Financial Incentives

City of Galveston
Background

• 2006 – Landmark Commission established the adoption of financial incentives for historic properties as a goal.

• 2007-2008 – Staff researched other cities and developed proposal; reviewed proposal with Landmark Commission. Not supported by City management. No action taken.

Adoption

• May 2015 – Landmark Commission passed a resolution supporting the adoption of financial incentives.

• July 2015 – Adopted by City Council.
Previous Historic Tax Incentive

- Must be Galveston Landmark or Contributing to a Historic District
- Eligible properties must include a minimum of:
  - 10,000 to 14,999 gross leaseable area (GLA) per project, and $1 million of capital improvements for a three-year tax exemption
  - 15,000 to 19,999 GLA per project, and $1.5 million of capital improvements for a five-year tax exemption
  - 20,000 GLA, and $2 million of capital improvements for a seven-year tax exemption.
Previous Historic Tax Incentive

Used only three times since adoption in 2000 – Texas Building, Hendley Building, Medical Arts Building
New Program

• *Financial Incentives for Historic Properties* program:
  
  • Substantial Rehabilitation

• New Historic Districts and Galveston Landmarks

• New Neighborhood Conservation Districts
Substantial Rehabilitation

• Encourage Rehabilitations
• Galveston Landmark or Contributing to a Historic District
• Residential or commercial structures.
• Property owner invests at least 50% of value of the building
• Receives a 10-year “freeze” on City taxes
• Transferable to new owners
Substantial Rehabilitation

• Qualifying improvements must extend the life of the building, such as roof, foundation, and siding work; electrical, plumbing, and HVAC systems

• Improvements that increase the energy efficiency of the building, while retaining its historic integrity, may also be considered. Such improvements may include: rainwater harvesting, renewable energies, attic and floor insulation, interior window insulation, and radiant barriers.

• “Sweat equity,” for labor provided by the property owner, may be included in the cost of work
Substantial Rehabilitation

• Process
  • First step – application to the Landmark Commission (LC) for participation in the program. LC reviews scope of work to determine conformance with Design Standards for Historic Properties
  • Work is completed
  • Second step – application to the LC for verification of program requirements
  • City Council has final approval authority
  • Final – property owner files exemption with Central Appraisal District
Substantial Rehabilitation

• No loss of funds to City
• Amount of City taxes remains constant for 10 year period
• At 11th year, Property Owner pays City taxes on current assessed value
• Increased staff time
• Increased Landmark Commission workload
• Increased City Council workload
Examples – Substantial Rehab

1614 Avenue M
Lost Bayou Historic District

2004 - $27,740 CAD Value
Examples – Substantial Rehab

<table>
<thead>
<tr>
<th>Year</th>
<th>Improvement</th>
<th>Total</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$19,260</td>
<td>$27,740</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>$105,240</td>
<td>$122,200</td>
<td>341%</td>
</tr>
</tbody>
</table>

Cost of Work

$21,000

10 year tax revenue

$4,827 ($482/year)

Tax Freeze

$1,096

Savings

$3,731

Current CAD Value: $203,680  ($1,087/year Tax Revenue)
New Designations

• Incentive to encourage designation of new historic districts, Galveston Landmarks, and Neighborhood Conservation Districts (NCD).

• No new historic district since 1994. Only 22 Galveston Landmarks and one NCD.

• New designations supported by the Preservation Plan and Comprehensive Plan.

• Discourages gentrification if property values increase after historic designation.

• 2000 study by the Center for Urban Policy Research at Rutgers University, found that property values in a historically designated neighborhood are between 5% and 20% higher than similar non-designated neighborhoods. The study identifies property tax incentives as a means of encouraging rehabilitation while dampening displacement.
New Historic Districts and Galveston Landmarks

- 35% tax exemption on City taxes
- 5 years
- Transferable

New Neighborhood Conservation Districts

- 25% tax exemption on City taxes
- 5 years
- Transferable
Notes

• Results in initial reduction in City revenue
• Reduction may be eliminated as property values increase
• Potential for increased Staff and Commission workload as number of historic properties increase
Examples – New Historic District, 25%

Total yearly revenue $334,330

Adjusted revenue $272,242

Revenue loss $62,088

Average savings $253/year $2,530 total

Projected Revenue after 10 years $401,196
Examples – New NCD, 15%

- Total yearly revenue: $83,085
- Adjusted revenue: $75,761
- Revenue loss: $7,324
- Average savings: $96/year
  - $960 total
- Projected Revenue after 10 years: $99,702

Texas Heroes
Next Steps

- Adoption of Ordinance by City Council – July 2015
- Public Outreach
  - Historic District Associations
  - Neighborhood Associations – potential Historic Districts and NCDs
  - Economic Development Groups
  - Architects
  - Contractors
  - Galveston Daily News
Substantial Rehabilitation Program

- 20 participants
- $2,646,075 investment
New Galveston Landmark

• 67 new Galveston Landmarks
  • Nicholas Clayton Themed Designation, 35
  • Financial Incentive
  • Increased Publicity
Developer Interest
Developer Interest
Cedar Lawn Neighborhood Conservation District

- Efforts began in 2011
- Renewed interest in 2017
Cedar Lawn Neighborhood Conservation District

• 46 out of 62 properties returned petition in support
• 74% achieved
• 51% required
Cedar Lawn
Neighborhood
Conservation District

• Design Standards – New Construction:
  • Filling
  • Base Flood Elevation
  • Foundation/Skirting
  • Height
  • Front Setback
Cedar Lawn Neighborhood Conservation District

- Design Standards – Site Details:
  - Height of Accessory Structures
  - Fences
  - Non-Compliant Fences
  - Sidewalks

- Financial Incentives
  - 25% reduction in City taxes
  - 5 year period
380 Agreements

• Enabled by Texas Local Government Code Chapter 380
• Adopted by City Council in June 2016
• Encourage rehabilitation of cast iron buildings downtown
• Allow reimbursement of project costs through:
  • Increased ad valorem tax
  • Increased personal property tax
  • City’s portion of sales tax
Contact:

Catherine Gorman, AICP, HHDFP
Assistant Director/Historic Preservation Officer
Development Services Department
City of Galveston

Phone: 409-797-3665
Cell: 409-370-4252
Email: cgorman@galvestonTX.gov