enhance the efforts of all federal agencies engaged in community revitalization and historic preservation. The credit can serve to strengthen existing small businesses, help develop new small businesses, and encourage reuse of older and historic buildings. In addition, the targeting of the NMTC to low-income areas makes the credit a natural ally of historic preservation because 38% of the National Register Historic Districts and 58% of buildings within these districts are located in census tracts with a poverty rate of at least 20 percent. This represents a pool of 947,000 contributing buildings in National Register districts that might benefit from the NMTC.

Assessing Community Impact

The Treasury Department should consider the impact on a community's historic resources as it implements its New Markets Tax Credit Program. Our main concern is that the NMTC program could have the effect of favoring new construction over rehabilitation and large-scale, big-box retail over community-owned small businesses, which in turn would result in demolition of older and historic structures, located in traditional neighborhoods, in favor of building new suburban-style structures.

Reinforcing and rewarding opportunities to use the NMTC for rehabilitation instead of new construction will add an anti-sprawl, urban focus to the program. This urban focus would also be in keeping with the spirit of the National Historic Preservation Act, which requires federal agencies to take into account the effect of any proposed undertaking on "any district, site, building, structure, or object that is included in or eligible for the National Register." Accordingly, the National Trust strongly urges Treasury and the CDFI Fund to take the necessary steps in promulgating its regulations to ensure that the NMTC is not used, under any circumstances, to encourage – directly or indirectly – the demolition of historic properties.

In addition, many small businesses are successfully incubated in older and historic buildings – a process which is often accompanied by astounding economic development resulting from the multiplier effect of historic preservation and rehab activity in general. Rehabilitation consistently outperforms new construction in the number of jobs created, increases in local household incomes, and impacts on all other industries. For example, if a community spends $1 million in rehab versus new construction, rehab would result in $120,000 more dollars staying in the community, five to nine more construction jobs created, and 4.7 new jobs created.

Preferred Uses for the New Markets Tax Credit (NMTC)

In making allocations of NMTCs, the National Trust recommends that the CDFI Fund give preference to eligible CDE applicants that award the credits to small, independent businesses rather than large retail chains and outlets, which tend to crowd out and discourage both minority and disadvantaged small businesses for competitive reasons. In addition, Treasury should consider preservation and revitalization requirements for allocating NMTCs to a qualified community development entity that take into account the following:

- expanded eligibility criteria for the NMTC based on factors such as development of local business ownership, employment of community residents, and business growth potential;
- a preference for awarding NMTCs for business start-up and/or expansion costs, including property acquisition, and other eligible rehabilitation costs (i.e., obtaining NMTCs would not be strictly dependent on purchasing equity);
- giving more "preference points" to qualified CDE applicants for allocating NMTCs to projects that favor rehabilitation versus new construction, as well as adherence to design guidelines that have been developed by certified local governments (CLGs) or local preservation commissions;
- a broader range of participants in the program including, but not limited to, local preservation organizations and nonprofits;
- a requirement for CDE's to have a strategic plan or planning process in place that takes into consideration development of retail businesses, as well as an inventory of existing businesses and/or an analysis of existing market strengths or needs; and
- awarding NMTCs preferentially to businesses that locate in historic commercial districts.

The National Trust believes that the New Markets Tax Credit should be carefully targeted to support investment in "smart growth" strategies and support smaller, neighborhood-based community development. Those strategies should include effective partnerships and encourage cooperation among State and local governments, the nonprofit development community, and the qualified CDE that allocates the NMTCs in a given area.

Thank you for consideration of these comments.

Sincerely,

Richard Moe

Richard Moe

cc: Advisory Council on Historic Preservation
Preservation Action
National Conference of State Historic Preservation Offices

RM/kh/cw