



National Trust for
Historic Preservation

Economic Effects of Historic Preservation in Rhode Island

by
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This article is reprinted from Historic Preservation Forum, Fall 1994, Volume 9, number 1. The full study, Economic Effects of the Rhode Island Historical Preservation Commission Program Expenditures From 1971 to 1993, by The University of Rhode Island Intergovernmental Policy Analysis Program, is available by writing to: Economic Effects Study, Rhode Island Historical Preservation Commission, The Old State House, 150 Benefit Street, Providence, Rhode Island 02903.

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Historic preservation has had positive effects on Rhode Island's economy, employment and taxes, according to a study by the University of Rhode Island Intergovernmental Policy Analysis. The study examined programs administered by the Rhode Island Historical Preservation Commission (RIHPC) from 1971 to 1993. RIHPC contracted for the study as part of the commission's commemoration of its twenty-fifth anniversary. Other anniversary events included a traveling exhibit, a statewide conference and a special report on "Preservation's Progress: 1968 to 1993," each of which featured prominent reporting of the results of the economic study. The Greater Providence Chamber of Commerce presented its "Pride in Rhode Island" award to RIHPC in recognition of the significant benefits of the commission's programs to the state's economy.

Methodology

The university research team used the Regional Science Research Institute's 515-sector Rhode Island input-output computer model to calculate the direct, indirect, and induced economic effects of historic preservation programs. The purpose of the study was to evaluate the effects of historic preservation expenditures on gross product, jobs, income and taxes and to offer comparisons with the economic effects of other government-sponsored

expenditures such as construction and maintenance of utilities and highways.

Expenditures data was divided into three classes of activity: residential construction, non-residential construction and non-construction programs such as surveys of historic buildings or preparation of National Register nominations. The data was averaged within five-year time spans to smooth fluctuation in cost/benefits. The average expenditures for each period were allocated to the appropriate computer model sectors as "disturbances" or direct changes in the Rhode Island economy.

Study data supplied by the Rhode Island Historical Preservation Commission showed \$240 million in program expenditures since 1971. Private expenditures on historic building rehabilitation projects that qualified for federal tax credits accounted for about four-fifths of this total. Also included were federal and state appropriations, state bond funds, and local and private funds used to match state and federal grants. Altogether, expenditures over two decades included \$12 million in federal funds, \$9 million in state funds, \$4 million in local funds and \$216 million in private funds. This represents a 9:1 leveraging ratio of private investment to all sources of public expenditures.

Since the study focused on the economic effects of RIHPC pro-

gram expenditures, some important areas of historic preservation investment were not included in the study data. Therefore, the economic impacts reported in the study significantly understate the real economic benefits of historic preservation in Rhode Island.

Publicly funded projects subject to review by RIHPC, such as housing programs and highway construction, were not included in the study even though at least some of these projects' expenses were for preservation-related work. Likewise, expenditures of private preservation organizations were included only when they were used to match state or federal grants. Tourism-related expenditures also were not included in the study, even though Rhode Island's director of tourism estimates that half of the state's \$1.2 billion annual tourist industry is driven by travellers seeking cultural and historical attractions. Finally, reliable data simply does not exist on the expenditures of thousands of Rhode Island families and individuals who have purchased and restored historic over the last two decades.

Summary of Findings

The total impact of an economic activity on the state is affected by the proportions of the direct and indirect expenditures that go to businesses in the state. Of the \$240 million for goods and services directly expended through historic

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preservation projects since 1971, approximately \$186 million, or seventy-eight percent, went to purchase goods and services in Rhode Island. The model does not indicate to what other states or regions the remaining twenty-two percent of expenditures “leaked,” although much must have gone to neighboring Connecticut and Massachusetts. (It is likely that a portion of these states’ expenditures “leaks” back to Rhode Island, but this is not measured in the model.)

Historic preservation program expenditures have resulted in a cumulative increase in value added in Rhode Island of \$232 million. “Value added” is the difference between the value of goods and services purchased as imputs and the value of the goods and services generated as results of economic activity. It comprises the change in: wages; federal, state, and local taxes; and non-wage employee compensation, profit income, net interest and capital consumption allowances.

“Value added” measures regional output in the same sense that “gross domestic product” measures national output. On a nationwide basis, Rhode Island’s \$240 million in historic preservation expenditures added \$342 million to gross domestic product.

Jobs and wages are key measures of economic impact, especially for elected officials. The study defined an employment

“person-year” as equivalent to one person employed full-time for one year. Over two decades, historic preservation created 10,722 person-years of employment in Rhode Island, with total wages of \$187 million. When the effect of job leakage to areas outside of Rhode Island is taken into account, 13,222 jobs were created, with wages of \$277 million.

Each \$10 million in expenditures (in 1993 dollars) creates 285 jobs in Rhode Island and an additional 65 jobs outside of the state. Of in-state jobs, 129 are in construction work; 51 are for services provided by engineers, architects, attorneys, accountants, preservationists, etc.; 37 involve retail; 23 involve manufacturing; and 19 are in the fields of finance and real estate.

Data on tax revenue are impressive. Federal tax revenue increased by \$64 million as the result of Rhode Island’s historic preservation activity. Within Rhode Island, state coffers received \$13.5 million and local tax collectors received \$8.1 million. An estimated \$27.8 million in non-federal tax revenue was collected outside the state.

Raw statistics become more comprehensible when real-life situations are described. For example, over the last twenty years, for each dollar appropriated by the Rhode Island General Assembly for historic preservation, the state has

received \$1.69 in new state tax revenue. The overall benefit to the state’s economy was \$29 for each state dollar appropriated. In other words, state spending for historic preservation actually makes money.

In 1993, the dollar value of RIHPC programs was \$35.4 million. Using the University of Rhode Island study, we reported the one-year effects of our program to have been:

- ▶ 1,225 jobs, with wages of \$38.5 million;
- ▶ \$3.9 million collected in state and local taxes; and
- ▶ \$9.1 million collected in federal taxes.

For each dollar received in state appropriations, RIHPC generated \$129 in preservation work.

Federal tax credits for rehabilitation of income-producing historic buildings are a key component of preservation’s economic impact. The study data included 266 tax-credit projects completed in Rhode Island with a cumulative value of \$211.5 million.

Of these rehabilitated properties, 111 now provide space for economically beneficial offices, manufacturing and retail. The 1,086 renovated housing units produced through the tax-credit program include 331 units of low-income housing. The study shows that each \$10 million in historic rehabilitation expenditures means:

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- ▶ 350 new jobs;
- ▶ \$11 million in wages;
- ▶ \$2.6 million in federal tax revenue; and
- ▶ \$1.1 million in state and local tax revenue.

For every dollar allowed in tax credits, the federal treasury receives back \$1.30 in new tax revenues.

The study's final measure of historic preservation as an economic activity consisted of comparing historic preservation with other types of public investments commonly supported by government.

Comparisons included maintenance and new construction of sewers, railroads, electric utilities, water supply utilities and highways. Each type of public investment was evaluated for jobs created, wages generated, tax revenue generated and total value added to the economy.

Comparison with each type of public works program shows that historic preservation creates the highest level of new manufacturing jobs. Historic preservation programs create

approximately the same number of construction-related jobs as new electric generation and distribution facilities, and approximately twenty-five percent more construction jobs than the building of new highways and streets.

Conclusion

Rhode Island is a state rich in historical resources but poor in material wealth. Currently the Ocean State's economy is becalmed in recession, with unemployment averaging 8.4% for the last three years. The state's public agenda is largely focused on economic development, and the state budget is focused on cutting costs to balance falling revenues. In this context historic preservation, whatever its many other values, must justify itself as an economic investment.

Our study of the economic effects of programs operated by the Rhode Island Historical Preservation Commission has paid dividends. Governor Sundlun is well aware of preservation's economic benefits, as are the finance committees of the legislature and this

has earned us valuable support. Anyone who thought that historic preservation was just a pretty face on an old building has had to think again.

Historic preservation not only safeguards the landmarks of our heritage, revitalizes neighborhoods and makes communities better places in which to live, it also has become an important factor in the Rhode Island economy. Given the large number of historic buildings in our state, the economic effects of historic preservation are likely to remain significant in the future. ♦

Edward F. Sanderson is the executive director of the Rhode Island Historical Preservation Commission and deputy state historic preservation officer.

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