



THE AMERICAN INSTITUTE OF ARCHITECTS

**STATEMENT OF
NORMAN L. KOONCE, EXECUTIVE VICE PRESIDENT
AND CHIEF EXECUTIVE OFFICER**

“Historic Preservation vs. Katrina and Rita: What Role Should Federal, State and Local Governments Play in Preservation of Historic Properties Affected by these Catastrophic Storms?”

**UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON FEDERALISM AND THE CENSUS**

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Introduction

Mr. Chairman, Members of the Subcommittee – Good Morning.

I am Norman Koonce, Executive Vice President and Chief Executive Officer of The American Institute of Architects. Thank you for the opportunity to appear today as the Subcommittee deliberates historic preservation issues in the wake of hurricanes Katrina and Rita.

The American Institute of Architects represents 76,000 members. Our members employ 281,000 others. The AIA believes the long-term hurricane recovery effort needs to be executed correctly from the start if taxpayer dollars are to be wisely invested. To accomplish this goal, federal rebuilding efforts need to be based on *sound planning and design principles* at every step. These principles demand protection of the historic buildings, structures and landscapes that make the neighborhoods of New Orleans, South Louisiana and the Mississippi Gulf Coast such national treasures.

Our hearts and the hearts of the American people are in this effort. We need your commitment as well. Much too often, in the wake of natural disasters, historic structures are needlessly lost or damaged through hasty procedures. America cannot afford to lose the heritage that New Orleans embodies. Returning citizens need shelter, but ill thought out bulldozing can lead to the devastation of historic communities. Bulldozers must not be allowed to rob America of its history.

A critical legislative priority must be to extend the historic rehabilitation tax program - which has a long and successful record in preserving commercial property - to residential property. Residential housing is vital to community life and health. It's vital to economic development. It's vital to historic preservation. It's vital to hurricane disaster recovery. Preservation of historic residences must be a part of our Nation's planning for the future, for New Orleans and the Gulf Coast region, and ultimately for your states and districts as well.

That's why the AIA, along with the National Trust for Historic Preservation, firmly believes that it is critical that Congress create a package of tax incentives and grants to restore and rehabilitate the historic structures affected by this year's hurricanes. The existence of such incentives will give hard-pressed homeowners an alternative to moving away.

Federal Tax Incentives for Historic Rehabilitation

Section 47 of the Internal Revenue Code currently contains two types of tax credits for historic rehabilitation. The first, a 20% credit, applies to structures listed on the National Register of Historic Places or sited in a listed National Historic District. The second, a 10% credit, is available for rehabilitation expenses involved in fixing structures built before 1936. Both credits are available only to structures that are used for commercial purposes. These incentives have a successful history of preserving some of the Nation's most important historic structures. It is now time to use the experience we've obtained

with these credits to fashion new, similar tools to save the cultural heritage of the storm ravaged gulf coast.

Damage to Residential Structures

Hurricanes Katrina and Rita destroyed or damaged hundreds of thousands of homes.

The Congressional Budget Office estimates that the value of damage to residential structures – not including relatively minor, easily repairable damage – ranges from \$17 billion to \$33 billion.¹

The rebuilding of residential and nonresidential buildings in this region is not simply a matter of replacing structures that were lost and renovating those that were damaged.

The natural temptation, surveying such damage, is to get a bulldozer, raze neighborhoods to the ground and start fresh. This impulse must be avoided, particularly in the absence of expert assessment by architects and engineers who are experienced with historic resources. New Orleans and the Gulf Coast region cannot afford to lose its historic character – and that applies as much to the small, shotgun residences that often house the poor, the elderly and young families as it does to large, well-known landmarks.

To ignore the need for a direct, immediate federal commitment to win this massive battle between nature and history is to ignore the fabric of America.

¹ Congressional Budget Office Testimony before the Committee on the Budget, U.S. House of Representatives. October 6, 2005.

Damage to Historic Structures

There is no place in the world like New Orleans. And the architecture is part and parcel of its special character. It is not just about the French Quarter or the Garden District that we see on tourist postcards, but the numerous other communities that house irreplaceable historic structures. There are 20 neighborhoods within New Orleans designated on the National Register of Historic Places, containing 37,000 historic structures.² Alabama, Mississippi, and Texas are also blessed with many historic communities that have felt the effects of the hurricanes and, sadly, some of them have been washed away forever.

In Mississippi, beautiful antebellum homes, monuments to resiliency and steadfastness, which had not only survived the Civil War, but dozens of storms and hurricanes prior to Katrina, are no longer standing or have been badly damaged. In Alabama and Texas, the damage was not as widespread. In Alabama, most of the damage was centralized in Mobile. While in Texas, Hurricane Rita whipped up dramatic fires in Galveston's historic Strand District and destroyed important buildings.

Historic Preservation Disaster Assistance Package

Rebuilding communities is complex, difficult and costly work. In addition, restoring a community's historic structures requires money, time, experienced craftsmen, and better and more durable materials than replacing them with new or temporary structures. To encourage community residents and assist with the rebuilding effort, the AIA believes the federal government should provide those affected with a package of grants and tax

²Callimachi, Rukmini. *Preservationists: Don't tear down New Orleans*. The Associated Press. September 28, 2005.

incentives. The combination of grants and tax incentives that the AIA proposes today is designed to leverage local dollars, attract outside investment, restore buildings, and revitalize communities. To know that we have these tools at our disposal and then not use them to assist these communities to handle this epic problem at this time would be unwise.

First and foremost, the AIA supports a Disaster Relief Historic Homeowner Assistance Tax Credit, which would provide a credit of 30 percent of qualified rehabilitation expenditures made by persons who substantially rehabilitate historic homes located in the Hurricane Disaster Area and used as a principal residence. The credit would be limited to \$40,000 total.

The credit would be refundable for lower income persons (\$30,000 in income for individuals; \$60,000 for married filing joint return), so that those with incomes too low to benefit from the credit may still use the incentive.

It would define "qualified rehabilitation expenditure" in a manner similar to the existing historic rehabilitation tax credit (Section 47 of Internal Revenue Code) except that it would apply to capital improvements to non-depreciable property (certified rehabilitation of a qualified historic home). Not less than 5 percent of expenses would be allocated for improvements to exteriors. The property must be owned by the taxpayer and serve as his or her principal residence. Under the proposal, "substantially rehabilitated" would mean that a minimum of \$5,000 must be spent on qualified rehabilitation expenditures.

This program would benefit owners of "qualified historic homes" that need to be substantially rehabilitated.

Second, the AIA supports the creation a new two-year, \$60 million grant program from the federal Historic Preservation Fund for repairing damaged historic properties. Under the Historic Preservation Disaster Relief Grants Program, funds could be used for preservation projects and planning, including the preservation, stabilization, restoration, and repair of historic structures and sites listed in or eligible for the National Register, and for business and technical assistance for Main Street districts.

Projects that receive insurance payments and other state or federal credits or grants would be eligible for Historic Preservation Disaster Relief Grants, but it must be clearly demonstrated that these funds will be used for projects not fully covered by insurance or other state or federal funding sources.

Grants would be administered by the State Historic Preservation Officer in each state and would be available to non-federal owners of National Register or National Register-eligible properties including individuals, non-profit organizations and developers.

A non-federal match would not be required.

Finally, the AIA believes that the current IRS rules governing the existing historic rehabilitation tax credits must be relaxed for Gulf Coast users of the credits that were unlucky enough to have renovated their historic properties just in time to be damaged by the recent hurricanes. To do otherwise would be to force these taxpayers to suffer the “double whammy” of sustaining substantial damage to their building and then have to repay the federal government for disallowed rehabilitation expenses. As a result, the AIA seeks waivers to the existing Historic Rehabilitation Tax Credit for commercial properties, which would:

- Provide a reasonable period of time to place properties back into service to avoid recapture penalties. Recapture of the credit should not apply if a property is repaired and placed back into service within a reasonable period of time, and that for properties damaged by Katrina, that period will be at least three years, or longer as circumstances warrant. Such waiver would permit property owners to use the \$5,000 minimum threshold for hurricane-related repair work.

- Waive recapture for properties destroyed by Hurricane Katrina. Katrina caused such widespread devastation that some properties have been completely destroyed. Others have not suffered a total casualty but have irreplaceably lost their historic integrity. In either case, owners of such buildings still in the five-year recapture period are subject to recapture. This rule creates a double loss for these owners and will diminish the resources that they can draw upon to help rebuild the region generally.

- Waive recapture for properties subject to default. A foreclosure, deed in lieu of foreclosure or other transfer in connection with the satisfaction of defaulted obligations to a lender triggers recapture, again creating a double loss to property owners. We request that recapture be temporarily waived with respect to buildings that are disposed of for the benefit of a lender in connection with a borrower default that occurs during the next 12 months.

- Permit property owners to treat rehabilitation costs as capital expenditures. Only rehabilitation expenses that are capital costs (meaning those not currently deductible) are eligible for the credit. This will eliminate investor uncertainty and pave the way for syndicated tax credit equity to flow into projects as a source of financing repairs.

- Permit property owners additional time to complete rehabilitation projects. In general, qualifying rehabilitation expenditures must be incurred within a 24-month period. Owners should be permitted to use the 60-month rule for rehabilitation projects that were underway prior to the hurricane or that include repair of hurricane damage.

The Role of the National Center for Preservation Technology and Training

In response to the clearly stated need for a national preservation initiative, Congress passed the Historic Preservation Act Amendments of 1992, creating National Center for

Preservation Technology and Training in Natchitoches, LA. The mission of the Center is to develop and proliferate skills and technologies that enhance the preservation, conservation, and interpretation of prehistoric and historic resources throughout the United States. It is indeed fortuitous that the Center is located so close to the disaster-affected areas.

The AIA believes that the Center should be involved in the administration of Historic Preservation Assistance Package and could provide valuable assistance to the local state historic preservation officers who will otherwise find themselves overwhelmed with the scope of rehabilitation needs.

Conclusion

Mr. Chairman, I commend you for holding this hearing. As a native of Louisiana, and an ardent supporter of the preservation movement, I cannot tell you how much it means to me and the 76,000 architects who are AIA members that you took the time to focus on this vital national issue.

Residents across the affected areas, as well as architects across our nation, look forward to working with you and your colleagues on this very important priority.

Thank you.