STATEMENT OF JANET SNYDER MATTHEWS, ASSOCIATE DIRECTOR FOR CULTURAL RESOURCES, NATIONAL PARK SERVICE, DEPARTMENT OF THE INTERIOR, BEFORE THE SUBCOMMITTEE ON FEDERALISM AND THE CENSUS, HOUSE COMMITTEE ON GOVERNMENT REFORM ON "HISTORIC PRESERVATION AND COMMUNITY DEVELOPMENT: WHY CITIES AND TOWNS SHOULD LOOK TO THE PAST AS A KEY TO THEIR FUTURE."

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Mr. Chairman and members of the subcommittee, thank you for the opportunity to present information on the Federal Historic Preservation Tax Incentives Program and Historic Preservation Grants administered by the National Park Service.

Not too many years ago the concept of linking historic preservation and community development would have been seen as an oxymoron. Before passage of the National Historic Preservation Act in 1966, historic buildings were typically saved only as isolated house museums or local "monuments" rescued through the efforts of dedicated volunteers. To practical business people, preservation made little *financial* sense. Few accepted the idea that reusing historic buildings could be profitable. Today, few question it. That is an amazing turnaround, one with profound consequences for historic properties and for the communities that surround them.

A number of factors have caused that turnaround. I would like to talk about two of them: the grants programs of the National Park Service and the Historic Preservation Tax Incentives Program.

Historic Preservation Grants

In 1966, the Special Committee on Historic Preservation of the U.S. Conference of Mayors developed far-reaching recommendations regarding the need for a national historic preservation program. Among the committee's recommendations was the need for legislation "to authorize grants to State and local governments to carry out…inventory and survey programs in coordination with the National Park Service." The National Historic Preservation Act implemented this recommendation with the establishment of the Historic Preservation Fund (HPF) as a matching grant program. Through subsequent amendments to the 1966 Act, the HPF benefited Tribal governments and other cultural groups as well. Since the first appropriations in 1970, the HPF, which is administered by the National Park Service, has acted as the catalyst for America's efforts to preserve its past for future generations, by awarding more than $1 billion to State and local governments, Native American Tribes, nonprofit organizations, and educational institutions for preservation projects in all 50 states and the U.S. Territories.

In Fiscal Years 2005 and 2006, Congress appropriated $71.7 million and $72.2 million, respectively, for HPF matching grants to assist State, local governments, and Indian Tribes with expanding and accelerating their historic preservation activities. Requiring a non-federal cost share for each grant, HPF grants serve as catalysts and “seed money” to encourage private investment in our nation’s irreplaceable heritage for this and future generations.

The National Historic Preservation Act requires that at least 10 percent of each State’s allocation from the HPF be subgranted to assist Certified Local Governments with participating in the national historic preservation program. As of FY 2006, more than 1,550 local governments have elected to participate in the national historic preservation program by becoming Certified Local Governments.

HPF grants in FY 2005 assisted States and local governments in generating more than 1,500 new listings in the National Register of Historic Places, and in approving more than 1,100 Federal Historic Preservation Tax Credit projects. Approximately 17.6 million acres were surveyed through the activities of State Historic Preservation Offices funded through the HPF, resulting in the addition of more than 129,000 properties to State Historic Preservation Office inventories.

To spotlight the rich and varied material culture of the nation in need of preservation assistance, and to commemorate the start of the new millennium, in 1999 Congress and the White House created the Save America’s Treasures grant program. The program helps preserve nationally significant historic properties and museum collections that convey our nation’s rich heritage to future generations of Americans. The grants are administered by the National Park Service in partnership with the National Endowment for the Arts, the National Endowment for the Humanities, the Institute of Museum and Library Services, and the President's Committee on the Arts and the Humanities. The National Park Service and its partners have awarded more than 900 grants to date, totaling approximately $250 million, using funds appropriated, and frequently earmarked, by Congress. Private partners, including the National Trust for Historic Preservation, help to raise non-federal funds to match the federal grants.

Successful projects include historic properties and museum collections that are both nationally significant and at the same time integral components of their local communities. The preservation of these properties and collections benefits the country as a whole, and increases tourism and economic vitality at the local level. Successful projects are varied and include the Old North Church in Boston, the Susan B. Anthony House in New York, the city bus on which Rosa Parks refused to give up her seat, and the ancient pueblo ruins in Mesa Verde, Colorado.

Complementing the Save America’s Treasures grant program is the Preserve America program, a White House initiative championed by First Lady Laura Bush. The program, which began in FY 2006, provides both recognition and grants to local communities to assist in finding self-sustaining ways to promote their cultural resources through heritage tourism. Preserve America grants, designations, and awards offer a new type of encouragement from the Federal Government in support of communities that have demonstrated a commitment to recognizing, designating, and protecting local cultural resources. Preserve America is administered by the National Park Service and developed in cooperation with the Advisory Council on Historic Preservation and other federal agencies.

In FY 2006, Congress appropriated $4.9 million from the HPF for the Preserve America grant program. The National Park Service awarded 65 grants to benefit local communities across the country. Successful applications in the first year of the program included: a grant for $90,000 to the city of Dayton, Ohio to complete an economic analysis of Dayton's cultural/historical tourism industry and to develop and begin implementing a heritage tourism marketing strategy for the city, and a $43,000 grant to the city of Rock Island, Illinois to conduct the planning necessary to open and operate a satellite visitor center of the Quad Cities Convention & Visitors Bureau in a designated landmark building in Rock Island that is currently threatened with demolition.

This spring, to assist in the recovery and preservation of historic resources impacted by Hurricanes Katrina and Rita, Congress appropriated $43 million from the HPF to the State Historic Preservation Offices in Alabama, Louisiana, and Mississippi. The majority of the funds are to be used for the preservation, stabilization, rehabilitation, and repair of historic properties listed in or eligible for the National Register of Historic Places. Some examples of projects that will benefit from this much needed funding include Royal Oaks, a historic colonial revival house built in 1906 along the southern coast of Mobile County, Alabama, and the Charnley House and Guest Cottage, designed by Louis Sullivan and Frank Lloyd Wright, located in Ocean Springs, Mississippi. The availability of restoration funds from the supplemental appropriation for hurricane damage will likely determine the difference between the survival or destruction of these important pieces of America's architectural heritage.

In New Orleans, grant funds will be distributed to the owners of at least 200 historic homes to restore the architectural fabric of the city that weaves together stately mansions on St. Charles Avenue and modest Creole cottages dating back two centuries. The restoration of these homes will add to the increasing momentum to rebuild New Orleans, a city that contains twenty National Register Historic Districts.

In addition to grants made from the HPF appropriations, the National Park Service administers several other historic preservation grant programs. Native American Graves Protection and Repatriation Act (NAGPRA) grants are made to museums, Indian tribes, Alaska Native villages and corporations, and Native Hawaiian organizations, for the purposes of assisting in the inventory, documentation, and repatriation of Native American human remains and cultural items. From 1994 through 2006, more than 500 grants totaling over $27 million were awarded. The American Battlefield Protection Act of 1996 authorizes the National Park Service to provide grants to governmental, educational, and nonprofit organizations to promote the protection and preservation of battlefield lands by means other than direct federal intervention and acquisition. In FY 2006, the American Battlefield Protection Program awarded grants totaling $350,000 to 11 projects. Additionally, since FY 1998, Congress has appropriated $28.9 million from the Land & Water Conservation Fund to assist State and local governments in acquiring

Civil War battlefield lands outside of the legislative boundaries of units of the National Park System.

The activities supported through the HPF and other grants programs have been vital to the preservation of America's historic resources.

Historic Preservation Tax Incentives Program

Ten years after passage of the National Historic Preservation Act, another key piece of legislation initiated a program that has had immense benefits for both preservation and community development. The Tax Reform Act of 1976 created the Historic Preservation Tax Incentives Program.

In the summer of 1976, when Congress was considering a bill to reform the Internal Revenue Code, the late Senator J. Glenn Beall of Maryland introduced amendments that would create the first federal income tax incentives for the rehabilitation of historic buildings. Noting the appropriateness of saving historic buildings during the celebration of the nation's Bicentennial, he said that the "first objective" of the incentives was to "encourage the preservation of historic buildings and structures certified by the Secretary of the Interior." He noted also that the program would have other benefits, including encouraging private investment in older and distressed urban areas.

The Tax Reform Act passed in the summer of 1976 created the first federal income tax incentives for preservation and called upon the Secretary of the Interior to review rehabilitations of historic structures and to approve those rehabilitations that preserve a building's historic character.

The Historic Preservation Tax Incentives Program corrected a long-standing imbalance in the federal tax code. Before 1976, the Internal Revenue Code gave preferential treatment to the construction of new buildings over the preservation of historic ones. Thus, the Government of the United States, acting through the tax code, actually encouraged property owners to demolish historic buildings and build new ones on their sites, but not to keep historic ones. That situation changed dramatically with the creation of the Historic Preservation Tax Incentives Program. The law helped old buildings attract major private investment for the first time.

The incentives contained in the Tax Reform Act of 1976 were modest. For the first time, owners of historic buildings were allowed to claim accelerated depreciation for expenses incurred in rehabilitating their historic buildings. The 1976 law also contained financial disincentives for the demolition of historic structures, and for the construction of new buildings on the site of demolished historic buildings. These measures were indeed modest, but together, they put the rehabilitation of historic buildings on a competitive footing with new construction.

Following passage of the bill, the Secretary of the Interior promptly called upon the National Park Service to establish the new program, which it did in 1977, in partnership with the Internal Revenue Service and the nationwide network of State Historic

Preservation Officers. By the end of 1978, over 500 projects had been approved, representing over $140 million in private investment.

The tax incentives were enhanced when Congress passed the Revenue Act of 1978, which created the first income tax *credit* for rehabilitating historic buildings; the credit was set at 10% of the costs incurred in a rehabilitation certified by the Secretary of the Interior. In the first year following enactment of the credit, approved rehabilitation projects rose to $300 million.

The Economic Recovery Tax Act of 1981 increased the tax credit to 25% for certified rehabilitations, and rehabilitation activity increased to over 3,000 projects a year. The effect of this legislation was immense; indeed, the number of projects approved in 1984 is still a record for the program.

The dramatic rise in rehabilitation activity spurred by the 1981 law was dampened five years later by the Tax Reform Act of 1986. That law lowered the credit from 25% to 20% for historic buildings, and contained provisions relating to passive losses and other matters that limited use of the credit by individual taxpayers. These measures dramatically reduced program usage for a while, but in the past decade, the numbers have climbed steadily. Indeed, last year, over 1,100 projects were approved. This is the highest such plateau reached since the investment tax credit was set at 20% in 1986. In dollar amounts, the program is at an all-time high. In FY 2005, the last complete year for which figures are available, approved rehabilitation projects totaled $3.1 billion. This is the fifth year in a row in which the total exceeded $3 billion, and these dollar figures are the highest in the program's 30-year history. We expect the amount of rehabilitation undertaken using the tax incentives program to continue to be high, based in part on the passage of the Gulf Opportunity Zone Act of 2005, which raised the credit from 20% to 26% for the years 2006 – 2008 for the rehabilitation of buildings in the Hurricane Katrina disaster area that includes portions of Louisiana, Mississippi, Alabama and Florida.

In total, since 1977, over 33,000 projects representing more than $36 billion in private investment have benefited historic buildings throughout the country. For 30 years, the Historic Preservation Tax Incentives Program has been preserving historic buildings, stimulating private investment, and revitalizing communities. One of the most successful revitalization programs ever created, it has had enormous impacts on the nation's historic buildings, on the people who live and work in them, and on their neighborhoods and communities. The program has served the American people well—so well that dozens of States have created State incentives for preservation, including State income tax credits and property tax freezes. The program has been copied in Australia, and Canada is also modeling a program on it.

Here in Washington, D.C., tax incentives have been a powerful tool for economic growth and revitalization. When it opened in 1907, Union Station was the largest train station in the world, but with the decline of railroading after World War II, the building began its own rapid descent. When repair estimates hit the $100 million mark in 1978, the building was closed entirely. After Congress passed the Union Station Redevelopment

Act, creating a public-private partnership to preserve the building, private developers used the new tax incentives program to rehabilitate the building for mixed use while still maintaining its function as a train station. Today Union Station is preserved, and provides commercial space for businesses that enhance the local economy.

Because tax incentives rehabilitation projects involve older buildings often located in depressed urban cores, the millions invested in historic buildings have turned whole areas around, including Printers Row in Chicago, Larimer Square in Denver, and the Soulard District in St. Louis. Even the rehabilitation of a single building can energize an entire community, serving as a catalyst for community development. For example, the Enterprise Mill in Augusta, Georgia, constructed in the mid-1800s, stands as a landmark to the cotton economy of the South and to Augusta's role as a late 19th and early 20th century industrial center. After years of decline, the mill closed in 1983. Using the tax incentives program, the mill complex was converted at a cost of $17 million to a mixed use of commercial spaces and 56 market-rate residential units, bringing people back into the area through housing, new businesses, job creation, and tourism. Today, 100 residents live in the mill and over 260 people work there. The return of this vacant building to the tax rolls provides an additional boost to the city of Augusta.

The Federal Historic Preservation Tax Incentives Program generates economic activity in a number of ways. One study of program applicants found that each project creates an average of 48 new jobs. Other studies have shown that historic rehabilitation creates more jobs, and keeps more of the money spent on the project remaining in the local community, than is the case with new construction. That's because a higher percentage of rehabilitation expenses goes to labor than is the case with new construction. Since the people hired for rehabilitation projects tend to be from the local area, the money stays in the community, increasing State income tax revenues ands creating even more opportunities for others in the vicinity. Because rehabilitated buildings are worth more than vacant buildings, the program also increases local property tax revenues. The program even has an impact on affordable housing. The 40% of projects approved under the program involve some form of housing; 15% of these projects also use the Low Income Housing Credit. To date, over 80,000 units of low and moderate income have been rehabilitated or newly created in historic buildings. Approximately 25% of units created serve low and moderate income tenants.

Finally, this program is a model for partnerships and cooperation between levels of government and the private sector. The National Park Service is responsible for project approval and overall program administration. The private sector provides the buildings and the capital. The State Historic Preservation Officers serve as primary contacts for property owners, give applicants professional guidance and technical information, and make on-site visits. The Internal Revenue Service publishes regulations governing qualifying expenses, and answers public inquiries about financial aspects of the program.

The economic, social, and cultural benefits of the Historic Preservation Tax Incentives Program and Historic Preservation Grants administered by the National Park Service are numerous and have enhanced the quality of life for Americans in cities and towns throughout the country. In every place these programs operate, they make communities more livable while preserving our nation's history for present and future generations.

Mr. Chairman, this completes my testimony. I would be glad to respond to any questions you or the committee may have.