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The Mills Bill: An Economic Impact Study of the North Carolina State Historic Mill Rehabilitation Tax Credit

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THE MILLS BILL: AN ECONOMIC IMPACT STUDY OF THE NORTH CAROLINA STATE HISTORIC MILL REHABILITATION TAX CREDIT

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ABSTRACT

The textile, tobacco, and furniture industries in North Carolina suffered a significant loss of revenue and jobs in the 1990s. As production migrated to cheaper locations overseas, communities throughout the state faced the collateral challenge of finding new uses for hundreds of large, empty mill buildings. To encourage redevelopment of the state's vacant mills, North Carolina's legislature created a tax credit program that targeted mills and other similar industrial properties. This thesis quantifies the economic successes of the state's mill rehabilitation tax credit. Building on equations and assumptions from Becky Holton's 2008 IMPLAN software model, this economic impact study uses individual project data from the North Carolina State Historic Preservation Office, including qualified rehabilitation expenditures, to determine the level of economic development for each year of the program's existence from 2006 to 2013. Significant findings include total rehabilitation expenditures, direct and indirect jobs created, direct and indirect income taxes generated, sales taxes generated, increased property taxes, eligible tax credit amounts, and the overall cost to the state of North Carolina. An analysis using a second multiplier from Donovan Rypkema of *PlaceEconomics* also demonstrates the indirect effects of the mill credit by estimating the economic impact, total jobs created, and household income associated with every one million dollars of investment in mill rehabilitation projects. By comparing annual results, this economic impact study demonstrates the tax credit's increased efficiency and use in rehabilitating mills and revitalizing North Carolina communities. The North Carolina mill tax credit program has proved successful in finding new uses for vacant mill buildings and infusing economic energy into communities hit by loss of manufacturing jobs. While the administration of the credit creates a deduction in the state budget, the mill credit's indirect economic impact on the state far exceeds the government's initial investment. Although less than a third of completed mill rehabilitation projects took place outside of the state's strong, urban markets, the mill credit has so far pushed 24 projects into feasibility. The future of the historic mill rehabilitation tax credit program faces renewal by the North Carolina state legislature in 2014.

DEDICATION

This thesis is dedicate to my family for their continued love and support.

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I owe a large debt of gratitude to several people involved with making this thesis a reality. I am grateful to my thesis committee for keeping my feet on the ground and providing the proper encouragement throughout the writing process. In particular, I must thank Barry Stiefel, my thesis advisor, for his contributions. His accessibility, flexibility, and willingness to sit and bounce around ideas during our many office chats became a great source of comfort in what proved to be a geographically-diversified committee.

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My sincere thanks goes to Robert Benedict, my numbers man, whose crash course in the muddled world of real estate finance allowed this bricks-and-mortar fanatic to chase a pressing preservation issue in a practical way. His contribution to my results is immeasurable.

Thank you to my roommates for their uncanny skills of distraction. Our late-night kitchen chats, TV viewing parties, and downtown escapades kept me sane. They have transformed what would have been a stress-riddled year into a motivated race to the finish line.

I also thank my parents, whose real talk kept the world in perspective, my grandparents, who have always supported my educational endeavors, and my big brother, Jacob, for sharing his experiences and unyielding humor. Finally, thanks to Daniel, who constantly reminded me that I could do this. Thank you all for the unconditional love.

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CHAPTER ONE

INTRODUCTION

When North Carolina split from its southern neighbor to form a separate colony in 1712, the region's economic stability faced an arduous road. Long a neglected area as Carolina's proprietors focused on the prosperous rice plantations in the south, surrounding the major port at Charleston, northern Carolina failed to develop a reliable trade network before that time. As a colony, North Carolina relied on its raw materials to develop industry and eventually found prominence producing naval stores, lumber, ores, and minerals. In addition to extracting processes, North Carolina, with closer geographical ties to the northeastern colonies, emerged as a major manufacturing and processing state in the postbellum era. The state grew its own tobacco and cotton cash crops and harvested hardwood forests in rural landscapes. Farmers then shipped the crops by train to larger commercial centers, where mills processed the materials into finished goods for sale.

By 1900, North Carolina established itself as a leading textile- and furniture-manufacturing and tobacco-producing state. Due to the catalyst for industrial opportunity, around 300 milling companies arose across the state. As more powerful companies absorbed smaller franchises, the mills consolidated into 25 larger conglomerates.[1] Companies like Cannon Mills in Kannapolis, R.J. Reynolds Tobacco in Winston-Salem, and the Duke family's tobacco endeavors in Durham grew into the 1920s. At the same time, other piedmont areas such as Burlington, Thomasville, and High Point established a strong furniture manufacturing hub based

[1] Brent D. Glass, *The Textile Industry in North Carolina: A History* (Raleigh: North Carolina Department of Cultural Resources Division of Archives and History, 1992).

on the state's forestry resources. During the 1980s' golden age of North Carolina furniture manufacturing, High Point's biannual international furniture exhibition earned it the title of "Furniture Capital of the World."[2]

Each of these three major manufacturing trades required large, industrial sites to support their various fabrication processes, resulting in a multitude of mills and factories in the state. With the many jobs industrial complexes provided to their local communities, most cities and towns had a millworks or other industrial site in their area. By the 1980s, textile, tobacco and furniture companies employed the largest number of people in the state and represented the greatest amount of exports from North Carolina. Mill operations also claimed the majority of state capital, in many places solely responsible for generating the area's significant economic activity.

By the 1990s, however, social and economic trends shifted toward a call for cheap labor. International trade agreements, such as the North American Free Trade Agreement (NAFTA) and U.S.—Mexico relations,[3] prevented the federal government from imposing import tariffs that would have saved North Carolina's collapsing industries. Unable to sustain the increased cost of living that the American minimum wage required and still compete with international companies paying their employees little to nothing, textile, tobacco, and furniture manufacturers adopted a new business model. They obtained cheaper labor overseas in countries such as China, and mills across North Carolina closed their doors. Within a decade, more than half of the state's mill operations became vacant or underutilized properties, creating

[2] North Carolina Furniture Guide, "History of North Carolina Furniture," Carolina Publications, Inc., http://www.northcarolinafurnitureguide.com/history.htm (accessed March 14, 2014).
[3] Stuart Auerbach, "Mexican Trade Pact Unravels the Once-Durable Textile Lobby," *Washington Post*, May 12, 1991.

a new preservation concern. Exposed to vandalism, decay, and demolition, mills—once the hub of commercial life in towns across the state—fell into shambles and became signs of failure for their communities. Where entire towns' economies lay shattered, few professionals existed with the means or interest in revitalizing old mill structures.

In 2006, the North Carolina General Assembly approved the implementation of the state historic mill rehabilitation tax credit in order to incentivize the renovation of these white elephant properties. Previous research has explored the application of the state's regular historic rehabilitation tax credit, but no academic study yet specifically examines the economic impact of the state's mill rehabilitation tax credit. This thesis will analyze raw data from the North Carolina State Historic Preservation Office in congruence with an economic impact study, professional interviews and other forms of scholarly research, in order to ascertain to what degree the mill credit has aided the preservation of industrial structures in North Carolina from 2006 to 2013. Mimicking previous studies associated with the regular historic tax credit, this economic analysis uses Microsoft Excel to generate formulas similarly employed in IMPLAN economic modeling software. IMPLAN provides a nationally-accepted method for collecting statewide social and economic information in order to meaningfully estimate the impact of new development or development reversals on a regional economy.

The economic impact study determined that in all, the historic mill rehabilitation tax credit has generated $474,381,370 in total rehabilitation expenditures. Of that amount, $431,255,790 qualified for either a 30 or 40 percent tax credit from the state. Although the mills bill has cost the state an estimated $134,663,476 since its creation, which when subtracted from the gains in increased tax revenues totals a $105,517,433 deficit for the state government, the

historic mill rehabilitation tax credit has also produced several indirect economic benefits. Since 2006, the mills bill has also fostered the creation of 4,210 direct jobs in construction, 2,475 indirect jobs in related fields or permanent positions created as a result of the opportunities in the newly rehabilitated spaces. Additionally, the historic mill rehabilitation tax credit has generated $5,894,000 in direct income taxes, $3,465,000 in indirect income taxes, $9,056,374 in sales taxes, and $14,629,669 in local property taxes. Using a multiplier from Donovan Rypkema in order to further determine the ripple effect of rehabilitation expenditures within communities, the study also found that the estimated indirect economic impact of the mills bill totaled $1,198,495,383 in overall revenue generation. Therefore, the economic impact of the historic mill rehabilitation tax credit far exceeds the cost of funding the tax credit.

In addition to a new economic impact study, this thesis contains a literature review of the numerous scholarly works associated with the topic of historic mill rehabilitations in North Carolina. Chapter 3 offers a detailed history of the rise and fall of North Carolina's manufacturing age, in order to explain the reasons for the mills bill's creation in 2006. This thesis uses its fifth chapter to delineate and analyze the series of unquantifiable benefits that historic mill rehabilitations afford their communities. In conjunction with these considerations, in Chapter 6, five professionals involved with a specific aspect of the credit's administration testified on its strengths and weaknesses for the state, developers, and local communities so that the thesis begins a comprehensive dialogue on the mill credit's achievements. This thesis also includes a seventh chapter exploring the various forms of alterations that the state legislature could impose on the current historic mill rehabilitation tax credit (HMTC) program.

Finally, based on the expressed purposes of the HMTC legislation to encourage economic development in depressed areas, create jobs, and to rehabilitate historic mill buildings, this thesis will determine whether the mill credit is a successful program. North Carolina's mill structures define a large part of the state's heritage, along with its current social and economic positions. Understanding how the state government can better work to finance these many and varied buildings' continued use will help to ensure their survival and the state's vitality into the future.

CHAPTER TWO

LITERATURE REVIEW

The history of the decline on the textile industry across the country is beyond the scope of this thesis. Instead, the literature will reflect trends as they affect North Carolina, focusing only on a few occurrences outside the state to provide clarity or perspective. The focus on North Carolina does not necessarily represent the national perspective, but is a geographical area with which the editor is most familiar. Because the thesis focuses predominantly on the development and use of the North Carolina historic mill rehabilitation tax credit, some of the content will not be applicable to regions outside the state. For instance, the thesis's equivalent analysis of historic mills that supported tobacco and furniture operations, and other major industries significant in the North Carolina economy, does not warrant national concern. However, considering the benefits of the credit as it relates to a state government's role in the revitalization of historic industrial properties, this thesis is be applicable to much of the Southeast, New England, and the Midwestern Rustbelt where high concentrations of manufacturing and ancillary buildings are found, as well as utility services buildings. Furthermore, my objective is not to provide a comprehensive history of the rise and decline of the major manufacturing industries in North Carolina. David Carlton (1990) has already constructed an economic history of North Carolina's textile mill development.[4] Several other scholars have analyzed the state's economic trends during the rise of the manufacturing age.[5]

[4] David L. Carlton, "The Revolution from Above: The National Market and the Beginnings of Industrialization in North Carolina," *Journal of American History* 77, no. 2 (September 1990): 445-475.
[5] Chen Chen-Han, "Regional Differences in Costs and Productivity in the American Cotton Manufacturing Industry, 1880-1910," *Quarterly Journal of Economics* 55, no. 4 (August 1941): 533-566.; Carlson, Leonard

Brent D. Glass, at the request of the state's Division of Archives and History, also sought to transcribe a history of the textile industry in North Carolina, including a social and architectural history of its earliest water-powered facilities. His analysis of both the changing building typology and social consciousness surrounding mill culture explains how mills have significantly shaped North Carolina's history.[6]

Although the textile industry comprised the majority of North Carolina mill facilities, tobacco complexes and furniture factories also factored heavily in the state economy. Literature specifically surrounding tobacco and furniture operations in the state are scant compared to the national phenomenon that became the textile industry's mass job transfer to Asia. However, due to the similar typology of mill buildings associated with each of these three industries, their rehabilitation strategies are also comparable. For this reason, the term "mill" is an all-encompassing reference to large, industrial buildings in the state, no matter their original operating use. Chapter 3 discusses the physical characteristics of a historic mill building, whether for textile, tobacco, or furniture purposes, that make it a prime typology for current large-scale rehabilitation projects. Additionally, because Justin Briggs' 2010 thesis for East Carolina University[7] has already considered the location theory behind mills' site selections, this thesis offers only a brief deliberation on the concentrated placement of so many industrial structures within North Carolina.

A. "Labor Supply, the Acquisition of Skills, and the Location of Southern Textile Mills, 1880-1900." *Journal of Economic History* 41 (1981): 65-71.

[6] Brent D. Glass, *The Textile Industry in North Carolina: A History* (Raleigh: North Carolina Department of Cultural Resources Division of Archives and History, 1992).

[7] Justin M. Briggs, "Locational Aspects of Adaptive Reuse: The Case of North Carolina's Textile Mills" (master's thesis, East Carolina University, 2010).

While past scholars have focused their research on forming an explanation for the abundant placement of mills in the Southeast, or on the social impacts of job loss in the community as a result of mill closings, few sources discuss the financial mechanisms in place to reboot the resulting vacant structures in North Carolina. Andrew Stewart (2005), an original member of the committee who drafted a bill in North Carolina's General Assembly for the historic mill rehabilitation state tax credit, also chronicled the thought processes behind the bill's design in his thesis for the University of North Carolina-Chapel Hill.[8] Now an alumnus of the same program, Rebecca Holton (2008) framed her thesis to analyze the financial parameters around the state's regular historic rehabilitation tax credit.[9] In an attempt to weigh the state's monetary input versus output for the tax credit, Holton measured specific factors such as total Qualified Rehabilitation Expenses (QREs) spent on the project, jobs created, and increased property tax rates to determine the overall success of the program for the state government. She borrowed several of the same assumptions that Stewart drew during his mill credit cost-benefit estimates, but ran her data through a reputable national economic impact software program called IMPLAN. Utilizing Stewart's and Holton's studies as a precedent, the scope of this thesis will calculate many of the same figures in Microsoft Excel in order to determine the financial success of the state mill rehabilitation tax credit in North Carolina.

Literature that pertains to mill buildings in North Carolina most commonly discusses the socio-economic effects that led to the location, growth, and failure of the textile and other manufacturing industries in the south. Many scholars have attempted to explain the rise of the

[8] Andrew Stewart, "North Carolina Tax Credit for Revitalization of Historic Mill Facilities: Other States' Legislation; Legislative Process; Parameters and Rationale; and Cost and Revenue Projection" (master's project, University of North Carolina at Chapel Hill, 2005).
[9] Rebecca Holton, "A Profitable Past, A Priceless Future: The Economic Impact of North Carolina's Historic Tax Credit" (master's project, University of North Carolina-Chapel Hill, 2008).

textile industry in the American south.[10] Before 1880, the Northern states claimed 90 percent of manufacturing facilities. Writing at the end of the Industrial Revolution, Albert Bolles (1879) argued, however, that the South posed greater advantages to manufacturers.[11] He argued that the cold, dry climate of the North created additional expense in order to heat and steam the mill air. Bolles also held that the added expense to process the cotton so far from the fields in which it grew presented a logistical problem and increased costs further. He claimed that the solution lay in the South. His work serves as one of the earliest reflections on mill location theory, coming about before the mill boom in the South came to fruition. Writing from such an early, if not contemporary perspective, his opinions shed light on the thought processes behind the men initiating manufacturing growth in the country.

Bolles' varied reasons for moving factories to the South have been negated in recent years. However, Gavin Wright (1979) drew a more economic conclusion by pointing to slavery as the reason for the delayed presence of mills in the South.[12] He claimed that slave labor was free,

[10] Bess Beatty, "Textile Labor in the North Carolina Piedmont: Mill Owner Images and Mill Worker Response, 1830-1900," *Labor History* 25, no. 4 (Fall 1989): 485-503.

[11] Albert Sidney Bolles, *Industrial History of the United States* (Norwich: The H. Bill Publishing Company, 1879), 46-41, http://babel.hathitrust.org/cgi/pt?id=pst.000002751276;view=1up;seq=10 (accessed August 30, 2013).; Broadus Mitchell also wrote a book in 1872 comprising the rise of the cotton mill culture specifically in the southern United States. Broadus Mitchell, *The Rise of Cotton Mills in the South*, Columbia, SC: University of South Carolina Press, 2001.

[12] Gavin Wright produced two volumes pertaining to textile manufacturing in North Carolina before 1880 and from 1880-1930. His distinctions are important because the Industrial Revolution occurred largely in the 1880s, so North Carolina's industrial economy after the innovations of the 1880s looked much different than its comparatively primitive operations beforehand. Wright's failure to carry his history past 1930 denotes the height of the national manufacturing industry heading into the Great Depression. By the 1940s, most manufacturing endeavors focused on war-related materials such as transportation and technology, a trend which continued to grow following the end of World War II. Although the national production of textiles peaked in the 1930s, North Carolina's large investment in the industries led to a delayed economic impact, as the state resisted closures by company consolidations until the international market finally overwhelmed the industry by the 1990s.; Gavin Wright, "Cheap Labor and Southern Textiles before 1880," *The Journal of Economic History* 39, no. 3 (September 1979): 655-680.; Gavin Wright, "Cheap Labor and Southern Textiles, 1880-1930," *The Quarterly Journal of Economics* 96, no. 4 (November 1981): 605-629.

but of poor quality. Southern political discordance and economic turmoil, following the Civil War, further stalled the emergence of cheap labor before 1880. Wright focuses on the geographic scope of the labor market along with property rights and recruitment activities and incentives to attract an appropriate type of labor. Justin Briggs, along with several twentieth century scholars which he cites in his master's thesis (2010), claimed that the South held only a negligible gain over the North in air humidification standards and pointed to cheap labor as the cause for the South's rise in manufacturing. Common economic practice now postulates that labor cost and supply, more than anything, dictates a manufacturing company's location.[13]

Between 1880 and 1930, Gavin Wright argues that the South captured the American cotton textile market with the "maturation" of the labor force. He saw the decline of textiles in the South, however, beginning as early as the 1920s, when the Great Textile Depression resulted from the increase in real wages workers received, thus squeezing the profit margin of manufacturing companies. Several scholars of the Great Depression also wrote as though the textiles industry faced a crisis in their time.[14] However, more current authors disagree on the dates defining the textiles downswing in North Carolina.

While the textiles industry comprised a larger percentage of the state's manufacturing revenue historically, North Carolina also experienced national notoriety in the administration of its tobacco and furniture industries. Charles E. Landon's report in 1934 offers a contemporary view of the successes of tobacco cultivation in the state in the 1920s, while Roger Biles more recently elaborated on the creation of "tobacco towns" based around the crop's regional

[13] Briggs, "Locational Aspects of Adaptive Reuse," 1-102.
[14] Jefferson Bynum, "Piedmont North Carolina and Textile Production," *Economic Geography* 4, no. 3 (July 1928): 232-240.

economy.[15] Leaving the field and turning toward tobacco mill operations, Nannie May Tilley offers an explanation for the rise and fall of the state's most powerful tobacco manufacturing magnate, the American Tobacco Company in Durham.[16]

Unlike the many sources on the textile and tobacco industries, scarce academic research surrounds North Carolina's furniture industry. While not holding as large of a percentage in the state economy, the furniture market is one of North Carolina's least disputed industries. While the textile industry fought with northern and international competitors and the tobacco industry faced regional opponents, the Southern furniture industry grew squarely out of High Point, North Carolina. Still an international player due to its biannual exhibition, High Point and the surrounding area has been of little scholarly interest. Near the height of the state's furniture boom, Charles H. V. Ebert explained the emergence of High Point's furniture hub.[17] David N. Thomas added to the narrative almost a decade later.[18] However, most scholarly studies on the history of North Carolina industrial growth focus on textiles or tobacco mills, or larger national trends.

Phyllis Barkas Goldman reiterates the southern economic trend of moving from agriculture to industrial factories post-Civil War slave emancipation.[19] She mentions pre-Civil

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[15] Charles E. Landon, "The Tobacco Growing Industry of North Carolina," *Economic Geography* 10, no. 3 (July 1934): 239-253.; Roger Biles, "Tobacco Towns: Urban Growth and Economic Development in Eastern North Carolina," *North Carolina Historical Review* 84, no. 2 (April 2007): 156-190.

[16] Nannie May Tilley, "Agitation Against the American Tobacco Company, 1890-1911," *North Carolina Historical Review* 24, no. 2 (April 1947): 207-223.

[17] Charles H. V. Ebert, "Furniture Making in High Point," *North Carolina Historical Review* 36, no. 3 (July 1959): 330-339.

[18] David N. Thomas, "Getting Started in High Point," *Forest History* 11, no. 2 (July 1967): 22-23.

[19] Phyllis Barkas Goldman has written several pieces that pertain to North Carolina's mills in various levels of detail. Writing an introductory piece to North Carolina's economy, as well as comparing the many manufacturing endeavors in the state, she writes in an entertaining style, using punctuation such as exclamation marks not typically seen in scholarly literature. Though highly informative and containing a

War not only labor, but also how increases in water power and raw materials benefited North Carolina manufacturing. However, she holds that the state was almost solely agriculturally-driven at the beginning of the twentieth century and only valued industry following the World War I boom. Goldman focuses not only on the textile industry, but also on the tobacco and furniture industries as sources of major production in the state into the 1950s. Today most scholars agree that the labor cost and supply created the primary reason to bring manufacturing to North Carolina, where emigrants and unskilled laborers performed simplistic mill tasks for lower wages. As higher wage demands increased, so did the crisis and decline of American manufacturing.

More recent scholarship on the manufacturing industry in North Carolina focuses on the turmoil that the industries experienced in a changing and globalizing economy, especially regarding tobacco production. John Fraser Hart and Ennis Chestang sensed the tobacco industry's troubles beginning in the 1960s and analyzed the eastern region's experimentation with other cash crops.[20] David L. Debertin turned his research toward the current legal and marketing aspects of tobacco corporations, who now face a less eager population following

great deal of detail as to the makeup of North Carolina's manufacturing industry, her literature is built for an introductory audience, not yet familiar with North Carolina history and economic trends. Phyllis Barkas Goldman, "Manufacturing in North Carolina," *Monkeyshines & Ewe Explore North Carolina's Economy, Communities, & Environment* (January 2001): 34-41.; Phyllis Barkas Goldman, "North Carolina is one of the country's leading manufacturing states," *Monkeyshines on America* (August 2002): 32.; Phyllis Barkas Goldman, "Introduction to North Carolina's Economy," *Monkeyshines & Ewe Explore North Carolina's Economy, Communities, & Environment* (2001): 6-10.

[20] John Fraser Hart and Ennis L. Chestang, "Turmoil in Tobaccoland," *Geographical Review* 86, no. 4 (October 1996): 550-572

education on the health risks of smoking. His case study of Philip Morris's legal dealings and rebranding attempts show the weakened stance that cigarette labels are now experiencing.[21]

The decline of manufacturing in North Carolina, particularly in the textiles, tobacco, and furniture markets became evident in the late 1990s. With the spontaneous loss of over 5,000 jobs, at least two scholars focused on Cannon Mills in Kannapolis, North Carolina, as a case study to exemplify the consequences of the globalization of the textile industry. In 2000, sociologist Cynthia Anderson analyzed the transformation of the southern textile industry from its origins in the late nineteenth century to the implementation of the post-World War II Fordist assembly line production method, to its decline beginning in the 1970s, to current time.[22] As Randall L. Patton pointed out in his review of her work, Anderson's approach finds its strength in her attempts to assimilate multiple theories on paternalism, globalization, restructuring, and spatial analysis by pairing interviews with leaders of both the industry and community with supplemental census data and industry reports. [23] She drew the widely-accepted conclusion that the textile industry was largely unrestrained in the domestic market before World War II, leading to several small-sized firms. After the 1950s, the industry increasingly suffered, facing the competitive prices of an international market and causing smaller companies to converge or fold. By the 1970s, American companies could no longer penetrate foreign markets and instead

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[21] David L. Debertin, "Corporate Strategy In the Tobacco Manufacturing Industry: The Case of Philip Morris," *Review of Agricultural Economics* 23, no. 2 (Autumn-Winter 2001): 511-523.

[22] Cynthia Anderson, "The Social Consequences of Economic Restructuring in the Textile Industry: Change in a Southern Mill Village," http://books.google.com/books?id=xxnKAgAAQBAJ&pg=PP4&lpg=PP4&dq=cynthia+anderson+2000+social+consequences+of+economic&source=bl&ots=3Nuc78GTke&sig=RURKM29tHvhZxve8v6QRMvS306c&hl=en&sa=X&ei=Tf8kU6PmB4a_0gH-5oDACg&ved=0CEAQ6AEwAg#v=onepage&q=cynthia%20anderson%202000%20social%20consequences%20of%20economic&f=false (accessed September 30, 2013).

[23] Randall L. Patton, Review of *The Social Consequences of Economic Restructuring in the Textile Industry: Change in a Southern Mill Village* by Cynthia D. Anderson, *Business History Review* 75, no. 4 (December 15, 2001): 850-853.

assumed failing defensive positions against the intrusion of international firms on the domestic market.

Once the problem became apparent, politicians on the national level struggled to find a solution to the ever-looming textiles crisis and floundered in their attempts to reconcile the domestic market with international prices. In 2002, President George W. Bush (a member of the Republican Party whose principles loudly reject government interference in support of a laissez-faire free market) contradicted his party's platform to propose a bill to impose tariffs restricting the import of foreign-made textiles in order to protect American firms from the competition of cheap foreign goods.[24] In the same year, Liddy Dole, a Republican senator from the heart of "textiles country" in Salisbury, North Carolina—less than 20 miles from the largest textile mill in the state in Kannapolis—announced her staunch intent to vote against any such legislation that interfered with the exercise of the free market.[25] Even as the textiles industry imploded, the downward economic trend proved obvious to the American public and the federal government, which could not agree on a solution to stop mill failures.

Serving as the second and more local source, Timothy Minchin chronicled the 2003 closure of Pillowtex Mills in Kannapolis, North Carolina, the largest mass layoff in the state's history, as a part of the broader demise of the textile sector.[26] Noting the devastating years of

[24] Edmund L. Andrews, "Textile Towns Appeal for Help, but Tariffs May Not Suffice," *New York Times*, November 20, 2003, under "Worldbusiness," http://www.nytimes.com/2003/11/20/business/worldbusiness/20trade.html (accessed September 30, 2013).; "Free Trade: Tangled Up in Textiles," *Economist* 362, no. 8266 (March 30, 2002): 25-26.
[25] Scott Mooneyham, "Elizabeth Dole Speaks on Tariffs," *AP Online* (April 25, 2002).
[26] Timothy J. Minchin, "'It knocked this city to its knees': the closure of Pillowtex Mills in Kannapolis, North Carolina and the decline of the U.S. textile industry," *Labor History* 50, no. 3 (August 2009): 287-311.; Timothy Minchin also included his Kannapolis case study in a larger edition focused on the United States' mobilization against foreign textile imports and the many failed laws enacted in the 1980s and 1990s to reinforce the struggling U.S. textile industry. He also expounded on the NAFTA and GATT agreements that

1994 to 2002 and the loss of 700,000 jobs, Minchin writes from a fairly current perspective on the manufacturing sector in North Carolina. Scholars today, less than a decade removed from the events, discuss not the 1930s as the height of manufacturing decline in North Carolina, but rather the 1990s. Due to the national attention that North Carolina's economic turmoil attracted, *Time* magazine even featured an article noting the widely-accepted trend in more recent years as manufacturing companies took their jobs overseas.[27] Various reports detailing job loss in North Carolina due to lack of manufacturing opportunity come to similar conclusions.[28] However, as Wright, Briggs, and others assert, no matter the decade, the reason for manufacturing decline in North Carolina resulted from the negative effect of increased labor wages on the companies' profit margins.[29]

As traditional manufacturing jobs around the state disappeared, North Carolina revitalized at least some of its work force by diversifying manufacturing industries. Phyllis Barkas Goldman, again, claims electronics, apparel, and pharmaceuticals as rising industries in the state. Although still utilizing large, industrial buildings, new manufacturers prefer cheap, efficient modern materials and do not require the natural ventilation and light systems provided in the large, open floor plans of a textile, tobacco, or furniture mill. Instead, they require atmosphere-controlled settings that old mills cannot provide. As such, Willie Drye (2005)[30]

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led to the North Carolina industry's collapse in the early 2000s. His detailed legal and economic accounts can be found within this book. Timothy Minchin, *Empty Mills: The Fight Against Imports and the Decline of the U.S. Textile Industry*, Lanham, MD: Rowman & Littlefield Publishers, 2013.

[27] "Mission Impossible," *Time* 93, no. 16 (April 18, 1969): 89.

[28] For example, John Fraser Hart and Ennis L. Chestang, "Turmoil in Tobaccoland," *Geographical Review* 86, no. 4 (October 1996): 550-572.

[29] Seth Hammond, "Location Theory and the Cotton Industry," *Journal of Economic History* 2, (December 1942): 101-117.

[30] Willie Drye, "Spinning New Uses for Textile Mills in U.S. South," *National Geographic News* (June 14, 2005), http://news.nationalgeographic.com/news/2005/06/0614_050614_textilemills.html (accessed September 26, 2013).

described the decline of the entire textile industry in the American South, interviewing officials from Alabama to North Carolina. The tobacco and furniture industrial complexes suffered just as heavily when limiting the scope of research within North Carolina. Therefore, recent scholars such as Stewart or Rypkema[31] have begun to consider the feasibility of adapting North Carolina mills for new uses.

The history, decline, and location theory of North Carolina mills do not address the next phase of industrial buildings in the state. The high number of large, vacant spaces around the state, although a result of extreme economic misfortune for many communities, also presents a new opportunity for investment and redevelopment to boost local economies. Because most mill buildings held large amounts of heavy machinery and focused on efficiency of production through fluidity of movement, the vacant structures offer an ease of transition that most buildings do not. The overly-built structures can often handle large amounts of change in load-bearing elements or additional partition walls, while the open floor plans allow those walls to be installed in almost any configuration. Therefore, if the market exists to include new programs in the building, a mill is highly adaptable to house a variety of new uses. Annette Cox described one of the more impressive mill building transitions in the state to date, the adaptive reuse project at Loray Mill in Gastonia.[32] To address the possibility of reusing mill buildings for new

[31] Rebecca McCarthy, "Athens Clarke Heritage Foundation Holds Southern Mills Symposium," *AthensPatch*, http://athens.patch.com/groups/business-news/p/southern-mills-symposium#photo-9043204 (accessed March 13, 2014). McCarthy presented at the Athens Clarke Heritage Foundation in Georgia on the possibilities of adapting mills in the state. Rypkema and Stewart have focused parts of their research on mill reuse as well.

[32] Annette Cox, "The Loray, North Carolina's "Million Dollar Mill": The "Monstrous Hen" of Southern Textiles," *North Carolina Historical Review* 89, no. 3 (July 2012): 241-275. Loray Mill sprawls 600,000 square feet and is indeed an undertaking of monstrous proportions. With the exception of the American Tobacco campus in Durham and the Biotech campus in phased construction in Winston-Salem, Loray is the largest mill rehabilitation project begun to date. A mixed-use project, the mill will feature loft apartments as well as commercial space, a typical approach for new uses in buildings that have such large

purposes, however, greater financial parameters needed to be implemented in order to increase the successful feasibility of revamping mill structures in less metropolitan areas. Developers and municipalities alike have already demolished a number of mills and ancillary buildings, but a treatment plan for those that remain has only just emerged.

Andrew Stewart argued that as traditional manufacturing jobs leave North Carolina, the state government should implement a historic rehabilitation tax credit specifically for the redevelopment of mill buildings. His 2005 master's project weighs the advantages and disadvantages of the regular rehabilitation credit and sheds light on the thought process behind the creation of the "mills bill." He admitted that he conducted the analysis to save mill buildings only in part, but also as a demonstration of the benefits of changing state tax credit legislation. With the intention of comparing the results of the mills bill to the regular rehabilitation credit, Stewart and his committee of preservation professionals purposefully separated the mills bill from other historic rehabilitation tax credits.

Stewart's project, highly influenced through his work with a committee of historic preservation and tax credit professionals, led to the new legislation with parameters to differ only mildly from the updated historic rehabilitation state tax credit. Such measures ensured an easier vote in the state legislature by piggybacking on the already approved regular historic rehabilitation credit. Myrick Howard, the project's advisor, still works as President of

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amounts of floor space. Sold in 2013, the Loray Mill project has only just gotten underway. Besides Cox, more authors have seen the potential in the field of North Carolina mill reuse. Although not focused on the economic tools to enable such adaptive reuse projects, the following sources chronicle the uptake in the repurposing of vacant North Carolina mills versus their earlier tendency for demolition. Patrik Jonsson, "Old mills hum with new uses," *Christian Science Monitor* 94, no. 172 (July 30, 2002): 2.; Tyler G. Moore and Gerald L. Ingalls, "A Place for Old Mills in a New Economy: Adaptive Reuse of Textile Mills in the Charlotte Metro Region" (paper presented at the annual meeting of the Association of American Geographers, Chicago, IL, March 8, 2006).

Preservation North Carolina (PNC), a leading statewide non-profit committed to saving historic places. Their website provides information in combination with the North Carolina State Historic Preservation Office (NC SHPO) and National Trust for Historic Preservation to help developers and the general public understand the state rehabilitation tax credit system, including the mills bill, and serves as an excellent source of information on the use of the mill tax credit.[33] A certain bias or intention to provide more funding to historic rehabilitation projects is obvious in Stewart's project, based on Howard's involvement and Stewart's career as an historic real estate developer. However, his assumptions and economic impact study attempted not to skew but to identify the reality of a mill rehabilitation tax credit's effect on the state economy. Assuming that Stewart conducted proper research to determine appropriate assumptions and parameters, his personal affiliations could in no way affect the outcome of his formulas. In 2006, the state legislature passed an iteration of the proposed mills bill into law, awarding Stewart's project additional legitimacy and validation.

Additional methods exist to analyze the economic impact of historic tax credits.[34] Some of the more prominent options include the national input-output software program IMPLAN and the Rutgers University's Preservation Economic Impact Model (PEIM). In January of 2014, the North Carolina Department of Commerce released an IMPLAN study in which they analyzed the

[33] Tim Simmons, "State Mill Rehabilitation Tax Credits," North Carolina State Historic Preservation Office, http://www.hpo.ncdcr.gov/millcredits.htm (accessed September 30, 2013).; National Trust for Historic Preservation, "Historic Tax Credits," http://www.preservationnation.org/take-action/advocacy-center/policy-resources/historic-tax-credits.html#.UyPMNIW-mOY (accessed September 20, 2013).; Preservation North Carolina, "Preservation Tax Credits," http://www.presnc.org/Preservation-Answers/Tax-Credits (accessed September 30, 2013).

[34] Jeffrey Oakman and Marvin Ward, "Leveraging Federal Economic Development Resources With State Historic Rehab Tax Credits," Prepared by the Office of Revenue Analysis in cooperation with the Office of the Chief Financial Officer of the District of Columbia, http://planning.dc.gov/DC/Planning/About+Planning/News+Room/Leveraging+Federal+Economic+Development+Resources+with+State+Historic+Rehab+Tax++Credits (January 31, 2013).

economic impact of both the state historic mill credit and the regular historic tax credits.[35] The study reflects poorly on the mill credit's efficiency, but represents only one method for analyzing the economic data available from the NC SHPO. While IMPLAN software does not offer a sector designation specific to historic rehabilitation work, the Rutgers model has been developed specifically to measure preservation economic impacts.[36] However, no scholar has yet applied the Rutgers model to ascertain the economic impact of the North Carolina mill credit, only its regular historic tax credits. Mark Stanford did look at the impact of the mill credit specifically on the American Tobacco campus project in Durham, the largest of the mill credit projects completed to date. His study helps to provide context for the financial magnitude of mill rehabilitations as compared to a smaller downtown rehabilitation project.[37]

While most scholars of North Carolina's mill industry agree on the reasons for its rise and eventual decline, they offer few ideas on the present state and future of underutilized mill buildings. However, a great deal of literature discusses the use of general historic rehabilitation tax credits on qualified structures and their effect on multiple state economies, including North Carolina's. In much the same way that Holton crafted her master's project to determine the direct and indirect impacts of the regular state historic rehabilitation tax credit on North Carolina's economy, so this thesis will determine to what degree the mills credit has affected project feasibility and return-on-investment for the state. Stewart's master's project enabled

[35] Ed McLenagham, Zack Oliver, Chris Schwinden, and Jimmy Squibb, "Impact of North Carolina's Historic and Mills Rehabilitation Tax Credits," Prepared by the North Carolina Department of Commerce Labor and Economic Analysis Division in cooperation with the Office of State Budget and Management, Raleigh, NC: January 9, 2014.
[36] Anna Klosterman, *Anna Klosterman to Ramona M. Bartos*, April 9, 2013, Letter, From National Trust Community Investment Corporation.
[37] Mark Stanford, "Planning for Historic Preservation, April 10, 2008," https://www.presnc.org/index.php?option=com_docman&task=doc_download&gid=97&Itemid=103 (accessed February 10, 2014).

the creation of the mills bill to help counter the effects of the waning state textile, tobacco, and furniture industries. However, the overall expenditures he estimated were only projections. Now that the mills credit has functioned for seven years, owners and developers have completed enough projects using the credit to examine the actual impact of the mills bill. Using data from completed projects, instead of rough calculations of future projects, this thesis will compare actual expenditures and revenues to initial expectations and examine the overall success of the mill rehabilitation tax credit in North Carolina.

CHAPTER THREE

ECONOMIC AND SOCIAL TRENDS LEADING TO THE CREATION OF THE NORTH CAROLINA HISTORIC MILL TAX CREDIT

Within North Carolina, the textile, tobacco, and furniture industries' prevalence cannot be denied. Durham and Winston-Salem served regional demands for tobacco production while the Charlotte-Mecklenburg area, among others, focused on textiles into the early 2000s. Areas like High Point, Burlington, and Thomasville were centers for furniture manufacturing.

Although not nationally impressive in many cases, North Carolina's textile, tobacco, and furniture industries defined the course of the state's economy from their first boom in the late nineteenth century until the present day. While the furniture and tobacco industries garner respect in the state's history, the textile mills concentrated in the piedmont region produced the greatest amount of clout among North Carolina's manufacturing endeavors. The long-term investment in the industry led to the development of a large number of mill buildings, over 1,000 mills, by 1951. Today, preservationists estimate the remaining number of mill buildings still standing at around 200. However, the great influence of these buildings on the state's economic and cultural landscape is indisputable.

An examination of the nature of the rise of the textile and other manufacturing industries in North Carolina provides clues about the impact of mill buildings on their surrounding communities today. By studying the long history of the state's textile industry, from emergence to decline, we can understand the institutional importance of the mill's continued physical presence in contemporary communities. In order to comprehend the reasoning behind

the creation of the state's historic mill rehabilitation tax credit program, we must look to the past.

THE RISE OF NORTH CAROLINA MANUFACTURING

In the late eighteenth and early nineteenth centuries, the United States began to develop its domestic textile market. The New England states first imported and further refined valuable technological innovations of several British engineers that defined the future of the American textile industry. Among these inventions were the spinning and weaving machine by James Hargreaves, Richard Arkwright, Samuel Crompton and Edmund Cartwright between 1767 and 1785, and James Watt's development of a steam engine for textile mills in 1793.[38] These innovations brought the textile manufacturing industry out of the home and into the factory where mass production took hold.

However, the New Englander Eli Whitney's invention of the cotton gin left the heaviest impression on the industrial revolution of the textile manufacturing industry. First developed in 1793, the cotton gin enabled the entrenchment of cotton cultivation in the South while reducing the costs of raw material for New England factories. Early on, Massachusetts became the largest manufacturing state in the country, while North Carolina first developed a strong economy based around agriculture, particularly the cash crops of cotton, tobacco, and lumber.

The state's focus on agriculture rather than industries that would stimulate developed economy and attract large amounts of capital into the state delayed North Carolina's eventual foray into the world of textile manufacturing. The lack of skilled labor and capital left a financing

[38] Brent D. Glass, *The Textile Industry in North Carolina: A History*, Raleigh: North Carolina Department of Cultural Resources Division of Archives and History, 1992, 3.

gap that made the purchase of milling machinery difficult.[39] Therefore, North Carolina's textile and tobacco milling industries grew along the periphery of the national manufacturing industry that centered in New England. As the textile, tobacco, and furniture industries began to claim a more significant portion of the state's overall economic activity, North Carolina only emerged as a notable textile manufacturing state in the early twentieth century.

Specifically, the North Carolina piedmont became the region most closely associated with mill buildings. Originally, the piedmont's abundance of small, swift streams with varying degrees of rapids and falls proved favorable for water-powered mills. The Haw and Deep Rivers at the south fork of the Catawba River became the principle manufacturing rivers, but others, such as the Dan, Mayo, Smith, Yadkin, Broad, and Linville rivers, also offered favorable conditions for mill companies to establish new sites, as detailed in Figure 3-1.[40]

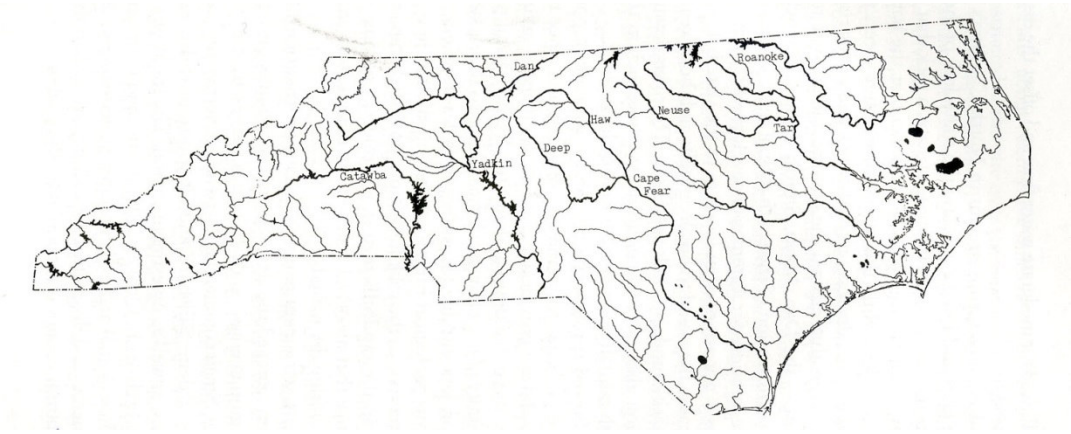

Figure 3-1. Map of North Carolina's major river systems shows the concentration of waterpower availability in the piedmont region. *Brent D. Glass,* The Textile Industry in North Carolina: A History*, Raleigh, NC: Division of Archives and History, North Carolina Department of Cultural Resources, 1992.*

[39] Glass, *The Textile Industry in North Carolina*, 4.
[40] Glass, *The Textile Industry in North Carolina*, 5.

Manufacturing sites did not appear as readily in the western mountains, sandy foothills, or coastal plain of North Carolina. Although the mountains featured roaring rivers, their speed and unpredictability proved too violent. Additionally, the steep and rocky terrain provided little opportunity to build a mill building, which required a large footprint. Most of the eastern half of the state laid below the fall line to the Atlantic Ocean, leading to uniform and gently-flowing river systems without the whitewater power to support mill infrastructure. The coastal plain developed into the state's commercial agricultural region, where large amounts of cash crops included rough lumber goods, tobacco, and cotton— the state's leading export goods.

In addition to offering prime waterpower development opportunities, the textile manufacturing industry grew in the piedmont region because the region contained promising soil conditions, settlement patterns, and ethnic traditions. North Carolina's economy developed quite slowly. The shifting sands and inlets of the Outer Banks discouraged many settlers from landing on North Carolina shores, so that most of the colony's population came to the piedmont area by way of Virginia or South Carolina ports. In large part, the piedmont became the home for families from Pennsylvania, along the Great Wagon Road, creating an influx of German, Scotch-Irish, Quaker, and Moravian settlers. These groups formed small communities and towns, such as Salisbury, Charlotte, Salem (part of today's Winston-Salem), and Hillsborough. These families lived modestly, owning few to no slaves and farming small 150 acre plots for subsistence. Their traditions encouraged diversified agriculture, technical skills, and trade; unlike the cash crop plantation economy that took root in the eastern part of the state.

As early as 1828, the state began to realize the value of producing manufactured goods for itself rather than depending so heavily on imports. In a report issued by the North Carolina

General Assembly, Charles Fisher of Salisbury noted that a severe imbalance of trade had left many farmers in the backcountry indebted, thus weakening the state's economy. He argued that by manufacturing locally-produced staples, such as the raw cotton grown in the east and south, North Carolina could "buy less and sell more," reversing the trend of negative trade with its neighbors and reducing the state's dependency on external manufacturing processes. He claimed that the switch would foster new local markets and small towns in the interior of the state and improve "not only the physical but the moral and intellectual condition of our citizens."[41] Oddly enough, the ability to create new local markets, small towns, and community morale is a large part of what drives the current North Carolina mill rehabilitation tax credit program.

Despite the warning, North Carolina's manufacturing endeavors grew little over the next century. With the absence of cheap fuel, the state's mill development clung to the riverbanks spread throughout the state, discouraging the development of a large, urban manufacturing center. The state's slow, steady, and unimpressive climb in manufacturing capabilities between 1840 and 1880 exposed its commitment to agriculture activities over industry, where industrial work only temporarily supplemented the profits of local farmers. The interest of the state's larger financial investors only shifted to manufacturing when the cost of labor and, therefore, the cost of cotton increased in the antebellum period. Although the state's manufacturing activities doubled between 1840 and 1880, the production value of North Carolina's manufacturing industry failed miserably to match the production of northern states like Massachusetts. Most North Carolina mills settled for the production of crude naval stores and lumber, tobacco leafs, and lower-quality yarns and threads that they could sell for local

[41] Glass, *The Textile Industry in North Carolina*, 8.

consumption and surplus to the northern states. By 1880, the state's manufacturing industry still relied heavily on northern-imported mill machinery and waterpower.[42]

Of the ninety-one mills operating in North Carolina in 1890, more than seventy still used water for at least part of their direct power requirements, while newer facilities used coal. Most successful mill buildings in North Carolina only left the river's edge for urban settings in the early twentieth century when the demand for the state's textile, tobacco and furniture products finally exceeded the capacity of the water-powered mills. The increased efficiency and prevalence of electricity in North Carolina cities and towns in the late nineteenth and early twentieth centuries also contributed to the movement. The innovations of a rail system and a cheaper and more efficient electrical power supply also helped to expand the industrial infrastructure of North Carolina.[43]

In addition to the main mill building, many companies began to build mill villages alongside larger enterprises. A mill village consisted of a number of small cottages, usually identical, built cheaply and spaced at large, even intervals near the mill so that the company could attract more workers to the rural, isolated riverside landscape. The early 1880s mill village currently under redevelopment with the help of the historic mill tax credit at the Glencoe Cotton Mill on the Haw River outside of Burlington serves as a prime example of the typical mill village in North Carolina. Figure 3-2 shows the newly rehabilitated Glencoe Mill Village. The construction and appearance of the earliest mill houses did not look so different from their counterparts in later decades. The company's principle of what constituted adequate living for its employees changed little, providing a front porch on which to sit and converse with

[42] Glass, *The Textile Industry in North Carolina*, 21-22.
[43] Glass, *The Textile Industry in North Carolina*, 11-15.

neighbors and three to five rooms inside. As technology progressed, the floor plan shifted to accommodate indoor bathrooms and a kitchen, but the overall demeanor of the houses did not change. Figure 3-3 shows the typical streetscape and layout of a mill village under construction, at Cannon Mills in Kannapolis.

Figure 3-2. Image of the rehabilitated Glencoe Mill Village, a state historic mill rehabilitation tax credit project. *Preservation North Carolina, "Historic Properties for Sale: Glencoe Mill Village," http://www.presnc.org/images/properties/ea1231960644.jpg (accessed March 16, 2014).*

Figure 3-3. Mill Houses and Cannon Mills in Concord, showing the identical rows of mill houses typical of a standard mill village in North Carolina, 1908. *Elon University. "Building the New South: The Social and Economic Transformation of the Piedmont after the Civil War." https://org.elon.edu/newsouth/About%20the%20Workshop.htm (accessed March 16, 2014).*

In later years, builders standardized the mill house typology and the mill village became a common economic practice for mill companies who wanted full control over their operations. Therefore, they constructed entire mill towns filled with supplementary services that workers would require, like a drug store and grocery, along with housing and, of course, the mill at the center of it all. Mill workers tempted to unionize or strike would have to think twice in order to preserve not only their job but also their home, which was company-owned. In fact, attempts at organized unionization in North Carolina, though repetitive and frequent, never took hold because North Carolina mill workers were isolated by a family labor system that reinforced

traditional rural values.[44] Because working in a mill only occurred as a last resort, rural North Carolinian farmers turned textile workers had few alternative options by which to make a living, particularly during the Great Depression. Additionally, whatever services they required, workers used the wages that they earned working for the mill company to pay for amenities at a company-run store. By involving themselves in most aspects of a worker's daily life, the mill companies ensured total control of the social and economic environment surrounding site operations and worker compensation.

By the turn of the century, textile, tobacco, and furniture production in land-bound communities finally began to overtake the adamantly-held and romanticized Victorian notion of water-powered manufacturing in the state. In particular, the textile industry witnessed the first and most striking rise in national status. In what was called the "Cotton Mill Campaign," a large group of affluent men with no economic allegiance to North Carolina's antebellum agricultural society helped to lead the state through a period of major industrial development between 1885 and 1915. Their names included Daniel A. Tompkins, a Northern-educated Charlotte industrialist who publicized the cotton mill industry, and James W. Cannon, who established a major textile mill company in Kannapolis. Together, they helped the state expand their 200,000 spindles and 2,500 looms in 1885 to 3.88 million spindles and 67,288 looms by 1915. The percentage of state citizens working in textile mills also increased dramatically from only 10,000 workers, or less than 10 percent of the state's work force, in 1885 to 51,000 in 1915.

As textile competition grew on the national market, certain North Carolina companies established dominance in niche textile markets, such as hosiery and denim. During this era of

[44] Glass, *The Textile Industry in North Carolina*, 46.

progression, in 1894, the beginnings of the state's hosiery industry emerged in Durham and spread to Winston-Salem, Burlington, Asheboro, High Point, and Hickory. The hosiery industry became a defining piece of the textile industry by 1914. More recently, North Carolina's hosiery industry ranked fourth in the country, with 74 plants, almost 8,000 workers, and roughly nine million dollars in annual product value.[45]

Around 1900, the textile industry gained two partners in North Carolina manufacturing with the rise of the tobacco and furniture industries. First, the tobacco market prospered in Durham, Winston-Salem, Reidsville, and Greensboro. North Carolina embraced the tobacco crop in its colonial days when settlers realized how well the plant grew in dry, sandy soils compared to other crops. The popular North Carolina variety known as "brightleaf" thrived in the poor soils because sturdier regions caused the leaves to blacken under pressure.[46] Because Europe considered tobacco a luxury good and bought most of its stock from Spain, a political enemy, North Carolina's newfound product opened the door for a new colonial trading partner. Over the years, tobacco cultivation continued to play a large role in the regional economy and currently comprises roughly 14 percent of the state's total cash crop value. Beginning in 1925, North Carolina led the country in tobacco production in congruence with the national rise in cigarette-smoking. While 90 of North Carolina's 100 counties grew some amount of tobacco in 1929, half of the total tobacco production took place in only 15 counties. Also, clearly visible in the map in Figure 3-4, the top five counties, including Pitt, Wilson, Nash, Johnston, and Robeson, all located within the coastal plain, produced a quarter of the state's annual total.[47] Today,

[45] Glass, *The Textile Industry in North Carolina*, 33-44.
[46] Charles E. Landon, "The Tobacco Growing Industry of North Carolina," Economic Geography 10, no. 3 (July 1934): 239-253.
[47] Landon, "The Tobacco Growing Industry of North Carolina," 239-240.

North Carolina still ranks first in the United States for tobacco production at roughly 172,000 acres, showing the dramatic historical influence that the tobacco culture holds in the state.[48]

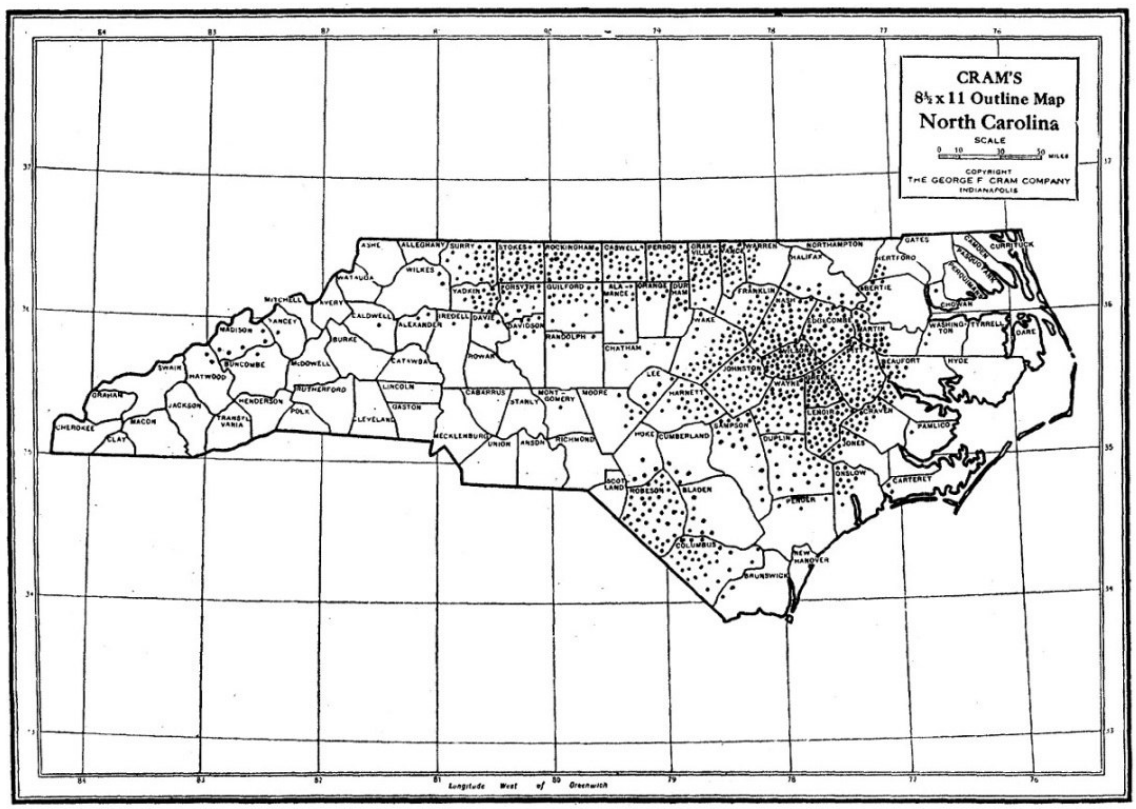

Figure 3-4. Map showing tobacco production in North Carolina per 500,000 pounds, 1929. The dispersal of the tobacco crop favors the eastern region greatly while most tobacco mils emerged to the west in the piedmont region. *Charles E. Landon, "The Tobacco Growing Industry of North Carolina,"* Economic Geography *10, no. 3 (July 1934): 239-253.*

The mass production of tobacco in North Carolina began as early as the 1870s. Around the turn of the twentieth century, savvy entrepreneurs began to develop manufacturing facilities to locate every stage of tobacco production within the state, from crop cultivation to finished goods production. The tobacco magnates located most of the operations not in the

[48] United States Department of Agriculture, "Acreage," http://usda01.library.cornell.edu/usda/current/Acre/Acre-06-28-2013.pdf (accessed March 14, 2014).

coastal plains where local farmers grew the most tobacco, but in the piedmont cities of Durham and Winston-Salem. They chose these locations in order to take advantage of the north-south Southern Railway that ran through the heart of the region. The first big tobacco company literally put the now prosperous city of Durham on the map.

In 1874, Washington Duke started the W. Duke Sons and Company tobacco corporation in Durham to dry and sell bags of tobacco for homemade cigarettes and plug for pipes. In 1885, his sons, James B. Duke and Benjamin N. Duke, risked the innovative switch from hand-rolled to machine-rolled cigarette production. Their bet paid off and in 1890, the Dukes successfully merged with four other tobacco operations to form the American Tobacco Company. American Tobacco grew to become an international monopoly in the tobacco industry until a U.S. Supreme Court anti-trust lawsuit broke up the company in 1911.[49] The American Tobacco mill complex of headquarters, sorting rooms, drying bays, and warehouses now serves as North Carolina's largest historic mill rehabilitation tax credit project to date, at an estimated $80,430,704 in total rehabilitation expenditures.[50]

The second largest mill credit project, still undergoing multiple phases of construction, is located in Winston-Salem. The R. J. Reynolds project occupies the site of what was once the second largest tobacco conglomerate in the country. Like the American Tobacco campus, the R.J. Reynolds complex provides developers with a large number of mill buildings situated in one of the strongest market counties in the state.

[49] Nannie May Tilley, "Agitation against the American Tobacco Company in North Carolina," *North Carolina Historical Review* 24, no. 2 (April, 1947): 207-223.
[50] North Carolina State Historic Preservation Office, "Mill Tax Credit Projects in North Carolina," Raleigh: Department of Cultural Resources Division of Archives and History, December 3, 2013.

Launched in 1913, the R.J. Reynolds Tobacco Company emerged under the direction of its namesake, Richard Johnson Reynolds, who grew up on a farm in southern Virginia. Although the founder died in 1918, just five years after the incorporation of the company, Reynolds Tobacco went on to set many packaging standards in the U.S. cigarette industry, including the twenty-piece pack and various moisture barrier innovations. Through the 1920s and 1930s, Reynolds Tobacco merged with a number of companies to grow in size and influence.[51]Currently producing nearly one out of every four cigarettes sold in the country, R.J. Reynolds owns four of the top ten best-selling cigarette brands in the nation.[52]

Other tobacco magnates emerged in the state as well. William A. Erwin, although primarily involved with textiles, also fostered additional tobacco production in the Durham Area. The Lorillard Tobacco Company, a remnant of the American Tobacco breakup and third largest U.S. tobacco firm, established headquarters about one hour away from Durham in Greensboro. Although the country's largest cigarette company is headquartered in Virginia, Philip Morris also spread into north central North Carolina, in areas such as Reidsville. The company also set up a manufacturing facility in Concord, near Charlotte.

In the last 30 years, national campaigns to draw the public's attention to the health risks of smoking or smokeless tobacco products have weighed on the industry's success. Legislation outlawing smoking in federally-owned buildings accompanied an emerging national stigma against tobacco companies. In October 2004, the Federal Tobacco Quota Buyout altered the

[51] R. J. Reynolds Tobacco Company, "A Look Into Our Past," http://www.rjrt.com/history.aspx (accessed March 15, 2014).
[52] Duke University Social Science Research Institute, "North Carolina in the Global Economy: Tobacco Overview," http://www.soc.duke.edu/NC_GlobalEconomy/tobacco/overview.shtml (accessed March 14, 2014).

quota system on which tobacco companies had operated since 1938, throwing the industry into a period of transition.[53]

Other smaller communities in the eastern half of the state arose in collaboration with the tobacco industry, including Wilson, Kinston, Greenville and Rocky Mount. The modern transition of the tobacco industry, however, has left these communities without the industrial base on which they were built. Kinston, while a larger town for eastern North Carolina, is a small community that attracts most of its external visitors from beach traffic heading to the coast. Greenville, now transformed into a college town as the home to the East Carolina University, found a new mechanism for commercialism and business development. However, the city of Rocky Mount faces a difficult economic environment, with an almost completely empty downtown corridor. No longer able to employ community members in tobacco cultivation and factory work, the city has languished in recent years trying to attract new investment. To a smaller extent, the cities of Goldsboro, Tarboro, Williamston, Farmville, and Robersonville also grew with the success of tobacco and built entire local economies around a single industry that has since ebbed.[54]

In the twentieth century, North Carolina served as the base for a large portion of the world's tobacco industry, which resulted in the construction of a large number of mills around the state. Although North Carolina's largest cities could not rival many Northern metropolises, places like Charlotte, Durham, and Winston-Salem became concentrated urban areas because

[53] North Carolina Department of Agriculture and Consumer Services, "Field Crops: Tobacco," http://www.ncagr.gov/markets/commodit/horticul/tobacco/ (accessed March 14, 2014).; National Council of Textile Organizations, "2005—The Quota Phaseout and NCTO Response," http://www.ncto.org/tradejobs/index.asp (accessed March 8, 2014).

[54] Roger Biles, "Tobacco Towns: Urban Growth and Economic Development in Eastern North Carolina," North Carolina Historical Review 84, no. 2 (April 2007): 156-190.

they embodied the most diversified industrial bases in the state. Due to the presence of the Duke and Reynolds families, tobacco manufacturing facilities figured most predominantly in Durham and Winston-Salem. Not coincidentally, the two cities claim half of the total historic mill rehabilitation tax credit projects currently completed in the state. However, the smaller tobacco-based economies still in existence in the piedmont and coastal plains regions of North Carolina also contain manufacturing remnants of the tobacco industry. For this reason, the 2005 committee to create the mills bill legislation did not limit the tax credit to textile mills.

In addition to the textile and tobacco industries, a third manufacturing line, furniture, took particularly strong hold in the piedmont region around the same time period. Along with the rising textile and tobacco industries, mills also focused on wood products. Originally, North Carolina's abundant forestry resources and river systems allowed the state to focus on the production of timber and naval stores, such as tar. Evolving from the state's early success in the lumber industry, furniture manufacturing emerged in piedmont cities like High Point, Thomasville, Hickory, Lexington, Salisbury, and Statesville. The first furniture-makers started off as a series of small shops that predominantly sold to local populations. In 1889, High Point Furniture Company became the first furniture manufacturing company in North Carolina, supplying wooden products to the state's textile mills, such as spindles, bobbins, and shuttles. The furniture mills also began to manufacture cheap furniture for the ever-growing working class, who needed to furnish their newly-constructed mill houses.[55]

With success equivalent to that of the state's textile industry and a growing pool of wage workers, the furniture industry boomed by the 1930s. In High Point, the population grew

[55] Glass, *The Textile Industry in North Carolina*, 44.

by roughly 156 percent in that decade. Additionally, the number of factories rose to 34 in High Point alone. In order to penetrate the northern markets, furniture makers began to up-fit their operations and learned to produce high-quality items, rather than the inexpensive pieces they originally created for sale solely in southern communities. As furniture companies increasingly mass-produced large amounts of furniture for sale on the international market, North Carolina gained national notoriety as the furniture capital of the country. High Point, the epicenter of the North Carolina furniture industry, still hosts a biannual international furniture exhibition to which traders and salesmen from all over the world come to see a variety of showroom pieces.[56]

While the textile industry peaked in the 1930s, the furniture industry hit its most successful stretch in the post-World War II era with the baby boomer generation. Droves of soldiers, fresh home from the war, settled down to new jobs with families and needed to furnish their new houses. The January 1947 furniture exhibition in High Point totaled 5,147 visitors compared to the 2,229 attendance number from July of 1939. Also, in addition to increased demand and marketing practices, the furniture manufacturing sector created its own board for standardization, called the Southern Furniture Manufacturers Association.[57] Unlike the unregulated textile and tobacco industries, the furniture industry regulated itself in an effort to stabilize the market.

Even though the textile industry far outweighs any other manufacturing trade in the North Carolina economy, the state's furniture niche warrants respect. With a mill building typology similar to the textile mills, both the tobacco and furniture mill buildings benefit from the historic mill tax credit. Besides textile, tobacco and furniture mills, the "mills bill" legislation

[56] Charles H. V. Ebert, "Furniture Making in High Point," *North Carolina Historical Review* 36, no. 3 (July 1959): 330-339.
[57] Ebert, "Furniture Making in High Point," 336.

extends the tax credit to any other historic mill building or ancillary building. Also eligible are historic utility services facilities, whose industrial spaces warrant similar rehabilitation treatments.

The typical architectural style that most North Carolinians conjure when they hear the term “mill” first came into existence in the late nineteenth century. Situated along railroads rather than rivers and featuring smokestacks rather than waterwheels, these giant, brick edifices reflected their industrial applications. Because of the high risk of fire, the new mill designs focused not only on the efficiency of the layout but also on the building’s safety. When dealing with such flammable materials as wood, dried cotton, or tobacco leafs, mill companies needed to provide securities against fire, a consideration the earlier water-powered operations did not merit.

Focused on serving their internal processes and utilitarian demands, mills did not reflect any architectural qualities of interest within their Victorian surroundings. Determined by its meager beginnings, the North Carolina textile industry gained a reputation for producing coarse, low-quality yarns that Northern states bought to make into articles of clothing. The apparels industry in North Carolina eventually began to spin that same yarn into stretches of cloth, but North Carolina mills rarely produced finished articles of clothing. Most of the state entrepreneurs maintained their unskilled laborers and cheap machinery in order to create simple threads or towels.

When World War I began, the demand for American-made textiles rose to unprecedented levels due to the need for uniforms and other military goods, creating the opportunity for North Carolina’s industry to grow at the highest rate in its history. Between

1914 and 1921, the value of all North Carolina textile production grew from $90.7 million to $190.9 million, a just over 200 percent increase in seven years. By the mid-to-late 1920s, southern mills actually outpaced their New England counterparts in the total number of active spindles, looms, and wages.[58]

Despite the milling boom in central North Carolina, as early as the 1920s and 1930s, textiles magnates were already searching for a way to reduce labor costs in their mills. A large portion of mill workers represented the unskilled rural class and minority populations that would accept lower wages, such as women, children, and African-Americans. However, the race to replace human activity with machinery continued full-steam throughout the twentieth century. The "stretch-out" theory prevailed, in which the mills' eliminated a number of workers by increasing the total amount of machinery on the floor and assigning the operation of more and more machines to one individual.[59] Unsurprisingly, the amount of union activity, organized protests, and general discontent among mill village communities rose to its highest level during this period.

One of the most notorious strikes in North Carolina mill history occurred in Gastonia in the summer of 1929 at Loray Mill, pictured in Figure 3-5, the single largest mill in the state with more than 2,000 employees. The communist-led National Textile Workers Union singled out the mill on which to concentrate their campaign to instigate the racial equality debate into labor organizing drives. The strike occurred in conjunction with a small number of African-American workers at a nearby mill in Bessemer City. In the mob that erupted at Loray, a mill worker

[58] Glass, *The Textile Industry in North Carolina*, 56-57.
[59] Glass, *The Textile Industry in North Carolina*, 62.

murdered the Gaston County sheriff while a union activist was also killed.[60] The collective resistance symbolized an era in which mill workers put an end to their poor, weakened status and began to fight for their desire for higher living standards.

Figure 3-5. Loray Mill in Gastonia, North Carolina, circa 1902. *Mary Newsom, "Redevelopment milestone for Gastonia Mill,"* PlanCharlotte*, June 24, 2012, http://plancharlotte.org/story/gastonia-loray-mill-historic-preservation (accessed March 14, 2014).*

When the Great Depression hit, small farmers and their families who had been forced to abandon the failing agriculture economy in the state for a modern wage system faced long hours and miserable conditions. The economic crisis also threatened the massive investments that some industrialists poured into the textile industry. Even the fashion of ever-rising hem

[60] Annette Cox, "The Loray, North Carolina's 'Million Dollar Mill': The 'Monstrous Hen' of Southern Textiles," *The North Carolina Historical Review* 89, no. 3 (July 2012).

lines on women's skirts hurt the industry because it required less fabric. What may have begun as a business-savvy entrepreneur's quest to increase profits grew into a waning industry's struggle to consolidate operations and survive.

Because North Carolina textile mills focused on poorer-quality fabrics, the rougher finished product yielded a significantly slimmer profit margin, so mill companies looked to lower costs in the price-per-unit. However, with so many small, independent mills seeking the same type of specialized production, North Carolina companies often competed with each other for a small pool of merchants who used the abundant supply to their advantage. Selling to wealthy and powerful customers meant that mill companies could not dictate the negotiations. With a never-ending supply of textiles that flooded the market and swamped levels of demand, textile mills were in no position to negotiate pricing with their buyers. Their solution, however, remained in support of higher production rather than concentrating efforts on a less competitive niche of the market.

The multitude of strikes and clashes that ensued over the remainder of the century, though typically non-violent, demonstrated the growing stress between workers and management. More importantly, the discontent exposed a larger national trend moving away from textiles manufacturing. The pressure on the ailing industry to continue into the future increased each year. In June 1933, President Franklin D. Roosevelt enacted the National Industrial Recovery Act which added government regulation to milling operations. Trade associations helped to control production, fix prices, raise wages, and limit operating hours, so that some of the larger mills actually netted a profit for the first time since the stock market crashed in 1929. Smaller, independent mills, however, could not afford the higher wages of the

new regulations and skirted the rules.[61] The law represented the nation's realization that the textile industry needed help, but ultimately proved insufficient to usher a new wave of manufacturing success into the state. The leaders of the weakening textile industry needed to figure out how to restructure their companies under a more successful business model, or risk losing everything for which they worked.

DEINDUSTRIALIZATION

Despite the struggles of the 1930s, North Carolina led the country in textile production between 1939 and 1951, increasing the number of textile plants from 695 to 1,047.[62] The state gained a large share of the nation's textile production, in part because New England began to focus their manufacturing ventures away from the flailing textiles industry. After World War II, North Carolina saw an increase in the number of mergers and acquisitions as the faltering economy exhausted smaller, independently-owned mills. Mill companies large enough to expand purchased available mill buildings and spread the reach of their operations. Some smaller companies that conducted the same manufacturing processes merged through "horizontal" integration. However, corporations like Burlington Industries set the vertical integration trend for larger companies. Established in 1923 with operations concentrated in eighteen rayon plants, Burlington Industries became the nation's largest textile company and, by 1952, the world's largest producer of synthetic textiles when they diversified their operations. Their acquisitions ensured that Burlington did not just expand its level of rayon production, but also included the purchase of mills that catapulted them into the world of high-style cotton dress goods, hosiery, and women's underwear fabric. With 73 plants and 31,000

[61] Glass, *The Textile Industry in North Carolina*, 75.
[62] Glass, *The Textile Industry in North Carolina*, 78.

employees, Burlington Industries located more than half of their buildings and workers within 28 North Carolina counties.[63]

The modern integrated corporate structure of North Carolina textile mills continued into later years, but so did the industry's economic hardships. The original quarrel in most mills featured the need to eradicate bodies from the weaving process while still increasing production with machinery, but a new threat arose: the threat of cheap, imported goods. By 1980, China's presence in the American textile market created havoc in the nation's corporate offices. Between 1974 and 1984, textile imports nearly tripled while American-made textile products only increased in price due to the increasing strength of the U.S. dollar. By the mid-1980s, 43 percent of the United States textile market came from foreign imports.[64]

The question of labor costs, a long-recognized weakness in the American textile industry, came into stark contrast with the introduction of cheap labor in many Asian countries. Exporters, such as China, India, Korea, Pakistan, and Mexico comprised significant portions of the market, as demonstrated in Figure 3-6. Almost every country exporting textiles to the United States doubled their presence in the American domestic market between 1997 and 2002. China, the United States' greatest threat, experienced a 137 percent increase over five years. The total amount of foreign textile goods allowed into the United States within the same period increased by 67 percent.[65] Mill companies, in a desperate struggle for survival, began to look not only at how to replace man-power with machine-power, but also how to replace the expensive American worker with a cheaper, overseas alternative. As a pattern of mill closures emerged

[63] Glass, *The Textile Industry in North Carolina*, 79-80.
[64] Glass, *The Textile Industry in North Carolina*, 96.
[65] United State International Trade Commission, *Report on Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market*, Office of Industries and the Office of Economics, 2004, USITC Publication 3671.

across the country in the mid-1990s, savvy companies transferred their operations overseas to take advantage of the same low-cost labor that Chinese companies enjoyed.

Textiles and apparel: U.S. general imports from selected suppliers, 1997-2002

(*1,000 square meters equivalent*)

Country	1997	1998	1999	2000	2001	2002
Bangladesh	764,510	865,537	910,519	1,130,770	1,169,041	1,149,765
Bolivia	1,567	2,320	2,351	3,423	3,525	5,349
China	2,094,944	1,943,215	2,035,487	2,217,897	2,210,674	4,963,269
Colombia	100,347	96,070	112,570	117,338	96,518	109,611
Costa Rica	317,441	327,187	370,030	373,371	367,131	377,066
Dominican Republic	863,315	886,406	900,252	858,892	772,755	743,276
Ecuador	14,176	10,307	12,513	16,397	18,004	14,919
Egypt	196,114	247,368	200,977	254,105	282,441	264,762
El Salvador	460,078	524,009	640,934	757,217	767,758	816,789
Guatemala	252,530	301,720	332,990	389,719	425,841	451,900
Haiti	78,228	113,415	127,350	125,011	109,099	109,285
Honduras	735,175	808,461	958,257	1,045,195	1,032,289	1,098,840
Hong Kong	863,355	1,020,897	1,017,557	1,123,250	1,092,272	961,680
India	985,739	1,083,648	1,149,428	1,248,337	1,250,245	1,544,666
Indonesia	855,047	974,751	907,305	1,052,667	1,164,629	1,215,355
Israel	266,001	298,416	359,775	476,367	517,174	533,959
Jamaica	194,424	171,281	148,803	126,331	102,637	85,189
Jordan	1,331	2,610	1,365	20,314	62,667	91,328
Kenya	11,305	10,223	12,573	12,670	18,573	36,514
Korea	817,648	1,044,700	1,222,089	1,311,775	1,383,482	2,032,158
Lesotho	21,312	23,955	25,804	34,366	50,913	84,393
Macau	176,477	226,012	277,674	306,031	293,245	321,796
Madagascar	4,633	5,280	9,247	20,511	37,486	22,165
Malaysia	238,490	263,499	321,503	337,407	288,980	325,592
Mauritius	34,222	37,566	38,950	40,115	41,116	47,064
Mexico	3,041,069	3,559,315	4,142,701	4,746,533	4,289,934	4,335,089
Nicaragua	47,765	56,597	69,381	87,513	97,724	120,441
Pakistan	1,125,845	1,483,357	1,544,766	1,996,768	2,189,346	2,536,917
Peru	45,198	44,597	58,315	70,461	58,281	63,474
Philippines	659,070	795,581	905,265	928,860	915,559	817,380
South Africa	49,959	41,659	45,383	55,181	59,319	74,614
Sri Lanka	479,375	527,636	559,945	655,436	631,465	559,150
Taiwan	1,197,396	1,189,899	1,269,894	1,233,308	1,224,379	1,391,301
Thailand	768,575	997,023	1,117,474	1,318,245	1,308,481	1,315,546
Turkey	394,563	511,904	711,634	866,479	871,097	1,068,270
World	22,894,521	25,944,586	28,614,986	32,864,151	32,809,615	38,284,599

Source: Compiled from official statistics of the U.S. Department of Commerce, which are available on its website at *http://otexa.ita.doc.gov*.

Figure 3-6. Chart highlighting the countries posing the greatest threat to the U.S. domestic textile industry in 2004 and their gains in the American imports trade. *United States International Trade Commission,* Report on Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market*, Office of Industries and the Office of Economics, 2004, USITC Publication 3671.*

Those mill companies that did not transfer manufacturing processes overseas faced tougher competition from those companies that did. The effects of globalization manifested themselves most harshly within the state's textile and apparel industries. Unable to pay workers in the North Carolina piedmont the equivalency of a Chinese textile worker's wages, who earned between $0.41 and $0.88 an hour in 2004, or about three percent of an American worker's pay, textile companies based in the American South could not offer competitive pricing. American textile companies encountered an imminent threat not only to their profits, but also to their existence. Foreign imports threatened to flood the U.S. market with cheaper goods, placing American companies at risk of bankruptcy.

For a period of time, the federal government protected the textile-driven Southeast by placing tariffs on imported goods or limiting the total amount of textile goods which could enter the United States from a particular country. In 2002, the United States had quotas on textiles and apparel from 46 countries that together accounted for seventy-nine percent of the total value of U.S. imports of such goods. However, the United States began to phase out the quotas on Mexico under the North American Free-Trade Agreement (NAFTA) and for the 38 World Trade Organization (WTO) countries under the Agreement on Textiles and Clothing (ATC) conducted in 1995.[66]

Most notably, as a criterion of the ATC, the United States agreed to gradually lift textile and apparel import quotas on China, the world's largest producer and exporter of textiles and apparel, despite tight quotas in major world import markets. The U.S. International Trade Commission's (ITC) declassified 1998 report on textiles and apparels attributed China's

[66] Duke University Markets & Management Capstone Course, "Textiles and Apparel: Dimensions of Globalization," https://web.duke.edu/mms190/textiles/dimensions.html (accessed February 25, 2014).

extremely low labor per-unit cost to both low wages as well as high productivity. In 2001, China boasted a population of 1.27 billion and totaled $53.28 billion in textile and apparel exports. In the same year, China alone accounted for 29 percent of the world total in mill fiber consumption, a leading indicator of the size and performance of the world textile industry.[67]

Because minimum wage requirements in the United States prevented American textile companies from matching the low Chinese wages, manufacturing corporations in North Carolina and the country realized that their market disadvantage was insurmountable and began to sell off their assets. Textile companies consolidated at a faster rate than in previous decades as the demand for American-made yarn, fabric, and apparel diminished significantly.[68] Other mill companies that had operated in North Carolina for over a century simply waved a flag of surrender and closed their doors, and their owners went on to pursue other ventures. Most companies that resisted the violent consumer swing toward foreign goods, such as Cone Mills in Greensboro, fell into bankruptcy. In the late 1970s and early 1980s, Burlington Industries reinvested eighty-five percent of its cash flow in new equipment, spending $1.5 billion in a seven-year span.[69] Attempting to offset the threat of cheap foreign labor with increased mechanization, Burlington Industries never regained its profits and one of the most powerful textile companies in North Carolina was forced to declare bankruptcy. No matter by what

[67] United State International Trade Commission, "Textiles and Apparel," 31-37.
[68] American Textile Manufacturers Institute, "Life Post-2005: China: How Big A Threat?" Presented at the Conference on the Future of Textiles and Clothing, 2003.; Ray Clune, "Burlington, Cone Slash Jobs at North Carolina Plants," *DNR: Daily News Record* 27 (July 23, 1997): 25.; Charles Lunan, "Empty Mills Burden Carolinas: Cavernous Brick Hulks Can Drain Remaining Vitality of Small Towns," *Charlotte Observer*, July 22, 2002.; L.B. Morse, "After a Shutdown: a Case Study of a Closed Textile Mill," *Journal of Socio-Economics* 34 (2005): 333-351.; Lauren A. Murray, "Unraveling Employment Trends in Textiles and Apparel," Monthly *Labor Review* 188 (August 1995) 62-72.
[69] Glass, *The Textile Industry in North Carolina*, 97.

circumstances a mill closed, each closure resulted in the loss of hundreds, often thousands, of jobs.

An example of this consolidation process is most evident in the evolution of Cannon Mills in Kannapolis, North Carolina. James W. Cannon started the Cannon Manufacturing Company in 1887 and opened the mill in Kannapolis in 1907. The town he built over the years bearing his name grew around the mill and by 1971, when his son Charles died, Cannon Mills controlled over half of the country's towel business and twenty percent of its sheet production. In 1982, real estate tycoon and Dole Food Company CEO David Murdock bought the 660 acres of mill property, including Cannon Village, the downtown business district, and 1,600 houses.[70] He sold off houses, raised rents, and used Cannon Mills' revenues to pay off his purchasing loans. He cut 2,000 jobs at the mill and, when he sold the company in 1985 to Fieldcrest, terminated the employees' retirement pension plans and pocketed the interest they had accumulated, some $36 million.[71]

Eventually, the Fieldcrest-Cannon company joined into a larger merger with Pillowtex Mills, but the prosperity in Kannapolis had been decimated. When Pillowtex Mills finally closed in July of 2003, the resulting mass lay-off of over 5,000 workers became the greatest single job-loss event in the nation's textile industry demise. David Murdock returned to purchase the now vacated property. The building itself, the largest mill in the state, occupied a square footage larger than the Pentagon and proved a daunting task for adaptive reuse. Rather than attempt to reconcile the building's mass with a new use, because the area's financial market lay in ruin, the new owner organized the mill's implosion in 2005. After the demolition, Murdock redeveloped

[70] Timothy J. Minchin, "'It knocked this city to its knees': the closure of Pillowtex Mills in Kannapolis, North Carolina and the decline of the US textile industry," *Labor History* 50, no. 3 (Aug 2009): 287-311.
[71] Glass, *The Textile Industry in North Carolina*, 101.

the site into a biotech research campus, supplying large, ornate laboratory buildings for a number of academic institutions around the state. At its groundbreaking, professionals touted the campus's ability to renew community life and the local economy. So far the research campus has done little to attract other new businesses into the area. Little has been done for thousands of the Kannapolis residents once employed in the mill, and the largest mill building in North Carolina was sacrificed for the new research campus.

By the late 2000s, the ultimate failure of the American textile industry became apparent. Totaling 700,000 jobs lost between 1994 and 2002, the majority of the textile industry's unemployed workers were concentrated in southern states— specifically North Carolina, South Carolina, and Georgia. Figure 3-7 shows the extent to which the three state—especially North Carolina—accounted for the country's textile employment. North Carolina solely supplied over a quarter of America's textile jobs. In the year 2002 alone, 116 textile mills closed. Between 2004 and 2006, North Carolina led the nation in trade-impacted layoffs. [72] North Carolinians fell into extreme poverty and vacant mill buildings piled up for sale at a rate too quickly for local markets to support. The sudden influx of vacant buildings created an imbalance that simple laissez-faire tactics could not address. With the increase in vacancies came an equivalent rise in neighborhood blight, crime, and economic and social depression. Preservation professionals and state political leaders both realized the immediate need for an incentive to offset the insurmountable expense of rehabilitating many of these white elephants.

[72] Minchin, "'It knocked this city to its knees,'" 287-311.

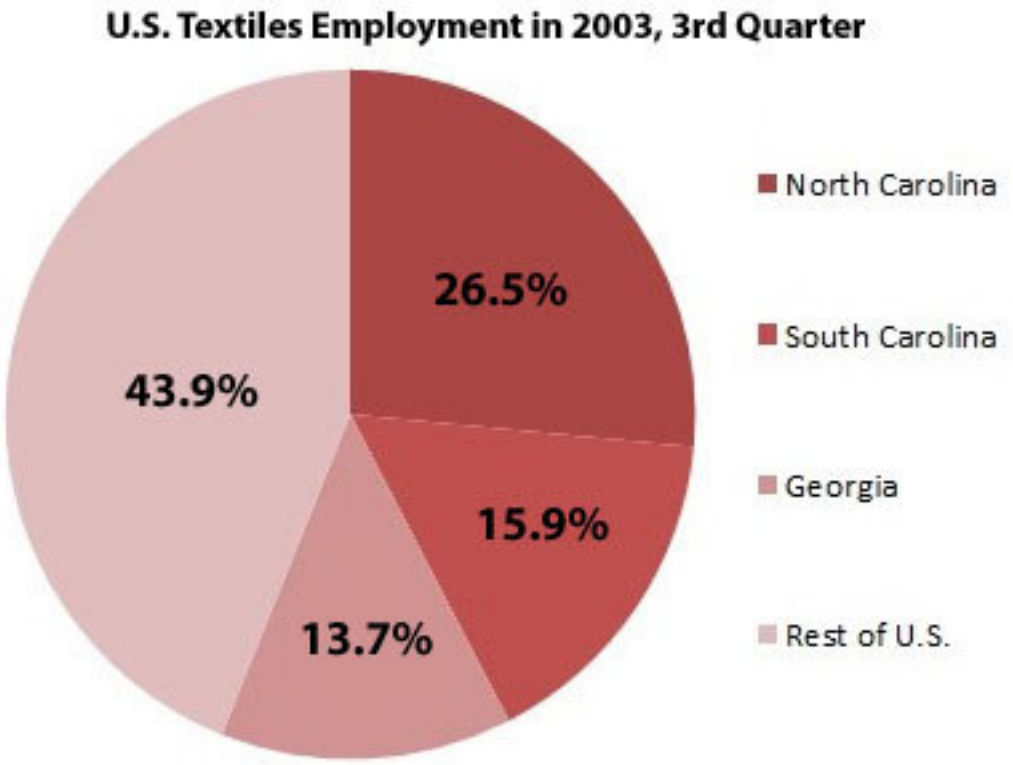

Figure 3-7. The high concentration of textile mills in North Carolina, South Carolina, and Georgia compared to the rest of the country resulted in a massive loss of jobs and revenue when companies moved overseas. *Duke University Markets & Management Capstone Course, U.S. Bureau of Labor Statistics, "Percent of Textile Employment, Georgia, South Carolina, North Carolina, and Rest of US, 3rd Quarter 2003," 2004, https://web.duke.edu/mms190/textiles/maps.html (accessed February 25, 2014).*

WHY MILLS ARE GOOD FOR REHABILITATION

Once manufacturers started leaving mill structures empty across the state, it became clear that most plans to reinstate industrial uses into the buildings needed to be abandoned as well. The economic question shifted from 'How do we get these mills open again' to 'What else can we do with this large, empty building.' The answer to the latter question lay in an economic understanding of the building as a real estate investment asset.

In the wake of the Industrial Revolution, milling companies optimized the efficiency of their operations by designing a building specifically catering to their production purposes. Textile mills built between 1880 and 1945 were multi-storied, brick buildings.[73] A typical mill building housed large floors of heavy machinery, including rows of looms, rollers, or packaging equipment, shown in Figures 3-8, 3-9, and 3-10. In order to withstand the immense weight of the machinery, mill companies reinforced the floors in their factories and utilized robust building materials. Most mills sport several rooms lined with thick oak or heart pine columns reminiscent of the tree trunks from which they were sawn, as well as strong flooring and wall reinforcements. The Charleston Cigar Factory's sorting room, shown in Figure 3-11, demonstrates the type of large, column-filled expanses that many mills utilized. Historic mill buildings, therefore, provide large amounts of overbuilt square footage which, once machinery is removed, can support a variety of new uses compliant with modern structural engineering standards. Rather than carrying the load of a loom, for instance, the mill structure could easily distribute the weight of partition walls erected to create new housing units within the building. The overbuilt qualities of most mills, therefore, can tolerate moderate interior alterations, making these buildings highly adaptable and allowing for a large number of possible new uses depending on the demands of the local market.

[73] Claire E. Jamieson, "Change in the Textile Mill Villages of South Carolina's Upstate During the Modern South Era," (master's thesis, The University of Tennessee, 2010).; Andrew Ham, "Southern Mills: Economically Smart, Socially Responsible" (presented at one-day symposium on historic mill redevelopment, Athens, GA, February 4, 2012).

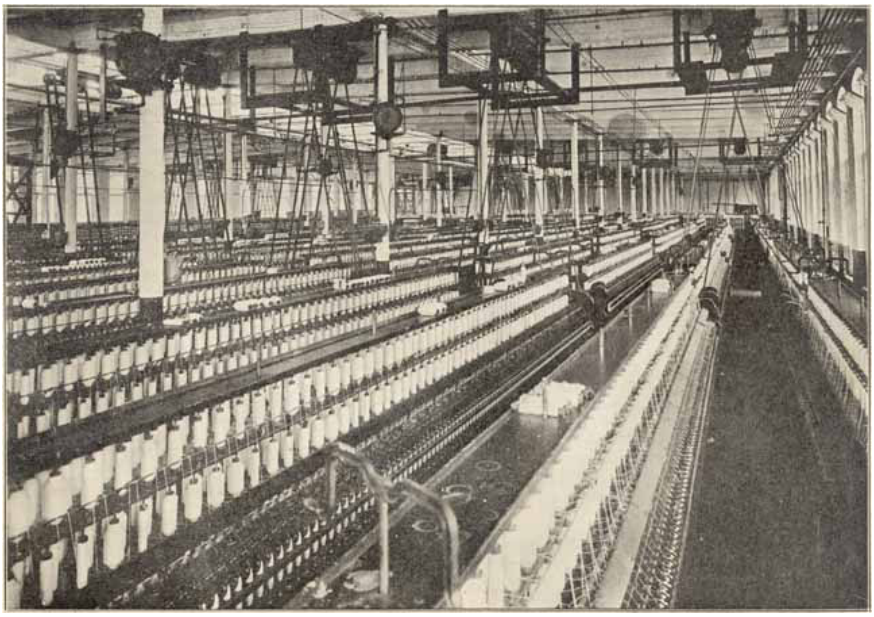

Figure 3-8. Spinning Room at Wymojo Yarn Mills in Rock Hill, South Carolina around 1917. Mills like this one had large rooms filled with machinery to serve one specific purpose. Companies split the process into separate spaces for increased efficiency. *Documenting the American South, "Mill News: Electronic Edition,"* Mill News *22, no. 16 (October 14, 1920): http://docsouth.unc.edu/nc/millnews/millnews.html (accessed March 15, 2014) 22.*

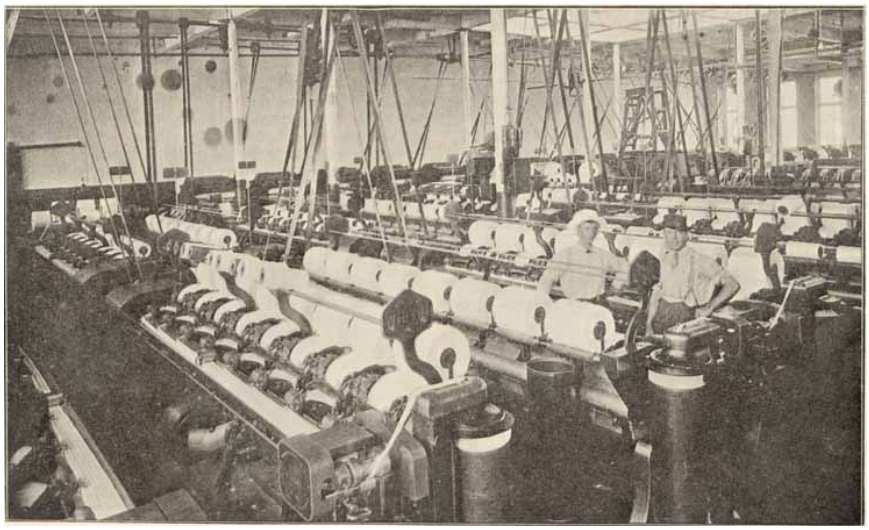

Figure 3-9. Card Room at Wymojo Yarn Mills in Rock Hill, South Carolina around 1917. Over-built mill buildings supported the weight of hundreds of heavy machines for a number of years. Therefore, their up-fit for new uses usually demands very little structural work. *Documenting the American South, "Mill News: Electronic Edition,"* Mill News *22, no. 16 (October 14, 1920): http://docsouth.unc.edu/nc/millnews/millnews.html (accessed March 15, 2014) 23.*

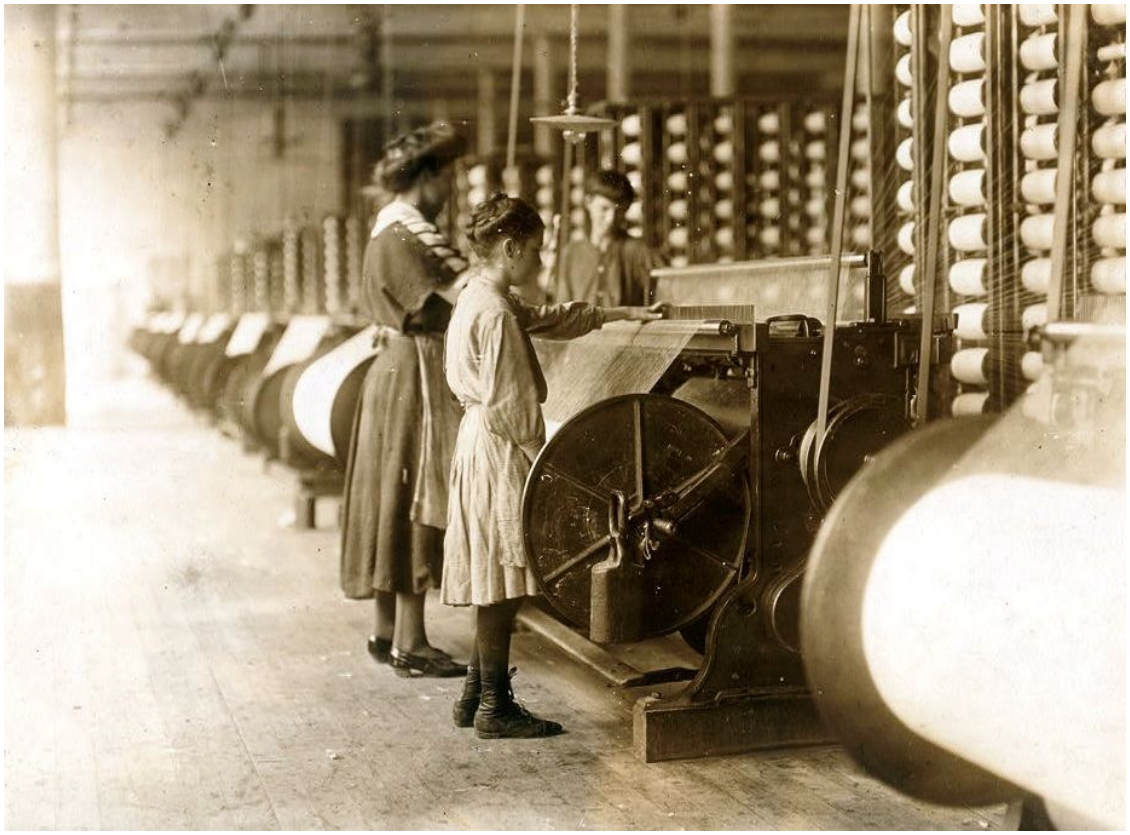

Figure 3-10. Girls working in Loray Mill, Gastonia, North Carolina, 1908. *Elon University. "Building the New South: The Social and Economic Transformation of the Piedmont after the Civil War." https://org.elon.edu/newsouth/About%20the%20Workshop.htm (accessed March 16, 2014).*

Additionally, because the mills dealt in large quantities of flammable material, companies typically equipped their complexes with redundant fire safety measures. The New England factory insurance company that partnered with the state's industrial entrepreneurs ensured that the mills did not face the same risk of fires that their earlier riverside counterparts did, and imposed what by then had become a standardized "slow burning construction."[74] The mills used brick, a largely fire-retardant material, to create the enclosure and much of the interior supports. Mills from this era of construction are also famous for the rows of heavy

[74] Brent D. Glass, *The Textile Industry in North Carolina*, 38.

timber columns that march across the vast interior expanses. Although wooden, and therefore more flammable, the robustness of the supports meant that they would not succumb to fire damage and fail immediately, giving occupants a greater chance to escape. Companies also kept the buildings low to the ground to offer workers several options for egress during a fire, and also limiting the collateral damage on site should the building actually weaken enough to fall. Because mill buildings did not traditionally rise over three or four stories, the mill stretched a great distance horizontally to accommodate the level and number of operations necessary inside. Flat roofs enabled the mills to span such a large space, and the lack of large quantities of roofing material—typically wood—also limited the amount of kindling that the building supplied to potential fires.

Figure 3-11. Image showing the Sorting Room at the Cigar Factory, Charleston, South Carolina. Historic mills used vast expanses to house large quantities of goods and facilitate easy movement through the spaces. *Photo by author.*

Large, brick fire walls also separated the most vulnerable wings of operation from the rest of the mill, including the engine and boiler room, the picker room, the warehouse, and means of egress such as stairways.[75] Sliding fire doors, shown in Figure 3-12, even used counterweights to ensure that once their connecting rope burned away, the weight would drop and the door would automatically seal off the unburned wings. In this way, several parts of a traditional North Carolina textile mill are already somewhat separated spaces, facilitating their present-day adaptation into new and separate uses. Typically mill credit projects require a mixed used approach to make the project financially feasible, or at the very least, a building transformed entirely into apartments still needs a large number of partition walls inserted. The original design of many mills creates noticeable boundaries between spaces which can often aid a preservation architect's attempts to break up the large building into its allotted new uses.

Figure 3-12. Image showing a sliding fire door system with attached rope pulley at the Cigar Factory, Charleston, South Carolina. *Photo by author.*

[75] Brent D. Glass, *The Textile Industry in North Carolina*, 38.

In addition to the overbuilt structure and fire walls, insurance companies encouraged a complex water-collecting system linked to an extensive sprinkler network throughout the building. Former owners did not often go to the trouble of removing the fire suppression systems in historic mill buildings. Therefore, depending on the current conditions of the mill building, developers have the opportunity to reutilize the original fire protection designs and alleviate at least some of the cost of up-fit necessary to bring the building into compliance with modern fire safety codes.

For example, although not currently in use, the 232,000 square feet Cigar Factory in Charleston, South Carolina boasts an intact and fully-functioning sprinkler system from its original 1881 construction. Traditionally, a large cistern stored at the top of the mill's central tower fed the pipes that ran in several rows over the large, open production spaces. Tests conducted in preparation for the Cigar Factory's redevelopment proved the continued integrity of the sprinkler system. Developers planned to connect the original sprinklers to the current city water supply in order to return them to service as a part of the building's new use, saving the project from expensive costs associated with installing a new and more invasive sprinkler system.

Multiple exterior doors and long rows of large windows also provided occupants with extensive escape options. The thin and horizontal, rather than vertical, orientation of most historic mill buildings meant that the overall structure was low to the ground and that few occupants would be far from an exterior wall. Certain uses might be acceptable in an historic building without having to strictly meet current fire codes in the way a new construction project does, due to the practice of grandfathering. However, public uses that require up-to-date fire

code compliance, such as commercial retail or office space, can often face less daunting rehabilitation costs for fire safety requirements because the mill buildings' designs already tailor to prevalent safety issues.

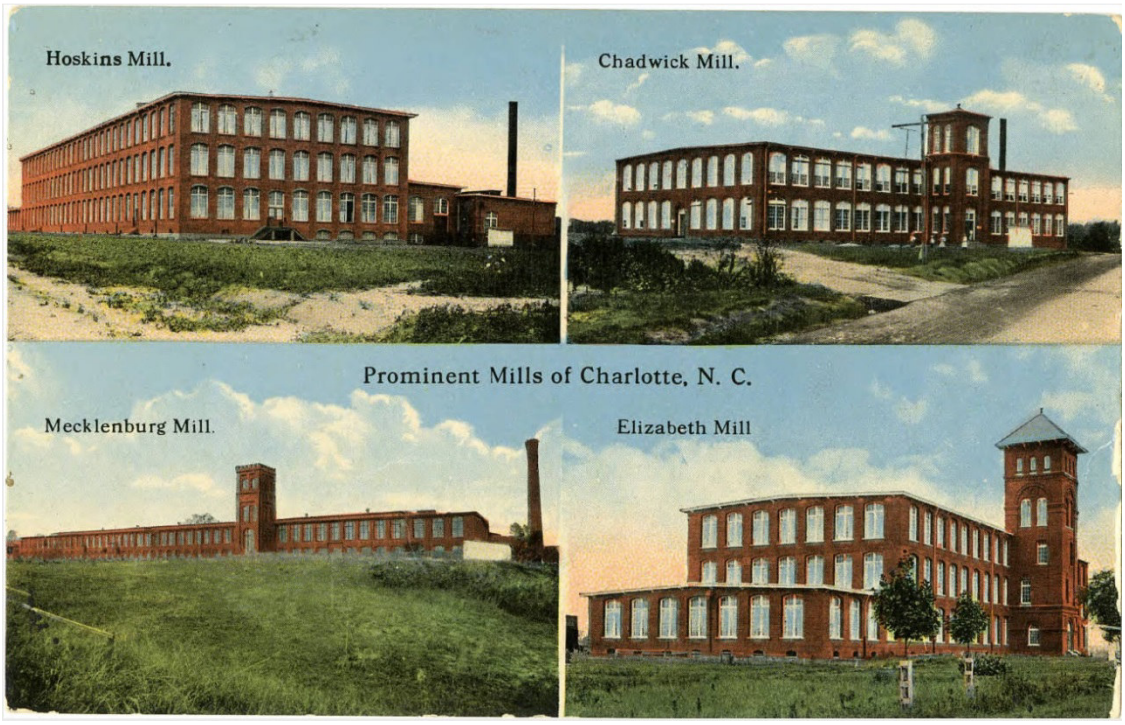

Figure 3-13. Most historic mills in North Carolina do not raise over five stories. Pictured here, the shapes of typical Charlotte area mills exemplify the long, horizontal brick façade of most textile, tobacco, and furniture mills at the turn of the twentieth century. *J. Murrey Atkins Library Digital Collections Mary Boyer Collection, "Prominent mills of Charlotte, NC," University of North Carolina at Charlotte http://digitalcollections.uncc.edu/cdm/singleitem/collection/p15483coll1/id/960 (accessed February 25, 2014).*

Overall, the plain, industrial appearance of mill buildings offers future tenants a desirable adaptation project. Figure 3-13 depicts a variety of mill designs in the Charlotte area. The architectural style of the building, minimal and usually animated only in a central or corner stair tower, does not demand a certain type of new use. Its utilitarian expression offers a simple backdrop on which developers, architects, or tenants can place their own design preferences.

With exposed brick walls, hardwood floors, large windows, and tall ceilings, the spaces offered inside a mill appeal to current trends toward rusticated and interesting spaces, while allowing new occupants to express themselves without contradiction. The Charleston Cigar Factory, picture in Figure 3-14, demonstrates the appealing character of many mill spaces.

Figure 3-14. Image showing the height of most mill building windows at the Cigar Factory, Charleston, South Carolina. *Photo by Megan Funk.*

Many mill complexes sat within the heart of a mill village. The amount of housing provided around the mill matched the company's requirements for the number of workers needed inside the mill and their families. The communities, therefore, usually grew in proportion with the mill's operating capacity, creating neighborhoods of an adequate size to generate a moderate economic demand. Figure 3-15 provides the floor plan of a popular mill

house style in North Carolina. Assuming the mill's eventual closure did not result in the demolition of the original housing surrounding the building, many currently vacant mills lie at the epicenter of a potential commercial market. With an ample number of residents within walking distance, the new use implemented within the mill can use the built-in market of nearby residents to encourage foot traffic and economic activity in the area.

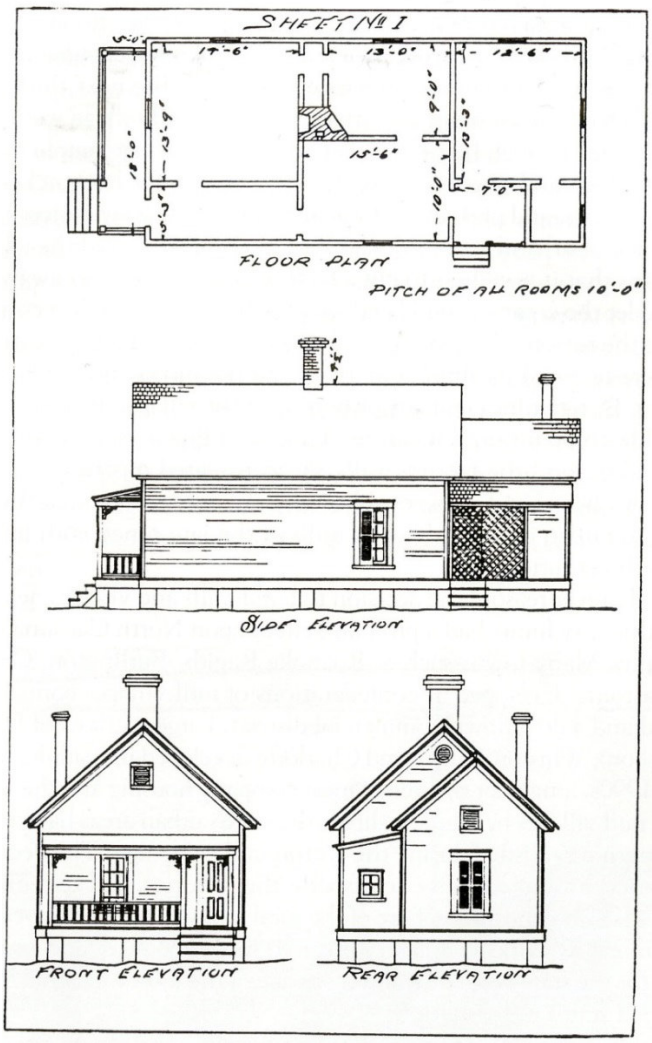

Figure 3-15. Standardized mill house design from Daniel A. Tompkins' 1899-published textbook. This plan shows the "Three-Room Narrow House" that sold for $325. Brent D. Glass, The Textile Industry of North Carolina: A History*, Raleigh, NC: Division of Archives and History, North Carolina Department of Cultural Resources, 1992.*

This geographical advantage is not easily replicated today for a large complex because most town centers have already been developed. New construction projects meant to match the scale of a mill building, such as a shopping center or a big box store, find the largest swaths of land at the cheapest prices on the periphery of communities. Their suburban location, in fact, follows the principles of most mill building's construction by using a lot with lower property taxes and supposedly less municipal influence. In order to create a new market in the area, developers must sometimes add housing so that people will move in and frequent the commercial businesses and other venues that sit so close to their neighborhood. Such practices have encouraged the growth of the suburbs and perpetuated the floundering of many historic downtowns.

However, in many instances, mill buildings lie at the heart of a mill town's original core. The resident occupancy within a short radius of the mill already exists due to the mill's expanded community services for its workers. A mill building can support a variety of new uses due to the nature of its internal outfitting. The communities surrounding a mill building can produce the external demand for a new use in many cases. Also, the infrastructure necessary to support a new use inside the building is already in place, where electricity, water, and sewage lines already run adjacent to the property. Therefore, the municipal government does not have to run new lines to a project on its periphery, common costs associated with creating a green-field development site.

The typical layout of a mill building and associated town is also not limited to one or two historic manufacturing hubs. Winston-Salem and Durham have large concentrations of mill buildings due to the magnates that lived in the area, but a mill company's general desire to build

in the country resulted in scattered operations. Rural workers attracted to the consistency of mill work wanted to maintain their sedentary lifestyle and the mills listened. They created their own towns, so that when a new mill began construction its owners did not choose an urban center but rather found a new, blank area to develop. As a result, the options for mill rehabilitations are distributed across the state. Most notably in the piedmont region, many small towns possess at least one mill. The ability for the mill rehabilitation tax credit to reach beyond the stronger markets in the larger cities, then, exists. The credit has potential to aid some of the areas of North Carolina that most need its economic benefits.

Finally, one of the most compelling and obvious reasons that an historic mill building is so well-suited for rehabilitation: its embodied energy. Due to their tendency toward the heavy use of manual labor on site, versus large amounts of construction material purchases, historic mills required a high level of energy input which workers contributed during its initial construction period.[76] Mill complexes are also usually massive buildings made of large amounts of building materials. When demolished, their contents make sizeable additions to landfills, creating an environmental disincentive. If demolished, the American Tobacco campus would have taken 2,900 semi-trailer dump truck loads of debris to the landfill just to have a barren piece of land on which to begin an expensive new construction project.[77] Once cleared, many mill sites in North Carolina contain another development hurdle in environment abatement. They have become brownfield sites, with soils contaminated by the extended presence of harsh

[76] Mike Jackson, "Embodied Energy and Historic Preservation: A Needed Reassessment," *APT Bulletin* 36, no. 4 (2005): 47-52. According to www.thegreenestbuilding.com's per waste calculator, the demolition of a 1,000,000 square foot building generates 86,000 tons of debris. Additionally, a side-dump semi-trailer might hold around 30 tons of debris. By multiplying the total square footage of the American Tobacco campus's buildings by the amount of debris produced per 1,000,000 square foot building, the demolition's contribution to landfills can be calculated.

[77] Eddie Belk, interview by author, Durham, NA, December 9, 2013.

chemicals and airborne fibers and particles on site. Federal law requires developers to conduct expensive and highly regulated site clean-ups. Due to the presence of what are now considered dangerous building materials, such as asbestos and lead, the demolition process also requires vigilant methods. The mill's demolition, while increasing costs to the developer, also destroys the potential to elongate the building's life cycle in a time when such heritage architecture is once again attractive to markets.

As historic preservationists struggled to find a way to save the state's historic mill structures, and the state's political leaders scrambled for a solution to the economic crisis compounded by mill closures, the two parties decided to work together. The importance of the buildings' heritage as well as their primed positioning for adaptive reuse projects led to the creation of the North Carolina historic mill rehabilitation tax credit. Andrew Stewart's 2005 masters project helps to understand the thought processes that formulated the mill credit as it is used today.

CREATION OF THE MILLS BILL

Unfortunately, because no comprehensive mill survey exists, preservationists cannot be sure of the precise number of vacant mills, ancillary buildings, and utility facilities still standing in the state. For that matter, an exact count on the number of historic mills still in use is also unavailable. Some of the mills closed in the late 1970s and early 1980s have likely not passed through the most recent 30 years unscathed. In 2005, Andrew Stewart estimated two hundred remaining mill buildings.[78] However, if this number was accurate at the time, that number has likely declined over the last eight years as the need for these buildings has also decreased and

[78] Andrew Stewart, "North Carolina Tax Credit for Revitalization of Historic Mill Facilities: Other States' Legislation; Legislative Process; Parameters and Rationale; and Cost and Revenue Project," (master's thesis, University of North Carolina-Chapel Hill, 2005), pg. 4.

led to several demolitions. The race to preserve the most significant pieces of piedmont heritage is on.

As mill closings became an apparent trend across North Carolina, peaking most dramatically in the past fifteen years, citizens began to take action. In 2005, Andrew Stewart focused his master's project in the Department of City and Regional Planning at the University of North Carolina-Chapel Hill on finding and documenting a solution. Throughout the year, he chronicled the discussions and decisions made between meetings of various state interest groups, professional community representatives such as developers and financiers, and state legislators to find a way to use North Carolina's abandoned or underutilized mill complexes.

The coalition that resulted intended to compile a variety of professional opinions who together shared enough experience to pinpoint the best structure for the bill, define appropriate parameters, and facilitate the easiest route through the state legislature. The coalition sought to limit the number of qualified buildings to a finite number in order to give the legislature an estimate of the short-run costs of the bill,[79] or an idea of the maximum amount of credits they would potentially have to grant if they passed the new program. The coalition, therefore, designated that only historic mill buildings, ancillary mill structures, and buildings used for utility services should qualify for the new tax credit.

The legislation specifically refers to historic industrial buildings and ancillary structures, as well as utility facilities. The utilities addition may seem odd considering that the legislation came into place to redevelop the high numbers of textile and tobacco mills being vacated around the state. However, power, sewage, and water treatment plant buildings often resemble

[79] Stewart, "North Carolina Tax Credit for Revitalization of Historic Mill Facilities," 14-15.

the architectural and interior layout design of mills. They are all low-rising brick buildings with a smokestack. Historic utility facilities can be treated in much the same way as an architect might approach a standard mill rehabilitation.

Additionally, after a Supreme Court ruling broke up the powerful Duke family's tobacco trust in 1911, the Dukes branched out to invest in other industrial activities in the state, such as textiles manufacturing. James A. Duke also established the Southern Power Company in Charlotte, which would grow into the massive Duke Power franchise that eventually ruled the state's electrical power market. Many of the same hands that built such influential sites as the earliest Duke Power plants in the 1920s also worked directly to develop the North Carolina tobacco and textile industries. The typology of utility facilities and their historical uses place these buildings in a category worthy of inclusion in the historic mill rehabilitation tax credit program.

Other design parameters included the specific targeting of historic industrial structures, a preservation concern and one of the main motives behind attempts to create the tax credit. The specification of only historic structures also allowed the legislature to estimate the finite number of buildings with which they may have to work. The historic certification also utilized a historic structures administrative entity already in place for the regular state historic tax credit, the SHPO. The reviewing and administering authority of the SHPO eliminated the need to find room in the state budget to finance additional administrative costs and also helped to limit the risk of unpredictable annual costs to the state from unmonitored rehabilitation activities.[80]

[80] Stewart, "North Carolina Tax Credit for Revitalization of Historic Mill Facilities," 19-20.

The coalition's decision-making process also centered on the issue of how to encourage developers to attempt the most difficult mill projects in the most areas of the state with the greatest economic need where poorer residents and smaller markets demand more creative financing. The group considered how to get developers the necessary cash flow to help move the project toward a stabilized operating income. Because lower rents are usually the greatest difficulty of working in a smaller market, the coalition considered ways to subsidize either lower rental rates or to offer the developer an alternate means of equity. They decided to draft an incentive favorable to capitalization rather than lowering operational expenses in order to attract developers into the mill projects more readily.[81] By supplying the developers with the tax credit, the state gives the developer the option of how they would like to apply the credit within the project. If a developer attempts a project in a lower-income area, the credit can subsidize the rental rates. If the developer works in a more urban setting with a stronger market, the credit can contribute to an increased return on equity.

Additionally, the credit's intent to boost the less feasible projects in smaller, poorer counties assumed that all easy projects, if not completed before the regular state historic tax credit became available in 1998, had definitely been completed after the implementation of the 20 to 30 percent state historic credit. An easy project included much of the American Tobacco campus rehabilitation project in downtown Durham, one of the largest urban centers in the state, where a team successfully redeveloped a majority of the Dukes' tobacco complex before the mill credit was in place. Attempts to spread the benefit of the credit throughout the state, however, still proved difficult to ensure, since the majority of North Carolina's mills—textile, tobacco, furniture, or otherwise—mainly resided in the piedmont and some in the mountainous

[81] Stewart, "North Carolina Tax Credit for Revitalization of Historic Mill Facilities," 20.

regions of the state, and therefore would not evenly distribute the credit's use among all one hundred counties.

The coalition did, however, adopt a "vacancy test," wherein the mill building must be at least 80 percent empty for a total of two years before a developer can claim the mill credit. The committee modeled this parameter after a similar South Carolina tax credit, but extended the vacancy period from one year in order to ensure that the mill site was indeed downtrodden. Some developers may have been able to carry a mill project for one year, holding its redevelopment and reuse until the one-year mark in order to take advantage of the credit. However, the interest expense associated with a two-year deferral of construction would financially devastate the developer, and therefore serve a greater chance of ensuring the building's need.[82] Because the committee planned to promote the mills bill as a job creator, they also consciously avoided designing a damaging public relations situation that would enable someone to buy a marginal, but functioning, business and shut it down to build condominiums.

The bill split North Carolina's one hundred categories into rankings. Consisting of three tiers measuring the counties' levels of economic success within the state, the tier system assigned the more prosperous counties a lesser amount of eligible tax credits than the poorer-tiered counties. Placing the best markets into "Tier 3," the bill awarded many urban centers like Raleigh, Durham, Winston-Salem, and Charlotte a 30 percent credit to rehabilitate their mills. This is because a large number of mills located within these areas can be redeveloped without the help of the credit, and those that had not yet been attempted just needed a small push to

[82] Stewart, "North Carolina Tax Credit for Revitalization of Historic Mill Facilities," 21.

make the project feasible. The market exists in these areas to find strong tenants and collect higher rents. Figure 3-16 shows North Carolina's county tier assignments for 2014.

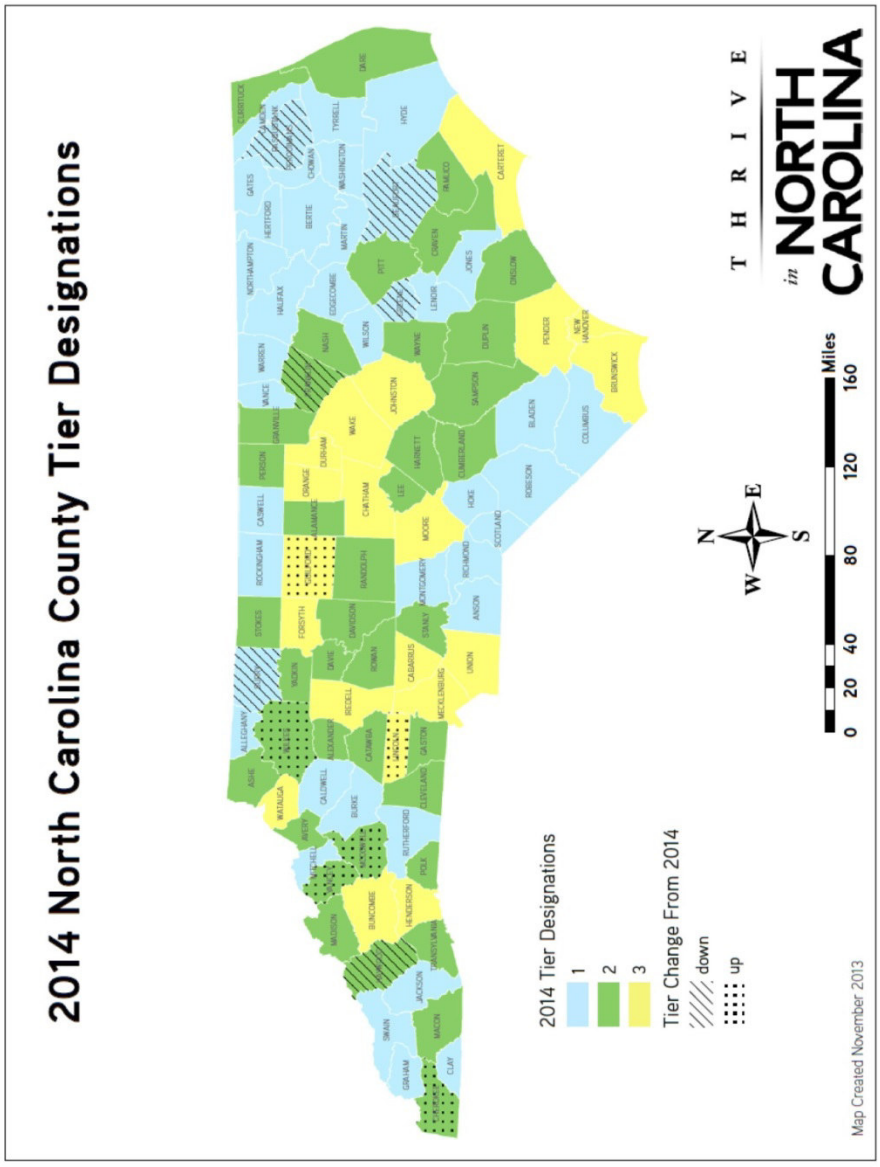

Figure 3-16. 2014 North Carolina Development Tier Designations. *North Carolina Department of Commerce. "2014 North Carolina Development Tier Designations." Prepared by the Labor and Economic Analysis Division. http://www.nccommerce.com/Portals/0/Incentives/CountyTier/2014%20Development%20Tier%20Rankings%20Detailed%20Report%20-%20FINAL.pdf#page=6 (accessed March 1, 2014).*

However, in a world of high construction costs and increasing values for salvage materials, the mills bill also tried to encourage redevelopment in the counties that needed the most economic help. The remainder of North Carolina's one hundred counties fell into either "Tier 2" or the lowest "Tier 1." No matter their ranking, if a North Carolina county does not fit into the Tier 3 category, its mills qualify for a 40 percent rehabilitation tax credit, as demonstrated in Figure 3-17. Both the 30 and 40 percent credits, although not able to be paired with the state historic tax credit, raise the rate of the state's financial support by at least ten percent. The regular historic rehabilitation credit, worth 20 percent, is often not enough to encourage the larger, riskier and more expensive redevelopment of a mill building. In third tier counties, however, a developer can add the 30 percent mill credit to the 20 percent federal historic tax credit in order to cover half of the qualified project expenditures. In Tiers 1 and 2, that coverage extends to a 60 percent total.

2014 Mill Credit Redevelopment Tiers	
County Tier	Percentage of QREs Credited
1	40%
2	40%
3	30%

Figure 3-17. Table of North Carolina Redevelopment Tiers and Related Mill Tax Credit Percentages. *Figure by author.*

The amount of savings available to a project, however, depends on the amount of raw capital which the developer is willing to invest. The more expenditures that a mill project incurs, the more tax credits the state awards; however, the overall cost of the project also increases. The committee added a stipulation to the mills bill requiring developers to spend a minimum of three million dollars in QREs. Because the mill credit was meant to spark economic revitalization in hurting North Carolina towns, the state's condition helped to ensure that each construction project pumped a substantial amount of capital directly into the local markets.

In addition to requiring developers to spend a large sum of money on each project, the state decreased its risk in granting the tax credit by a number of other means. In order for the mills bill to easily piggyback off of the regular state historic tax credit, the coalition dared not tamper with the inclusion of recapture measures in the legislation. "Recapture" requires that the project retain the same ownership body during the five-year time span immediately following its completion, while the project earns an annual 20 percent credit. This measure prolongs the project risk for developers and investors, but allows a possibility for the state to hold onto the remainder of the tax credits that they have agreed to dole out, should the developer decide to sell ownership before the end of a designated, extended period. The state requires that only the owner or a 35-year lease master tenant can utilize the mill credit. This reduces the liquidity of the credit, since it limits potential investors by constraining who can be involved in the project and also demands an entity's substantial interest in the property.[83]

The current historic rehabilitation tax credit in North Carolina requires its project owners to deduct the credit from income taxes, limiting the potential investors in the

[83] Stewart, "North Carolina Tax Credit for Revitalization of Historic Mill Facilities," 24.

syndication market to mostly banks. The coalition sought to ensure that the syndication market remained open so that developers had enough leverage to drive up the percentage of each credit funneled into the project. If limited solely to income tax, thus shrinking the pool of potential investors significantly, the regular historic rehabilitation credit's requirement would further reduce the value of the credit because fewer investors could compete for the privilege to participate in a mill project. However, the structure of the mill credit legislation also gives specific types of owners the option to take the credits against a different state tax burden. For instance, insurance companies can use the mill credit against their premiums tax. Corporations including, but not limited to banks, can also use the mill credit against their franchise tax.[84]

The greatest advantage to the mills bill legislation is that it is set apart from the regular state historic rehabilitation tax credit. In an effort to demonstrate the potential effectiveness of a tax credit not yet realized in the state, the coalition set the time to pay-in at only one year. The developer could therefore collect the entirety of the mill credit in the year following the building's return to service, rather than being forced to collect only 20 percent of their total award over the next five years. The degree to which inflation affects the value of the American dollar from year to year indicates that a dollar in 2006 is more valuable than a dollar in 2007. Additionally, the longer investors must wait to receive their full share, the greater percentage of the credits to which they are entitled. Stewart created a table, shown in Figure 3-18, to illustrate the increasing discount rate required on the syndication market with each additional year it takes to collect the full return. Not only can a developer use the mill credit to achieve an added ten to 20 percent of credited QREs to their project, but also that larger sum's value will not diminish as greatly. The one year pay-in option therefore provides the greatest asset to

[84] Stewart, "North Carolina Tax Credit for Revitalization of Historic Mill Facilities," 24-25.

developers when they consider how to approach financially-difficult mill rehabilitations around the state.

Table 4.2 Net Present Value Effects of Pay-In Period					
Year	**1**	**2**	**3**	**4**	**5**
Tax Credit Pay-In	$20	$20	$20	$20	$20
Discount rate	5%	10%	15%	20%	
Net Present Value	$90.92	$83.40	$77.10	$71.77	

Figure 3-18. Net Present Value Effects of Pay-In Period in a Tax Credit Project. *Andrew Stewart, "North Carolina Tax Credit for Revitalization of Historic Mill Facilities: Other States' Legislation; Legislative Process; Parameters and Rationale; and Cost and Revenue Projection," Master's project, University of North Carolina-Chapel Hill, 2005.*

While restricting the inclusion of any more state incentives, the mills bill leaves the option to add more federal incentives on top of the historic credits. Affordable housing credits subsidize a mill's conversion into inexpensive apartments. The federal New Markets tax credit, established in 2000, encourage investors to contribute to a certified Community Development Entity that seeks to spur revitalization efforts in low-income communities.[85] Depending on the new project use, federal incentives can be a useful tool to bolster the feasibility of a mill credit project. The parameters which the coalition debated, designed, and drafted to create the North Carolina state tax credit compliment the historic preservation and economic redevelopment credits currently available at the federal level.

[85] United States Department of Treasury, Community Development Financial Institutions Fund, "New Market Tax Credit Program," http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=5 (accessed February 28, 2014).

On March 2, 2005, Senators David Hoyle (D) and Fletcher Hartsell (R) introduced the "Mills Bill" to the North Carolina Senate, entitled "An Act to provide a tax credit for revitalization of historic mill facilities and to allow tax credits for certain historic rehabilitations to be transferred to long-term lessees."[86] The bill passed into law, becoming Chapter 105, Article 3H of the North Carolina General Statutes. Having been renewed in the state legislature once already, the state mill tax credit began its eighth year of use in 2014. The mill credit has promoted the completion of 24 mill rehabilitations since its inception, with 27 more awaiting certification. Out of an estimated 200 remaining mill structures, the rehabilitation of 51 related mill buildings or utility service facilities is an impressive percentage. While the total number of mills in North Carolina once surpassed a thousand, the large number of communities affected by the mill culture and its buildings remain, most in need of revitalization. Since its implementation at the start of 2006, the historic mill rehabilitation tax credit has continued to achieve its primary goal of saving endangered mills and stimulating economic development.

[86] North Carolina General Assembly, "Mill Rehabilitation Tax Credit," under Chapter 105, Article 3H of North Carolina General Statutes, http://www.ncleg.net/EnactedLegislation/Statutes/PDF/ByArticle/Chapter_105/Article_3H.pdf (accessed August 30, 2013).

CHAPTER FOUR

ECONOMIC IMPACT ANALYSIS OF COMPLETED NORTH CAROLINA HISTORIC MILL REHABILITATION TAX CREDIT PROJECTS

When state legislatures initiate new tax credits for the purposes of encouraging certain activities in the state, the government needs to be able to measure the success of the new program. Using a variety of methods, analysts track the use and expenses of tax credits to determine the overall cost to the state and, more importantly, the level of external investment and indirect tax revenue that the credit fosters. This is true for North Carolina's state historic mill rehabilitation tax credit (HMTC), as well.

While several past studies focus on the effectiveness of the state's regular historic rehabilitation tax credit, such as Holton's 2008 master's project at University of North Carolina-Chapel Hill, few scholars have focused their efforts on identifying the economic impact of the mill credit. Stewart's 2005 predictions for the formation and future use of the mill credit, along with the Department of Commerce's recent investigation released in January of 2014, remain the only two reports to examine the economic impact specifically of rehabilitated mills in the state. This thesis fits within the body of scholarly work where such analysis is lacking. In particular, because Holton's study occurred too early in the mill credit's history to warrant a meaningful study, this economic impact report sisters her analysis of the regular state historic rehabilitation tax credit to create a complete review of the historic tax credits available in North Carolina. Future scholars can compare the results of this study to the credit's initial expectations laid out in Stewart's project to judge initial expectations against the mill credit's reality. Additionally, because the two studies' research periods overlap, a comparison between the

original research study contained in this thesis and the Department of Commerce's recent investigation would serve as a tool to understand the extent to which assumptions can influence results.

METHODOLOGY

Holton based her IMPLAN fiscal impact analysis on a 2005 model which Stewart used in his master's project to estimate the impact of the mill rehabilitation tax credit before it became law. The results of this research can be compared to the mill credit's initial expectations to determine whether the mills bill has performed as anticipated. As Holton detailed in her methodology, the same 2005 model estimates the state income and sales taxes, and the local property taxes that may have resulted from the expenditures. However, her assumptions are not verified estimates of revenues from the State Department of Commerce or Department of Revenue.

In conducting this fiscal analysis, IMPLAN was not easily accessible, as an expensive, but reliable software program designed to model the economic impact of various business activities around the country. Due to prohibitive pricing and a limited budget, the study instead used Microsoft Excel to mimic the formulas that Holton uses in her 2008 master's project. By scouring Holton's own spreadsheets to establish correlations between categories, I identified and replicated a number of her methods outside of IMPLAN. Because she presented her results at the value of the 2007 U.S. dollar, I adjusted her figures using a consumer price index calculator found online through the Federal Reserve Bank of Minneapolis.[87] This online inflation calculator is the same device that Holton used to adjust her numbers in 2008. A conversation with Holton,

[87] Federal Reserve Bank of Minneapolis, "CPI Calculator," http://www.minneapolisfed.org/Research/data/us/calc/ (accessed November 25, 2013).

in order to determine the assumptions she placed on her own analysis, inspired the use of Excel to log economic impact calculations.

In order to conduct original research on the economic impact of the mill rehabilitation tax credit in a manner similar to Holton, I first obtained a comprehensive list of all of the completed historic mill rehabilitation projects and their expenditures from the State Historic Preservation Office. To make sense of the data and to estimate the program's overall economic impact to the state, I needed only the total rehabilitation expenditure entry for each project. For instance, the sales tax in the state of North Carolina is seven percent. Stewart's and Holton's studies assumed that 30 percent of the total rehabilitation expenditures of each project went to purchase construction materials that would have a sales tax charged, rather than paying an employee. He made his assumption from his experience working as a real estate developer with Empire Properties in Raleigh, on whose invoices he modeled several assumptions for his mill credit study. [88] By multiplying 30 percent of the total rehabilitation expenditures by .07, the analysis reveals the total amount of sales tax that the state collected on each project. Additionally, I divided Holton's constant assumption of 1.6154 into the sales tax final calculation to discover the amount of local property tax generated by each project. The 1.6154 assumption comes directly from the Wake County property tax rate. However, the rate is higher in Tier 1 and 2 counties, making these figures generous estimations.[89] Many of Holton's economic impact categories use standard rates rather than complex economic models. Therefore, an analyst can calculate some of Holton's numbers accurately without the use of IMPLAN.

[88] Andrew Stewart, "North Carolina Tax Credit for Revitalization of Historic Mill Facilities: Other States' Legislation; Legislative Process; Parameters and Rationale; and Cost and Revenue Projection," Master's project, University of North Carolina-Chapel Hill, 2005.
[89] Rebecca Holton, "A Profitable Past, A Priceless Future: The Economic Impact of North Carolina's Historic Tax Credit," Master's thesis, University of North Carolina-Chapel Hill, 2008.

Following Holton's example for each mill project, I figured the total rehabilitation cost, eligible tax credit amount, direct and indirect jobs created, direct and indirect income tax generated, sales tax generated, and local property tax generated. Holton assumed that the total project cost exceeded the QREs by ten percent, an assumption she borrowed from Stewart's 2005 predictions for the mill credit. The ten percent additional spending assumption reference came from the Community Affordable Housing Corporation and Holton's interview with local developers.[90] Once I calculated the estimated total rehabilitation expenditures, I used that number to determine the remainder of the figures.

While many figures translated precisely from Holton's Excel spreadsheets, four categories required broader approximations when calculated outside of IMPLAN. One of the software's most successful features is its ability to judge the number of jobs, both direct and indirect, that a mill project can support, along with the amount of direct and indirect income tax generated, based on the total rehabilitation expenditures. Because neither Stewart nor Holton provided assumptions for translating the amount of money spent on a project into job creation, I sampled Holton's results to create an average. Dividing the total rehabilitation expenditures by the number of jobs that IMPLAN calculated for each project year in Holton's study, I found that the average amount of money required to create one job rose inconsistently with each year, likely due to inflation. Therefore, each project did not have a common percentage increase to easily copy. Instead, I calculated the average amount of money required to create one job between the eight years that Holton studied, and adjusted the number for inflation to 2013 dollars. The resulting divisible is $112,681, which, divided into the total rehabilitation expenditures, reveals the direct jobs created on a project. Because the amount by which the

[90] Stewart, "North Carolina Tax Credit for Revitalization of Historic Mill Facilities," 27-30.

expenditures-per-job within each year of Holton's study rose irregularly, and the average came from numbers associated with the years 1997 to 2007, the average expenditure that I calculated is likely a conservative estimate. Also, because the expenditure-per-job number represents an average cost and rejects any rise in cost over time, the figure applies more precisely to the middle years of the study, rather than the 2006 or 2013 outliers.

I also calculated the number of indirect jobs in a similar fashion, substituting Holton's findings column for indirect jobs within the same equation I used to establish the number of direct jobs created. Stewart and Holton both assumed that for every job created, the state collected $1,400 in additional income tax.[91] By multiplying the total number of direct or indirect jobs for a project, the study also identified the direct or indirect income taxes. In all, assuming that the average divisible number created to initially measure the number of jobs for each project is an accurate approximation of the actual cost of a job in any given year, Holton's economic impact study proved relatively simple to recreate in Excel. Figure 4-1 lists the full range of assumptions that Holton used in her IMPLAN study.

Table 5.2 Revenue Assumptions		
Direct rehab jobs	41.6	per $1 million in rehab expenses
Indirect jobs created by businesses in space	1	per 250 sf commercial space
Direct income tax increase	$1,400	per job created
Sales tax	7%	
Percent of Rehab expenses subject to sales tax	30%	rehab expenses
Property Tax assessed direct value increase	80%	rehab expenses
Surrounding property tax assessed value increase	50%	rehab expenses
Property tax rate	$1	per $100 in tax assessed value
Net Present Value Discount Rate	5%	

Figure 4-1. Table showing Assumptions Utilized for Andrew Stewart's Master's Project. *Andrew Stewart, "North Carolina Tax Credit for Revitalization of Historic Mill Facilities: Other States' Legislation; Legislative Process; Parameters and Rationale; and Cost and Revenue Projection," Master's project, University of North Carolina-Chapel Hill, 2005.*

[91] Holton, "A Profitable Past, A Priceless Future" 4.

The techniques and qualifications used to create the model in this economic impact report reflect those parameters utilized in both Stewart's and Holton's studies. The analysis of the new data available on the mill rehabilitation tax credit, scholars are now able to compare accurate mill credit economic impact information with the initial expectations for the credit, along with the economic impact of the state's regular historic rehabilitation tax credit in order to determine the mill credit's success. This thesis's original research, therefore, adds interesting data to the current debate regarding the efficiency and success of the state's historic mill rehabilitation tax credit.

RESULTS

This study examines the economic impact of each of the 24 completed mill projects around the state separately, in order to create pictures of local county activity. Although only taking place in 17 counties so far, mill credit projects generate a significantly higher economic impact due to their size than do other commercial rehabilitation projects. The 27 additional projects currently proposed in the state would more than double the potential economic redevelopment that North Carolina could experience in the next five years. The significant concentration of mill tax credit projects in the piedmont region becomes obvious when displaying the projects geographically, as seen in Figures 4-2 and 4-3.

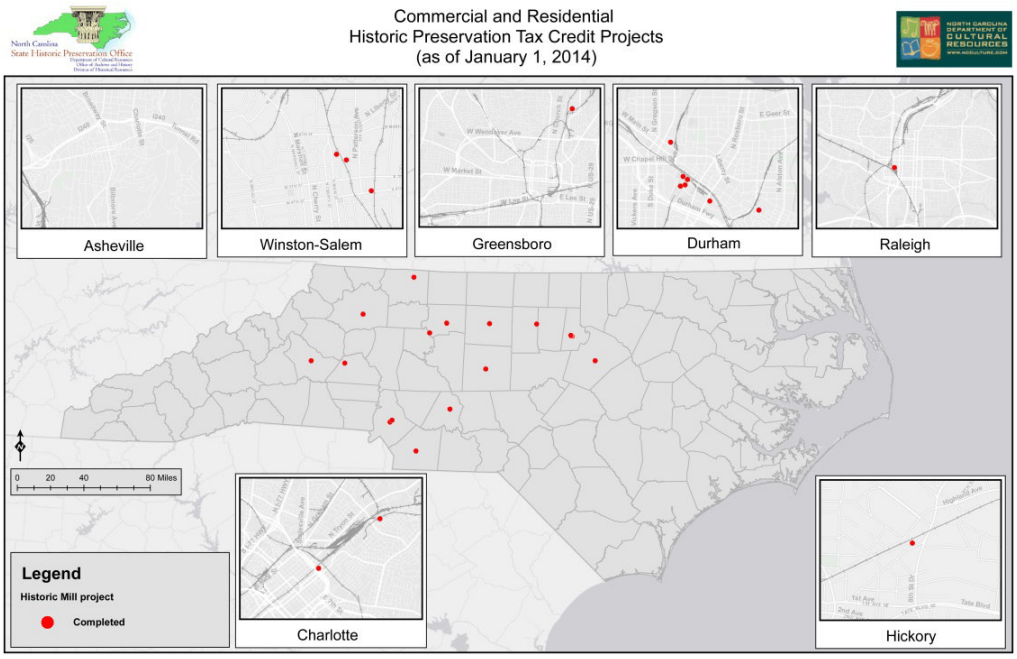

Figure 4-2. Map of All Completed North Carolina Historic Mill Rehabilitation Tax Credit Projects. *Andrew Edmonds, "Map of all Completed North Carolina Historic Mill Rehabilitation Tax Credit Projects," North Carolina State Historic Preservation Office, February 25, 2014.*

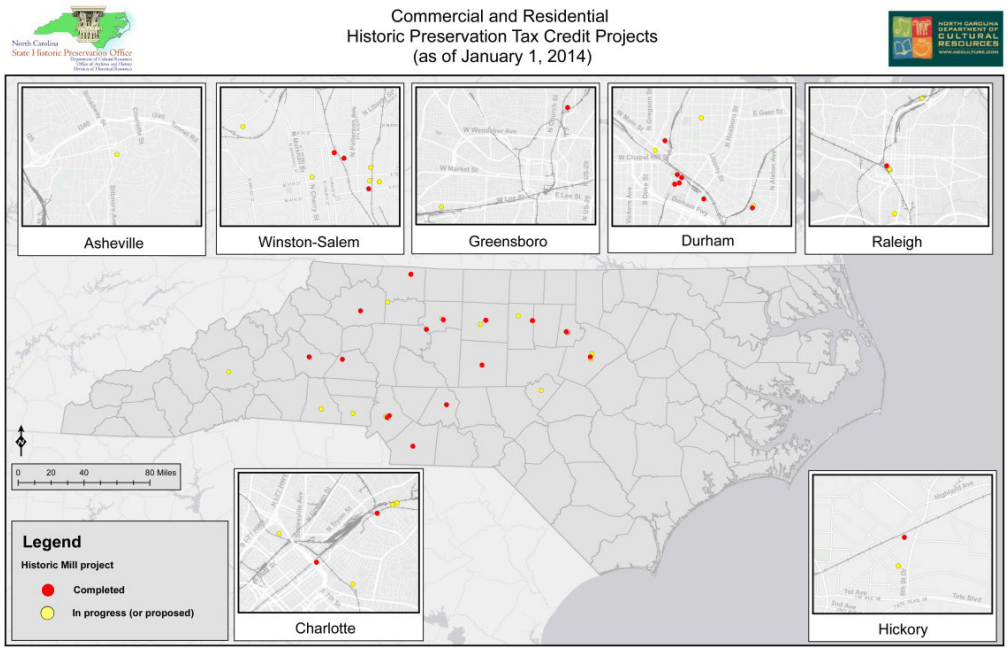

Figure 4-3. Map of All Completed, Ongoing, and Proposed North Carolina Historic Mill Rehabilitation Tax Credit Projects. *Andrew Edmonds, "Map of all Completed and Ongoing North Carolina Historic Mill Rehabilitation Tax Credit Projects," North Carolina State Historic Preservation Office, February 25, 2014.*

I calculated each project based on its year of completion and its tier ranking in order to distinguish the amount of rehabilitation work that has been conducted in the state's poorer counties. As the themes outlined in Chapter 3 might indicate, Durham and Winston-Salem, hometowns for the state's strongest tobacco and hosiery companies, as well as some textile manufacturers, figure most prominently on the list of completed projects. Figures 4-4 and 4-5 provide close-up maps of the Durham and Winston-Salem areas, detailing not only the number of completed mill projects in red and the ongoing or proposed mill projects in yellow, but also the completed regular state historic rehabilitation tax credit properties in green. Figure 4-6 shows the degree to which completed HMTC projects have so far been weighted toward Tier 3 counties, and Durham and Winston-Salem in particular.

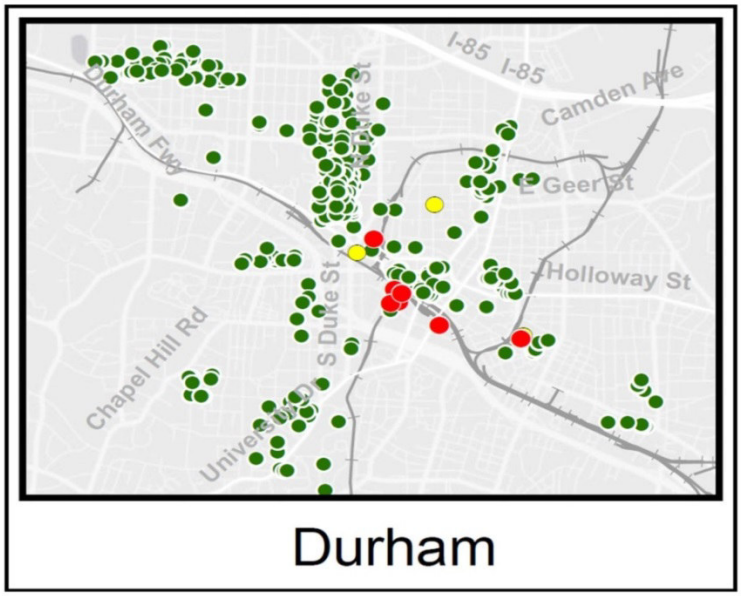

Figure 4-4. Map of All Completed and Ongoing Historic Mill Rehabilitation Tax Credit Projects in Durham, North Carolina. *Andrew Edmonds, "Map of all Completed and Ongoing Historic Mill Rehabilitation Tax Credit Projects in Durham, North Carolina," North Carolina State Historic Preservation Office, February 25, 2014.*

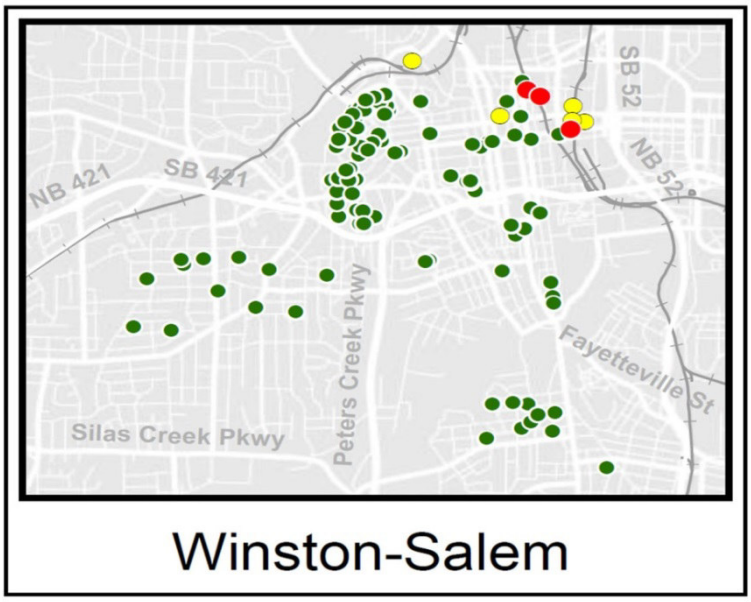

Figure 4-5. Map of all Completed and Ongoing Historic Mill Rehabilitation Tax Credit Projects in Winston-Salem, North Carolina. *Andrew Edmonds, "Map of all Completed and Ongoing Historic Mill Rehabilitation Tax Credit Projects in Winston-Salem, North Carolina," North Carolina State Historic Preservation Office, February 25, 2014.*

Figure 4-6. Chart showing the Local Mill Project Distribution of Completed HMTC Projects. *Chart by author.*

In a cost-benefit analysis of the credit's administration, the study quantifies qualified rehabilitation expenditures, total rehabilitation expenditures, eligible mill tax credit amounts, direct and indirect jobs created, direct and indirect income taxes generated, sales taxes generated, and local property taxes generated. Figures 4-7 and 4-8 depict the distribution of HMTC projects throughout the county tiers and the annual rate at which developers completed each type of project, respectively. Similarly, Figure 4-9 shows the results broken into tiers annually, revealing the nearly two-thirds majority of projects that have been conducted in Tier 3 areas. Tier 3 projects totaled $416,227,256 in total rehabilitation expenditures of the $474,381,370 spent in the state overall. Tier 3 projects also qualified for $113,516,525 in eligible tax credits of the total $134,663,476, showing the even greater percentage (almost 85 percent) of revenue and costs to the state accumulating in urban centers rather than small towns. While the larger portion of projects occur in the healthier, urban markets, fueling potential criticism of the credit for failing to achieve its original purpose of fostering economic development in the lower tiers, the credit has still sponsored seven projects in poorer counties. Together, those seven projects have generated $58,154,114 in total project expenditures where no development would otherwise have occurred. This is a big deal because each dollar of rehabilitation work triggers a ripple effect in the local economy. Each dollar either pays the salary of a worker that lives locally, and therefore spends locally, or buys the construction materials acquired from a local business.

Because rehabilitations limit the use of foreign, prefabricated products in favor of local craftsmanship labor, the average dollar spent in an historic preservation project cycles through

the local economy seven times before leaving the region.[92] Also, the more money directly invested into a derelict property, the greater incentive for additional projects to piggyback on the project's initial success by renovating surrounding properties. Automatically, property values in the area rise. Most companies and businesses locate to areas where they can draw from a large population center, and construction only occurs where people are willing to use it.

In all, the historic mill rehabilitation tax credit has generated $474,381,370 in total rehabilitation expenditures. Of that amount, $431,255,790 qualified for either a 30 or 40 percent tax credit from the state. Since 2006, the mills bill has also fostered the creation of 4,210 direct jobs in construction, 2,475 indirect jobs in related fields or permanent positions created as a result of the opportunities in the newly rehabilitated spaces. Additionally, the historic mill rehabilitation tax credit has generated $5,894,000 in direct income taxes, $3,465,000 in indirect income taxes, $9,056,374 in sales taxes, and $14,629,669 in local property taxes.

According to the fully-integrated annual study in Figure 4-10, however, the state has now lost a total of $105,517,433 to the historic mill rehabilitation tax credit program. Averaging an annual loss of $13,189,679, the mill rehabilitation tax credit program costs the state in terms of total tax revenue required to sustain the current set of government-sponsored programs. As an entity providing a large percentage of each mill rehabilitation project's budget, but not directly involved in the profiting financial structure of the developer's deal, the state cannot collect returns from the sale of the property. Therefore, the state government must rely on increased tax revenue, as the result of its initial investment in the project, to make back the cost

[92] Donovan Rypkema, "Measuring Economic Impacts of Historic Preservation," Presented at the National Alliance of Preservation Commissions Forum, Norfolk, VA, July 20, 2012.

of the gifted tax credits. In no year since its first has the historic mill rehabilitation tax credit program yielded a higher amount of tax revenue for the state than it has demanded tax credit investment from the state.

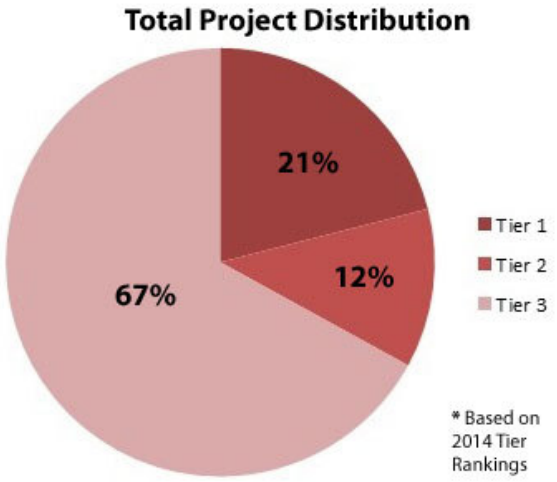

Figure 4-7. Chart showing Total Project Distribution of HMTC Projects by Tier. *Chart by author.*

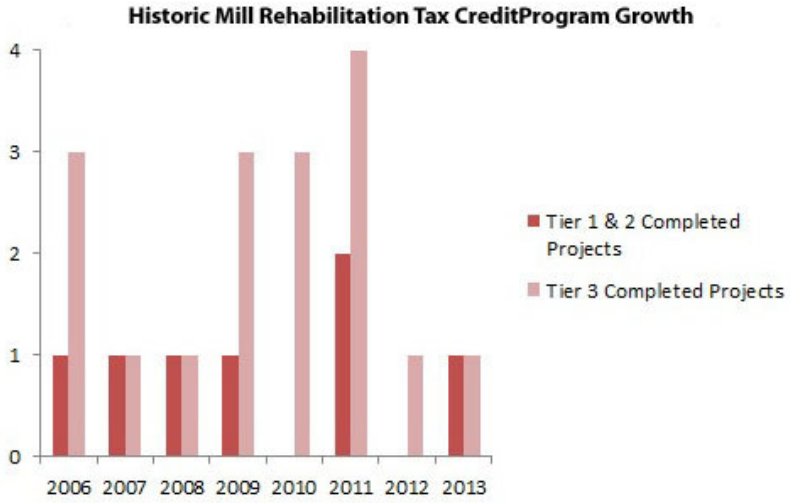

Figure 4-8. Chart showing the Historic Mill Rehabilitation Tax Credit Program Growth between 2006 and 2013, comparing Tier 1 and 2 Completed Projects to Tier 3 Completed Projects. *Chart by author.*

Annual Mill Tax Credit Projects Reviewed											
Year	Total Rehab Projects	Tier Percents	Estimated Total Rehab Expenditures	Estimated Qualified Rehab Expenditures	Eligible Tax Credit Amount	Direct Jobs Created	Indirect Jobs Created	Direct Income Tax	Indirect Income Tax	Sales Tax	Local Property Tax
2006	1	40%	$11,966,462	$10,878,602	$4,351,441	106	62	$148,400	$86,800	$228,451	$369,040
	3	30%	$45,635,382	$41,486,711	$12,446,013	405	238	$567,000	$333,200	$871,221	$1,407,371
2007	1	40%	$7,583,433	$6,894,030	$2,757,612	67	40	$93,800	$56,000	$144,775	$233,870
	1	30%	$14,801,568	$13,455,971	$4,036,791	131	77	$183,400	$107,800	$282,575	$456,472
2008	1	40%	$6,147,952	$5,589,047	$2,235,619	55	32	$77,000	$44,800	$117,370	$189,600
	1	30%	$58,219,607	$52,926,915	$15,878,075	517	304	$723,800	$425,600	$1,111,465	$1,795,461
2009	1	40%	$6,683,910	$6,076,282	$2,430,513	59	35	$82,600	$49,000	$127,602	$206,128
	3	30%	$55,377,644	$50,343,313	$15,102,994	492	289	$688,800	$404,600	$1,057,210	$1,707,817
2010	3	30%	$25,891,443	$23,537,675	$7,061,303	230	134	$322,000	$187,600	$494,292	$798,480
2011	2	40%	$15,658,800	$14,235,272	$5,694,109	139	82	$194,600	$114,800	$298,941	$482,909
	4	30%	$181,923,584	$165,385,076	$49,615,523	1,614	950	$2,259,600	$1,330,000	$3,473,087	$5,610,424
2012	1	30%	$22,219,682	$20,199,711	$6,059,913	197	116	$275,800	$162,400	$424,194	$685,243
2013	1	40%	$10,113,557	$9,194,143	$3,677,657	90	53	$126,000	$74,200	$193,077	$311,897
	1	30%	$12,158,346	$11,053,042	$3,315,913	108	63	$151,200	$88,200	$232,114	$374,957
Totals	**24**		**$474,381,370**	**$431,255,790**	**$134,663,476**	**4,210**	**2,475**	**$5,894,000**	**$3,465,000**	**$9,056,374**	**$14,629,669**

Figure 4-9. Table showing Tiered Mill Credit Annual Project Review. *Table by author.*

Annual State and Local Government Revenue from HMTC								
	2006	2007	2008	2009	2010	2011	2012	2013
Qualified Rehab Expenditures	$52,365,313	$20,350,001	$58,515,962	$56,419,595	$23,537,675	$179,619,348	$20,199,711	$20,247,185
Estimated Total Rehab Expenditures	$57,601,844	$22,385,001	$64,367,559	$62,061,554	$25,891,443	$197,582,384	$22,219,682	$22,271,903
Direct Rehab Jobs Created	511	198	572	551	230	1,753	197	198
Indirect Rehab Jobs Created	300	117	336	324	134	1,032	116	116
Direct Income Tax	$715,400	$277,200	$800,800	$771,400	$322,000	$2,454,200	$275,800	$277,200
Indirect Income Tax	$420,000	$163,800	$470,400	$453,600	$187,600	$1,444,800	$162,400	$162,400
Sales Tax	$1,099,672	$427,350	$1,228,835	$1,184,812	$494,292	$3,772,028	$424,194	$425,191
Local Property Tax	$1,776,411	$690,342	$1,985,061	$1,913,945	$798,480	$6,093,333	$685,243	$686,854
Total Tax Revenue	$4,011,483	$1,558,692	$4,485,096	$4,323,757	$1,802,372	$9,865,361	$1,547,637	$1,551,645
Eligible Tax Credit Amount	$16,797,454	$6,794,403	$18,113,694	$17,533,507	$7,061,303	$55,309,632	$6,059,913	$6,993,570
Overall Tax Cost to the State	($12,785,971)	($5,235,711)	($13,628,598)	($13,209,750)	($5,258,931)	($45,444,271)	($4,512,276)	($5,441,925)

Figure 4-10. Table showing the Annual State and Local Government Revenue from Completed Historic Mill Tax Credit Projects. *Table by author.*

This analysis does not reflect the true time period required for granted credits and recovered taxes. The mill credit legislation stipulates that the mill building must be placed into service in the year before developers can collect their tax credit. Therefore, no projects completed in 2006 should yield mill credit equity for their developers until 2007. Because a credit earned in 2006 should not be taken until 2007, the first year of the program is revenue-positive for the state. However, rather than estimate the total amount of credits that each developer collected over a certain number of years past the initial project, this study simply compares the cost-benefit ratios associated with each year's specific collection of projects.

In 2006, for instance, the SHPO recorded four completed mill rehabilitation projects that came into service. While the state did not technically lose the coupled tax credits until the following year, the study summary in Figure 4-10 shows that the state relinquished all eligible tax credit amounts in 2006. Also, the study adds the estimated direct and indirect income taxes, sales taxes, and property taxes that the newly-developed site generated during its construction in order to offset the mill credit amount and to evaluate the actual direct loss of revenue to the state for each project. The direct income tax on construction workers' salaries and sales taxes on construction materials factor only temporarily, dependent on the duration of the project. However, the indirect income tax on permanent tenants and the local property taxes associated with the site's new higher market value continue to effect annual tax revenue for many years beyond the preliminary rehabilitation period. Although the study ultimately determined that the state loses money by financing the historic mill rehabilitation tax credit program, the credit still generates a significant amount of economic redevelopment and community revitalization activity in the state. Additionally, at least one related study moves beyond the realm of tax

credits and tax collection to analyze the ripple effect of the mill credit on the redevelopment and revitalization of communities.

RELATED STUDIES

The credit's consistent deficit in cost-to-benefit analysis casts an undesirable light on the mills bills for the average fiscal conservative in the North Carolina legislature. However, these numbers deal only in direct taxes credited in a single year to total taxes collected the following year. The reality of the economic development generated by the credit requires a more complex analysis in order to grasp the true nature of the credit's impact. Rypkema's multiplier provides a clearer picture of the mill credit's ripple effect through local economies.[93] Measuring not only jobs created and overall economic impact, the study also calculates household income increases annually. The study shows more than what the credit produces for the annual state budget and instead attempts to quantify the long-lasting economic effects of a mill credit project on the surrounding community. Therefore, the $105,517,433 shown to cost the state since the historic mill rehabilitation credit program's inception in 2006 pales in comparison to the $1,198,495,383 generated in indirect and induced effects of the credit over time.[94] Figure 4-11 demonstrates that the overall indirect economic impact of mill rehabilitation tax credit projects totals $1,043,639,015 in economic impact, 10,436 construction jobs, 9,012 other jobs, and

[93] Holton, "A Profitable Past, A Priceless Future" 1-27.

[94] Because I replicated Becky Holton's process with the initial economic impact report contained at the start of this chapter, I also used a multiplier that she included in her spreadsheets, established by Donovan Rypkema, to compare the indirect successes of the mill rehabilitation credit to Holton's calculations for the regular state historic credit. I have not updated the multiplier for this thesis project, or spoken with Rypkema regarding its continued accuracy. Relevant in 2008, it is likely that the assumptions included in Rypkema's multiplier do not reflect current valuations of the U.S. dollar, nor do they account for the economic recession that began in 2008. For this reason, the monetary estimates that I contrived using his multiplier, including the total indirect benefits and the program's overall net gain, may be liberal calculations for the current economic climate.

$379,979,478 in household income. Using Rypkema's multiplier, the mill rehabilitation tax credit program represents a net gain of $1,092,977,950 in the state between 2006 and 2013.

Therefore, although the cost to the state government is greater than the revenue that the state government collects in return, the overall financial benefit to the state represents a positive cash flow. Furthermore, legislators did not enact the mill rehabilitation tax credit to make money. Rather, they created the credit to stimulate economic development in depressed areas, create jobs, and save historic mill buildings in the state. According to the credit's intentions, the thousands of new jobs and the completed 24 mill projects to date, along with the 27 in waiting, proves that the credit is doing exactly what it set out to do. North Carolina, therefore, should view the increased tax revenue to the state as a direct result of mill rehabilitation tax credit projects to be a small bonus, in addition to the credit's purposeful successes.

Indirect Economic Impact of HMTC

Year	Total Rehab Projects	Estimated Total Rehab Expenditures	Economic Impact	Construc-tion Jobs	Other Jobs	Household Income	Economic Impact + Household Income	Eligible Tax Credit Amount	Overall Revenue Generated
2006	4	$57,601,844	$126,724,057	1,267	1,094	$46,139,077	$172,863,134	$16,797,454	$156,065,680
2007	2	$22,385,001	$49,247,002	492	425	$17,930,386	$61,177,388	$6,794,403	$54,382,985
2008	2	$64,367,559	$141,608,630	1,416	1,223	$51,558,415	$193,167,045	$18,113,694	$175,053,351
2009	4	$62,061,554	$136,535,419	1,365	1,179	$49,711,305	$186,246,724	$17,533,507	$168,713,217
2010	3	$25,891,443	$56,961,175	570	492	$20,739,046	$46,630,489	$7,061,303	$39,569,186
2011	6	$197,582,384	$434,681,245	4,347	3,754	$158,263,490	$592,944,735	$55,309,632	$537,635,103
2012	1	$22,219,682	$48,883,300	489	422	$17,797,965	$40,017,647	$6,059,913	$33,957,734
2013	2	$22,271,903	$48,998,187	490	423	$17,839,794	$40,111,697	$6,993,570	$33,118,127
Total	**24**	**$474,381,370**	**$1,043,639,015**	**10,436**	**9,012**	**$379,979,478**	**$1,333,158,859**	**$134,663,476**	**$1,198,495,383**

Figure 4-11. Table showing the Indirect Economic Benefits of the Historic Mill Rehabilitation Tax Credit. *Figure by author.*

Using a very different approach, the North Carolina Department of Commerce released a new IMPLAN study set to determine the economic impact of the state historic mill rehabilitation tax credit in January of 2014. This newest Department of Commerce study revealed results contrary to past analyses. Whereas Stewart's 2005 project predicted that the mill credit would encourage $261,372,858 of total rehabilitation costs in its first five years, creating a -$20,887,865 net present value for the state government in the same period, as shown in Figure 4-12. The Department of Commerce found that the construction impact of all mill credit projects to date equals -$16.9 million, but did not attempt to calculate the indirect economic impact of the credit on surrounding properties or in years to come. Although scoring higher marks than either the income- or non-income-producing state historic rehabilitations credits, the mill credit still only brings in $0.10 in new investment for every $1.00 that the state credits to the mill projects.[95]

Table 5.4 NC State Cost					
FY	**05-06**	**06-07**	**07-08**	**08-09**	**09-10**
Rehab expenses	$38,437,185	$46,124,622	$53,812,059	$61,499,496	$61,499,496
Existing Historic Credit					
Income producing	$0	$6,149,950	$7,379,940	$8,609,929	$9,839,919
Non-income producing	$0	$329,462	$724,815	$1,186,062	$1,713,200
Mill Credit					
Income producing	$0	$5,227,457	$6,272,949	$7,318,440	$8,363,931
Non-income producing	$0	$186,695	$410,729	$672,102	$970,813
Total Cost	**$0**	**$11,893,563**	**$14,788,432**	**$17,786,533**	**$20,887,865**

Figure 4-12. Table showing Stewart's Master's Project Findings. *Andrew Stewart, "North Carolina Tax Credit for Revitalization of Historic Mill Facilities: Other States' Legislation; Legislative Process; Parameters and Rationale; and Cost and Revenue Projection," Master's project, University of North Carolina-Chapel Hill, 2005.*

[95] Andrew Stewart, "North Carolina Tax Credit for Revitalization of Historic Mill Facilities: Other States' Legislation; Legislative Process; Parameters and Rationale; and Cost and Revenue Projection," Master's project, University of North Carolina-Chapel Hill, 2005, 27.

The disparity between these numbers likely has to do with the fact that the Department of Commerce accommodated for the possibility that the investment attracted to a mill credit project could have simply been reverted from a different industry project within the state. For instance, a developer determined to conduct business in North Carolina, rather than finding an alternate project in the state, may have selected a mill credit project simply for the higher return on equity they could achieve by participating in the state's incentive program. The Department of Commerce assumes that the attribution of QREs to the tax credit is significantly higher than previously assumed, at approximately 37 percent. Likely this assumption stems from the study's inclusion of projects that would have occurred absent the state credit as well as new projects that rely on the credit availability.[96]

Conducted specifically by the Labor and Economic Analysis Division (LEAD) in cooperation with the Office of State Budget and Management (OSBM), the Department of Commerce study acknowledges that the issues with other credit studies' assumptions lie in their attribution of QREs to state tax credits and their net new spending from out-of-state resources. By raising the total amount of QREs attributable to the credit and lowering the assumed net new spending from out-of-state, the Department of Commerce model forces the credit-associated state deficit higher. Knowledgeable professionals currently in discussion with the study's creators, such as Stewart and Howard, hold that the Department of Commerce's assumptions are inaccurate and unrealistic.

Input-output systems like IMPLAN estimate the total economic impact that a project has on a specified geographic region, in this case, the state of North Carolina. By inputting the raw

[96] Ed McLenagham, et. al, "Impact of North Carolina's Historic and Mills Rehabilitation Tax Credits," 4-15.

project expenditure figures that the SHPO collects, IMPLAN calculates the projects' total economic impact based on a combination of specified industry codes available in the program. Picking one of the over 500 codes helps the program to estimate the industry's typical spending patterns in a specified geographic location. The software then generates output figures for both the project's direct impact on the region and the multiplied effect that those direct outputs may have as they ripple through sectors of the state economy.

Revenue, construction materials purchased in the area, jobs created, and employee compensation exemplify figures of direct economic impact. Later business expenditures by the hardware store from which the project contractor bought their construction materials, exemplifies an indirect impact. Also, an induced effect includes either expenditures made by the construction employees or the employees of the store where the rehabilitation project materials were purchased. Increased state and local property taxes generated as a result of the property's increased value following project completion, associated purchases, and employee salaries also constitute a separate multiplier effect of the initial rehabilitation activity.

The Department of Commerce owns the most recent data package available for the IMPLAN software. As such, they used the program to model the mill credit's economic impact using the qualitative rehabilitation expenditures (QREs) recorded for each completed project within the eight years that the HMTC has been available in North Carolina. Along with the assumptions created with the sector selection, IMPLAN needs only the QRE input data to calculate the estimated economic effects.

However, IMPLAN has one important limitation. Although containing an overwhelming number of options for industry selection when setting up a model, the IMPLAN system does not

contain an industry-specific multiplier for historic preservation or rehabilitation activities. Rather, Holton's study— and likely the Department of Commerce studies aimed at measuring the economic impact of a historic credit— used the closest category for comparative analysis. Because new construction tends to use more material and less labor, the new construction multiplier is not a true example of the results of historic preservation work. Therefore, economic impact estimates in this study, particularly in the case of jobs created, may be conservative numbers. Additionally, the mill credit's benefits that particularly relate to the realm of preservation cannot be calculated in a new construction multiplier. For instance, increased heritage tourism dollars are not measured in a new construction project.

Because Holton's (2008) analysis of the regular state tax credit has held up so well to scrutiny over the last six years, I modeled my economic impact study after her methodology in an attempt to generate a viable and lasting study. Ironically, Holton retrieved many of her assumptions for the regular tax credit study from Stewart's (2005) study. Further research and analysis on the accuracy of the assumptions contained within each of these studies may help North Carolina communities to better understand the realities of the mill rehabilitation credit.

Not only do the assumptions such as the specified sector sway results, but also the QRE numbers used to calculate the economic impact numbers cause imprecision. Because much of the financial information surrounding a mill project completion is difficult to estimate and, in many cases, proprietary, the SHPO's collection of project QREs may not be completely trustworthy. The SHPO awards all state credits to projects based off the National Park Service review process for the federal credit, essentially piggybacking on the federal credit. The QREs that the SHPO logs are estimates from developers during the application process, before the

projects even take place. Therefore, the SHPO does not know the exact amount of money that a developer contributes to a project or the precise amount of expenditures that qualify for the mill credit. The assumption that the developer spends the precise amount that they indicate on the application pervades every study on the HMTC conducted to date.

The differences between the Department of Commerce study and Stewart's predictions are vast. None of Stewart's or Holton's study assumptions came from the Department of Commerce because they have no way to link their information to a specific project. However, as the LEAD/OSBM working group pointed out in their considerations for altering the mill credit structure, predicting behavioral response to the introduction of or change in a state tax credit is difficult. While Stewart conducted the study based on the best assumptions he had available through his firm's past work, no formula exists for accurately predicting the extent to which developers will use a new credit. No multiplier measures how quickly the professionals in charge of executing rehabilitation projects will warm up to the credit, learn its nuances, and build a business around its execution. Conservative initial expectations for use of the mill credit compared to the high-use reality have caused the state legislature to question the success of the credit. However, the more the credit is used, the more successful it becomes. Although the state budget faces a larger deficit the more tax dollars the legislature credits to historic mill rehabilitation projects, the overall economic benefit to the state and the number of mills put back to work in their communities also increases.

Although the Department of Commerce study only discusses models which measure the direct effects of the mill project's construction period, it has not necessarily considered the increased economic development that will come in later years. For example, as a result of the

initial project, property taxes in the area will increase and additional properties in the immediate geographical area will also experience redevelopment. While some of the economic benefits of the mill credit are difficult to quantify due to their indirect or induced nature, the credit also stimulates a number of advantages completely separate from numbers. These qualitative benefits cannot use data to express their impact on a community, but rather the state must consider their importance as a distinct category of positive outcomes. Because the hard-to-quantify or impossible-to-quantify benefits of the mill credit are so numerous, Chapter 5 discusses these effects at greater length.

CHAPTER FIVE

UNQUANTIFIABLE BENEFITS OF MILL REHABILITATION PROJECTS

The Department of Commerce's new IMPLAN study reflects poorly on the mill credit's efficiency. However, the IMPLAN software, relying on data collection from varied resources such as the U.S. Census or county tax assessments, can only be so exact. The results serve largely as a rough estimate of specific economic factors, including construction jobs created as a direct result of a building project. IMPLAN cannot estimate a large number of benefits that historic preservation initiatives bring to a surrounding community. How do you measure, for instance, pride and morale within a neighborhood? How do you quantify the value of maintaining a physical remnant of the state's past as a living teaching tool for future generations?

Although the most recent IMPLAN study reflects poorly on the mill credit's efficiency, many benefits of a tax credit designed to support historic infrastructure can be difficult to quantify. Instead, a brief enumeration of the credit's qualitative benefits helps to explain how the state's financial support fosters growth at a local level. While largely immeasurable in an economic study, the effects of mill rehabilitations manifest themselves physically over time. Because the additional benefits are so numerous, this chapter attempts to organize the advantages by relevant subjects. The three categories which result include planning and sustainability benefits, economic benefits, and heritage preservation benefits.

PLANNING AND SUSTAINABILITY BENEFITS

Historic preservation supports a number of planning concerns and sustainable efforts. Urban planners must consider the best methods by which to supply citizens' needs, including

electric, water, and plumbing lines, sensible transportation, and the livability of an intelligent town layout. Also, in light of recent environmental concerns, all municipal governments, professional developers, and individuals should seek any opportunity to lessen the impact of development on the natural world. By promoting sustainable practices, these entities will not only help to save the environment, a global concern, but also help to conserve their own limited monetary resources through smart growth principles.

One of the mill credit's major planning and sustainability benefits for the state revolves around its ability to restore abandoned buildings back into constructive community assets. As a vacant structure, an old mill not only returns little tax income to its county, but also serves to actually drain the municipality of coveted resources. Sitting on the tax books at a minimal number, the land on which the mill sits, as well as the structure's square footage, generates less income for the county when not in working order. An underutilized structure blocks the county from collecting the full potential income from the property, a tax on which the government relies to fund essential programs for the city. A vacant mill therefore impedes a city's ability to increase the services and opportunities it can offer its citizens, limiting both the size of and quality of life for its population.

Another direct way in which historic mill rehabilitations save their government's money involves the reversal of crime and blight. In exchange for limited financial gain, a municipality must devote resources such as policing and firefighting funds required because of the increased hazards at an abandoned site. By converting vacant mills to daily use, new occupants of the buildings can take over the responsibility for ensuring the building's safety and upkeep. The mill credit fosters private property ownership and therefore stewardship, decreasing the

government's need to monitor building code violations and nuisance abatement.[97] A mill's frequent use necessitates that people will more readily notice conditions in the building, work to maintain the safety of the spaces that they inhabit, and acknowledge and act when a dangerous situation arises. A safer mill building also affects a change in the safety of the surrounding properties, thereby building safer communities. Because it results in the redirection of municipal resources away from the need to monitor a large, abandoned site, the reuse of vacant mill buildings lowers the increased cost to the local government.

In addition to limiting the expense to local governments through increased safety measures, mill rehabilitations also save their cities from unnecessary costs because they reuse existing infrastructure wisely. New developments, located on the periphery of historically established municipalities, require the city to distribute their services to previously empty space. The town must pave new roads to connect the suburb to the downtown core or install new water, sewage, and electrical lines to link the new development to the existing grid of utility services. New development, therefore, has a tendency to stretch a city's resources thin, even though struggling towns tend to welcome whatever development they are able to secure. Sprawling growth requires the investment of new taxpayer dollars in additional far-flung infrastructure rather than the sustained use of services implemented by past taxes. Historic industrial facilities, however, originally utilizing high levels of electrical input, already have adequate infrastructure to support a variety of new uses on site. Preservation projects reuse not

[97] Myrick Howard, "Hard-to-Quantify Benefits of State Historic Rehabilitation Tax Credit Program," RMB Draft, January 17, 2014.

only the existing building but also its gas, water, and electrical lines, saving 50 to 80 percent on infrastructure costs compared to a new suburban development.[98]

In a similar vein, Joe Minicozzi, an Asheville-based planner, found that rehabilitating downtown, mixed use buildings pays back the cost of infrastructure over ten times more quickly than "big box" suburban development. He discovered that a typical acre of mixed-use property in downtown Asheville generated $360,000 more in annual tax revenue for the city than an acre of strip malls.[99] Although some mill owners situated their sites on the outskirts of pre-existing towns, development over the years reached and surrounded these old mills, making the buildings accessible to their communities. Mills that established their own township complete with houses and stores, like Cannon Mills and Cannon Village in Kannapolis, located the mill operations at the heart of the town. A majority of these communities are now located in poorer economic regions and small towns, creating an opportunity for the mill credit to bolster economic development where it is most needed around the state.

Many adaptive reuse projects in old mills follow the guidelines for smart growth.[100] By their often repetitive, if monotonous, design of continual bays, a mill building and its surrounding warehouses provide a space readily adapted into consecutive shops or businesses. The size of most mills can accommodate living quarters as well as offices, food, and retail, creating a small economic community within its very walls. Because mills were usually located near the town center, housing is often available within close proximity to the mill site as well.

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[98] Donovan Rypkema, "Measuring Economic Impacts of Historic Preservation," (presented as National Alliance of Preservation Commissions Forum, Norfolk, VA, July 20, 2012).
[99] Joe Minicozzi, "The Smart Math of Mixed-Use Development," *Planetizen*, http://www.planetizen.com/node/53922 (accessed March 7, 2014).
[100] Andres Duany and Jeff Speck with Mike Lydon, *The Smart Growth Manual*, New York: McGraw Hill, 2010.

Therefore, a mill conversion creates a walkable neighborhood wherein services, activities, and living quarters are located together in a small, desirable area.

Designing a city to grow in a smart, responsible way exemplifies the planning benefits of historic mill rehabilitations. Beyond the idea of conserving a community's resources through good urban planning, mill rehabilitations also encourage the global aspect of sustainability. A mill's destruction in favor of new construction adds a great deal to the amount of construction debris delivered to landfills over the course of the project. Building-related construction and demolition debris comprise about two-thirds of all nonindustrial solid waste generation in the United States. An average demolition project yields 150 lbs. of waste per square foot, while an average new construction projects yields 3.9 lbs. using the same ratio. The resulting ratio between the two methods of construction shows that demolition contributes forty times more debris to landfill sites than rehabilitation work.[101] The effort taken to reuse rather than replace historic mills, in particular, has an even larger impact on landfills due to the size of the buildings.

More than a house or a commercial building in the middle of a downtown block, a mill holds vast amounts of embodied energy dedicated at its initial construction, as well as high quantities of raw materials. It takes between 10 and 80 years for an energy-efficient new building to make up for the negative climatic effects resulting from its construction. The increased need for new materials to replace the old means that contractors use more gasoline to ship supplies, and therefore increase carbon dioxide levels released into the air from materials manufacturing and transport. Additionally, the tendency for newly-constructed buildings to reach a lifespan of roughly 30 years risks preventing the building from recuperating

[101] Washington State Department of Archeology and Historic Preservation, *Report on Sustainability and Historic Preservation: Summary Report*, (Seattle, 2011), 8.

the environmental costs of their construction. Their life cycle analysis therefore reveals that despite intentions to save energy and reduce the ecological footprint, the effort exerted to demolish an historical mill building and erect a new structure almost always demands a higher environmental cost than building reuse. The brownfield aspect of some mill rehabilitation tax credit projects also allows local governments to reclaim healthy land when the private sector takes on the burden of environmental mitigation. The mill tax credit incentivizes reuse over demolition, limiting waste and boosting the sustainable growth of local communities.

ECONOMIC BENEFITS

The economic benefits surrounding the mill tax credit can be quantified to some extent by analyzing the qualified rehabilitation expenditures and overall development budgets for each project. The total amount of money spent on each project directly relates to the amount of economic stimulus that the local community experiences. Additionally, based on the size of each project, experts can calculate the number of direct construction jobs created as a result of the project. Almost all of the rehabilitations that have taken place under the mills bill occurred during the Great Recession, when unemployment was high and the construction industry struggled. The committee originally marketed the bill to the legislature as a jobs-producing program, which it did during a tough economic time. These pieces of data are most easily recorded with the SHPO as a mode of tracking the use of the credit and the amount of taxes that the state must invest in the program. The most recent IMPLAN study on the mill tax credit also allows the state to estimate the number of jobs created and expenditures solicited. The direct economic benefits make a case for the continuance of the credit into the future, but the indirect and induced economic benefits not measured in the study warrant more attention.

The arguments in support of the adaptive reuse of historic buildings become amplified when applied to mills due to the size of the projects. The intensified impact of mill rehabilitations shows through when considering how these projects buttress job creation. Consider the type of work and worker that such a project warrants. Historic preservation requires a greater level of man hours and fewer foreign-produced products than the new construction industry. As a result, the high cost of rehabilitation projects contributes a greater payment per capita directly to local construction workers. These laborers go home and cycle their salary back into the local economy rather than companies based outside the region whose profits move out-of-state without returning to local circulation.

Additionally, the cost that the historic rehabilitation industry incurs creates more jobs. For instance, since the federal historic preservation tax credit program's creation in 1978 until the beginning of the economic recession in 2008, the overall cost to taxpayers has been $16.6 billion resulting in 1,800,000 jobs, or $9,222 per job. The stimulus plan that the federal government instituted between 2009 and 2010 cost the taxpayers $260.7 billion and yielded only 585,654 jobs, or $445,183 per job.[102]

The demanding nature of a rehabilitation construction job requires that workers be skilled in a craft, rather than simply boots on the ground. The rehabilitation trade allows for the training of skilled craftsmen, in areas such as carpentry or plastering. These projects, therefore, provide job training and contribute to workforce development for high school and community college graduates, vocational schools, and veterans looking for new careers out of the service. Examples of training programs initiated in the state include the Edgecombe Community

[102] Donovan Rypkema, "Measuring Economic Impacts of Historic Preservation," (presented as National Alliance of Preservation Commissions Forum, Norfolk, VA, July 20, 2012).

College's Historic Preservation Technology program in Tarboro to teach hands-on restoration techniques and business skills of historic rehabilitation. Also, the U.S. Forest Service and Colorado-based Historicorps began a veterans' job training pilot program, employing veterans trying to assimilate to civilian life on an historic preservation team in the Uwharrie National Forest near Asheboro.[103] The increased need for skilled labor means that a rehabilitation project's primary investment goes toward people rather than materials. Although common among all historic preservation redevelopment, historic mill projects in particular magnify the economic rift between new construction and rehabilitation by increasing the square footage and, therefore, size of the projects. The ability to employ an underutilized workforce in a skilled vocation creates a distinct appeal for historic preservation work in areas that suffer from poor job quality and a lack of professional opportunity.

In conjunction with promoting trained craftsmen from vocational backgrounds, the historic preservation industry also commonly creates micro-markets as a result of rehabilitation projects in the state. Because the mill structures sit underutilized for a number of years, these dead properties have a negative impact on the local economy. With little to no tax value, the property still requires police surveillance and structural maintenance, as well as adversely affecting surrounding property values. By returning mill properties to working order, whether for commercial business use or to hold residential, rent-paying tenants, mill redevelopment generates economic activity that simply did not exist in recent years. Often, a mill project creates a ripple effect in the community because the single, large, redeveloped mill building, produced from tax credits, creates interest for private investment in surrounding properties. While the direct economic benefits can only be measured as a ratio of tax credits given up to a

[103] Howard, "Hard-to-Quantify Benefits," 2.

particular project versus the amount of investment contributed to the same project, tax credit dollars also stimulate development on adjacent properties that are not quantified in the state's return analyses.

For instance, without conducting any additional redevelopment projects in the immediate area, historic mill rehabilitation raises the market and tax values of adjacent buildings. Because the area supposedly becomes more desirable to investors and tenants as the increment of investment in its buildings increases, mill rehabilitation repairs the value of overall private investment.[104] Figure 5-1 contains the SHPO's estimates on certain HMTC projects' increase in property tax revenue after the completion of the tax credit project. Additionally, the mill credit continues to generate hard-to-quantify economic activity after the initial construction phase. The businesses that move into the recently rehabilitated mill space operate at a profit, which the county and state can tax. The same businesses employ workers not in temporary construction jobs, but in permanent, full-time positions that remain tied to the community. Even after the developer collects the mill credit for the project, the local and state governments continue to receive the economic benefits of rehabilitated mills due to the increased income tax base on site. In addition to new full-time jobs, the state can also tax the sale of goods and services marketed at these new businesses, all post-rehab.[105] The micro-market causes businesses and consumers to spend money in the community, creating indirect or induced economic development as a result of the presence of a functioning, rehabilitated building.

[104] R. Billington, "Federal Investment Attracts Private Investment in Industrial Historic Sites," *Journal of Travel and Tourism Marketing* 18 (2005): 79-83.
[105] Howard, "Hard-to-Quantify Benefits," 1.

Completed North Carolina Historic Mill Rehabilitation Tax Credit Projects Property Tax Value Increases							
Year	Project/Address	City	County (Tier)	Qualified Rehab Expenditures	Before Value	Current Value	Percentage Increase
2006	Alpha-Orient Cotton Mill (311 E. 12th Street)	Charlotte	Mecklenburg (3)	$11,243,540	$2,048,300	$13,901,900	578%
2006	Highland Park Manufacturing Co. Mill #3 (2901 N. Davidson Street)	Charlotte	Mecklenburg (3)	$23,600,000	$1,558,200	$5,518,100	254%
2010	Brogden Produce Co. Warehouse (409 W. Martin Street)	Raleigh	Wake (3)	$3,370,000	$962,215	$2,034,853	111%
2011	Bull Durham Tobacco Factory & Noell Building American Tobacco Company (300 &	Durham	Durham (3)	$41,043,709	$735,320	$15,515,811	2010%
2011	Durham Hosiery Mill No. 15 (301 W. Washington Street)	Mebane	Alamance (2)	$10,793,655	$825,921	$6,091,362	638%
2011	Lucky Strike Building American Tobacco Company (310 Blackwell Street)	Durham	Durham (3)	$13,043,191	$365,612	$6,443,389	1662%
2011	R.J. Reynolds Tobacco Co. Factory 91 Phased Project (401 E. Fifth Street)	Winston-Salem	Forsyth (3)	$90,966,176	$3,710,500	$59,404,800	1501%

Figure 5-1. Table Showing the Increased Property Tax Percentages of All Possible Mill Credit Projects. *North Carolina State Historic Preservation Office. "Completed North Carolina Historic Mill Rehabilitation Tax Credit Projects Property Tax Values." Raleigh: Department of Cultural Resources Division of Archives and History, December 3, 2013.*

The mill credit attracts private business investment as a direct effect of the unique sense of place that its subject provides to a community. Sierra Nevada, a national brewery headquartered in Hendersonville, North Carolina, claims that it chose its site based on the look of the downtown corridor, revitalized through historic preservation projects.[106] While the aesthetics of a place may not register in an economic study, developers and consumers both want to use a building that stands on its own, a building with character. Although trivial in the larger scheme of business development, the state should recognize the power that a physical space holds over a business's decision to invest. A stable neighborhood, often identified at a glance by the limited degree of blight and inferior construction present in the area, attracts economic activity. Naturally, economic activity begets more activity.

One of the forms of economic activity most commonly embraced in mill rehabilitation projects includes some form of new housing opportunity. Commonly in the most economically-depressed areas of the state, the mill credit and the federal historic tax credit are not enough incentive to make a mill rehabilitation project feasible. The federal affordable housing tax credit encourages developers to transform the mills in these poor market areas into much-needed housing units rented at an inexpensive price to low-income residents. Some mills serve now as senior living centers or apartments, like the old Durham Hosiery Mill. Although not a largely profitable commercial use, these forms of residential spaces still provide an opportunity for the smallest of mill towns to experience some form of blight reversal and return of the mill to an accessible piece of community real estate. In other more prosperous areas, where the size of

[106] Howard, "Hard-to-Quantify Benefits," 1.

the mill building and the principles of smart growth and real estate finance demand a mixed use, market rate apartments or luxury condos add to the variety of housing opportunities in the area.

The typical size of a mill rehabilitation project usually requires developers to creatively fill the once industrial spaces with a layout of uses conducive to the surrounding community. As a result, mill rehabilitation projects normally conform to the needs of their neighborhoods in a realistic and unique way. Where a community already has an overpopulation of housing units, a mill project might be more successful providing a variety of business services. Where a community boasts a large number of children, a mill project might be able to serve the needs of families. For instance, the mill credit provides new venues for education, including charter schools.

Many charter schools are emerging in North Carolina and looking for homes in existing buildings large enough to accommodate their needs. In many cases seeking out historic buildings for their space and affordability, some charter schools have taken up operations in historic school buildings. Examples include the Maureen Joy Charter School located in the former Y.E. Smith School in East Durham and the American Renaissance School in a circa 1917 car dealership in downtown Statesville.[107] Raleigh Charter High School, one of North Carolina's top-rated schools, began its operations in the renovated Pilot Mills until it outgrew the space and relocated. The mill credit affords developers an extra 20 to 30 percent of financial relief over the regular historic rehabilitation credit, plus, historic mill buildings deliver a prime opportunity for new school venues. As described in Chapter 3, a mill's spacious, open floor plan, sturdy construction, and ready adaptability serves school functions well. The Roxboro

[107] Eddie Belk, interview by author, Durham, NC, December 9, 2013.

Community School, located in the circa 1899-1924 historic Roxboro Cotton Mill, demonstrates the kind of educational use that a historic mill can provide.[108]

The size of a historic mill opens the door for developers to conduct one-of-a-kind projects tailored to their type of community. The economic benefits of a mill rehabilitation project are numerous and robust. The fact that many of these advantages cannot easily be whittled into a concise mathematical result should not diminish their importance.

PRESERVATION HERITAGE BENEFITS

The third and final qualitative category by which the mill credit benefits North Carolina falls under the realm of preservation and heritage support. These are by far the least easily quantifiable benefits that the mill credit produces because they deal in large part with the state's cultural heritage and the social consequences associated with losing mill buildings. The amount of positive influence which the mill credit exerts in this category, however, has perhaps the most important impact on the state and its citizens.

To start, historic mill rehabilitation improves the aesthetic appearance of communities. The time, craftsmanship, money, and materials required to reproduce one of the state's typical historic textile or tobacco mills makes the new construction of such structures impractical. Numbering once over a thousand and sitting today at roughly 200 remaining, historic mill structures are architectural treasures in North Carolina. Mills define the last century and a half of the state's history and their utilitarian style of construction with simple brick architectural detailing create a recognizable building type in several communities around the southeastern United States. Once considered plain and boring, the clean simplicity of an historic mill building

[108] Howard, "Hard-to-Quantify Benefits," 3.

has now become a desirable architectural style. The integrity of the materials and their configuration lures new occupants and admirers. The retention of these historic buildings enhances the depth of the community's architectural record and places the town in time.

The preservation of a town's aesthetic qualities also improves the sense of place that attracts heritage tourism to the state. Visitors want to see an authentic North Carolina with unique communities that do not look like "Anyplace, USA."[109] Cultural and heritage travelers spend more money per capita per day at their destinations, proving to be a useful source of income for small communities that do not boast amusement parks or other large attractions. Several states and geographical regions have fostered heritage corridors in order to pool marketing resources and channel heritage tourists from one town to another, spreading the benefits of visitors. A contingency of tourists travel specifically to see and learn about historical places. Maintaining historic mills, staples in southern mill towns, communities are more likely to attract such admiration for the intact character of their neighborhoods.

Another national historic preservation program illustrates the trends evident in supporting local infrastructure and the continued use of historic buildings. In the 2000s, Main Street programs that began in the 1980s showed success against the trend of decreased state revenue collections and higher unemployment rates, thereby growing business and accumulating jobs. The concentration on the redevelopment of a focused set of buildings central to their communities helped Main Street towns to attract business with a unique and restorative setting. Following a similar principle, the draw of heritage tourism to communities that have kindled their historical centers shows the positive effect that a reused mill building can provide

[109] Howard, "Hard-to-Quantify Benefits," 3.

to its neighbors. Figure 5-2 pictures the kind of community life and external draw that an HMTC project can provide with one of the state's best examples, the American Tobacco campus in Durham. Although not necessarily the largest sector of the tourism industry, heritage tourists are more likely to be from out-of-state and spend 30 percent more than other visitors. Their presence bolsters the existing tax base by adding unanticipated income and tax revenues to the state's annual revenue total during their visit.[110]

In line with the type of learning experience heritage tourists expect to receive when they travel, historic mill rehabilitation provides a living teaching tool for the study of history. Saving an historic mill significantly helps to retain the original town orientation, informing future planners and citizens of the intent behind the town's design. Without a tangible reminder of the past, history can be difficult to grasp and even more difficult to respect. Many children growing up in North Carolina today hear their parents and grandparents stories about what it was like to work in the mill. They see the small mill houses in which their family and their friends' families still live. However, already for many of these children, the buildings that accompany their family's stories no longer remain. As the stories pass from generation to generation, people will feel less connected to their past with no building to anchor their tales. Mill buildings provide a solid, palpable relationship to American and North Carolinian history, helping people to understand the mill culture that shapes their current surroundings and defines the continuing trajectory of the state.

[110] Donovan Rypkema, "Measuring Economic Impacts of Historic Preservation," (presented as National Alliance of Preservation Commissions Forum, Norfolk, VA, July 20, 2012).

Figure 5-2. The downtown Durham community, once blighted, now gathers for events in the heart of the old American Tobacco Company campus of buildings. The complex's redevelopment has helped Durham become a destination city. *"Durham's American Tobacco Campus: Combining Sustainability and History," http://springleafstrategies.com/2012/05/durhams-american-tobacco-campus-combining-sustainability-history/ (accessed September 30, 2013).*

In addition to educating young North Carolinians on their history, the adaptive use of historic mills in the state will also comfort those older generations that spent all or part of their lives employed in the mill. Although meager, mill workers lives' revolved around their place of work, never forgetting their responsibilities as the mill building dominated the local skyline. To have their means of subsistence ripped away, closed forever, and sometimes demolished, former mill workers in North Carolina have struggled in the last 20 years to find a sense of place— a connection to their history.

In many North Carolina towns, the tobacco or textile industry employed many residents and essentially created the catalyst for the town's existence. A single industry, perpetuating a symbiotic relationship between mill workers and other businesses, produced communities dependent on the continued vitality of their mills. When these industries died, many citizens sensed the threat against their town's continued existence. The white elephant of an abandoned mill not only drains local economic resources, but also casts a dark cloud in the minds of community members who have seen better days for their town. Keeping the mills in working order boosts community morale and provides optimism for communities that have experienced negative reversals.[111] Increasing residents' hopefulness gives members of the community a reason to stay and work towards the success of their town. Revitalization efforts work to halt the abnormal exodus of families and businesses from a community. A rehabilitated mill can stabilize a reeling community and give its residents a renewed sense of security and pride.

Finally, rehabilitating historic mills promotes an identity that binds North Carolinians together. The retention of as many mill buildings as possible with the aid of the state mill credit creates a pattern of small, industrial towns with similar architectural and cultural backgrounds. Sharing a similar history and experience, North Carolina towns can empathize with one another and unite behind a common community landmark. The physicality of mill buildings decorates the landscape to establish a distinctive sense of place within North Carolina and to influence the state's collective memory. Helping to preserve communities that have risen from similar past circumstances, the mill credit joins their interests together to form a state that will cooperatively move into the future.

[111] Howard, "Hard-to-Quantify Benefits," 1-3.

Overall, not only is historic mill rehabilitation responsible and conservative growth, but also the practice indirectly saves local governments money. By creating new opportunities, limiting damages from a loss of industry, and improving both the look and feel of North Carolina communities, the mill credit encourages a positive development environment in the state. Although these results are not as easily measurable for the state legislature budgeting decisions, their value to the integrity of the state is immense. The unquantifiable benefits of the mill credit have a lasting impact on the communities in which it is used.

CHAPTER SIX

PROFESSIONAL INTERVIEWS

The fiscal analysis portion of the thesis helps to quantify the actual effects of the mill tax credit upon the various local economies associated with mill projects across the state. However, the numerical results still leave out any indication of how the state's professional community has reacted to the credit since its inception. This chapter seeks to define the sense by which a variety of specialists perceive the mill rehabilitation tax credit program.

In order to ascertain the current impression surrounding the mill tax credit among professionals around the state, I conducted a series of interviews. Documenting the comments of five individuals working with the credit in various capacities, the interviews lasted roughly thirty minutes and included seven questions about different aspects of the credit. The range of interviews sought to include testimony from experts whose jobs encompass the full capacity of the mill credit's creation and operation. Interviewees included a preservation architect, a certified public accountant specializing in historic tax credit financing, a statewide preservation non-profit president, an historic real estate developer, and a senior restoration specialist and tax credit coordinator with the SHPO. This chapter summarizes and compares the five professionals' responses. The selected questions also identify major talking points concerning details of the mill credit's technical operation and future direction.

METHODOLOGY

In addition to the economic impact study in Chapter 4, I also conducted a survey of professionals pertaining to the overall success of the North Carolina mill rehabilitation tax credit.

The professionals' survey includes a number of preservation and economics professionals in North Carolina, all of whom spend time in their day-to-day work pursuing, administering, advising on, or studying the state's mill rehabilitation tax credit. To begin the survey, I conferred with Myrick Howard, an advisor on my thesis committee and president of PNC, the major statewide historic preservation non-profit in the state. I based the survey's direction in part on his perception of what makes a tax credit program successful or appealing to the state legislature. Additionally, I consulted a recent survey of developers that the SHPO conducted to determine the credit's impact on mill rehabilitation project feasibility since its inception, and shaped my questions to compliment the survey's findings and general presentation.

With the caveat that the project should allow the interviews to proceed in a direction that the interviewee deemed important to the overall mill rehabilitation credit discussion, the interviews featured seven questions to guide the conversation:

1. What is your professional experience in working with the NC mill tax credit program?
2. Please rate the effectiveness of the NC mill tax credit on a scale of 1-10, 10 being the most successful.
3. Is the mill tax credit necessary to make the completion of an average mill rehabilitation project feasible?
4. When considering the difference in credits offered to Tier 1, 2, and 3 counties, what do you believe the distribution of projects actually is among all 100 counties? Why? Is that good or bad for the state as a whole?
5. In your opinion, what is the greatest advantage that the mill credit offers to developers? Surrounding communities? The state?
6. What improvements, if any, would you like to apply to the NC mill credit (legislation, administration, use, etc.)?
7. What trajectory do you expect the NC mill tax credit program to take in the next 5-10 years? (Ex: Will the NC legislature renew the credit next year? Will the number of annual projects increase or decrease?)

The process by which I selected the interviewees resulted from an attempt to capture opinions from professionals working on various aspects of the tax credit process. Following suggestions from Myrick, whose central location in the capital, Raleigh, and whose leadership in the North Carolina historic preservation effort makes him an unmatched resource, I selected the following participants:

1. Eddie Belk, Preservation Architect
2. Tim Simmons, North Carolina SHPO Tax Credit Coordinator
3. Andrew Stewart, Developer whose 2005 master's project ignited the creation of the state mill rehabilitation tax credit
4. Myrick Howard, President of Preservation North Carolina
5. Tara Sherbert, CPA specializing in tax credit projects

The results of the survey should yield results that reflect all aspects of the business of the North Carolina mill rehabilitation tax credit, thereby producing an overall picture of the mill credit's feasibility and limiting bias.

Over the course of the fall of 2013, I made several trips to North Carolina in order to meet with each interviewee individually. The choice to meet in person rather than over the phone from my Charleston, South Carolina came as a consideration of the best method to record the conversations for later research and categorization. Using a simple handheld, battery-operated recording device, I cataloged each interview into an audio file and transcribed the interviews into Microsoft Word. Following the interviews, I created a table showing each question I asked of the participants, along with an abbreviated version of their responses, in order to juxtapose their varying professional opinions side-by-side.

QUESTION 1 RESPONSES

1. ***What is your professional experience in working with the NC mill tax credit program?***

The interview's first question identifies each participant's professional background, an important detail to note since their jobs inform their perspectives on the remainder of the questions. The five interviewees, while working in separate fields, all work with the mill credit within their day-to-day business. Their experiences played a large role in predetermining the nature of the interviews because I hand-picked each respondent as a direct result of their affiliation with and experience in using the credit, as exemplified in Figure 6-1. Indirectly, then, these five individuals have already voiced their support for the mill credit by fashioning their financial well-being around it. For all but the non-profit president, at least a portion of all interviewees' livelihoods depend on the continued administration of the credit. Therefore, the majority of the answers found in this chapter will shed a favorable light on the mill credit's successes. However, a less involved individual with a negative opinion of the mill credit, although diversifying the field of opinions, cannot match the technical expertise that these professionals obtained as a result of their daily exposure to the mill credit's facilitation.

I attribute one of the strongest advantages of this interview series to the variety of backgrounds from which the participants come. Although located today in metropolitan areas, including Raleigh, Durham, and Charlotte, some of these professionals grew up in small-town North Carolina. Their personal experience, therefore, gives them a well-rounded concern for every community's needs, no matter the size. Similarly, the respondents' career path variety

offers an expanded look at the mill credit that could not be accommodated from just one professional's viewpoint.

The operation of any tax credit program is a massive undertaking which no individual can manage without the cooperation of a network of other professionals. The process of facilitating the mill tax credit relies in large part on how these individuals are able to interact with each other on a professional level. For instance, a historic real estate developer may have a vision for how he or she wants to transform a vacant mill space into a vibrant new use. They can buy the building and empty it of any extraneous mill equipment to clear the space for a new tenant. However, the developer can only risk so much of his own assets on something as large as a mill credit project without help from others. For help structuring a financing deal, the developer often turns to a certified public accountant, or CPA, who specializes in tax credit work. The CPA locates investors and regulates the percentage of the tax credit that will be distributed to each party at the end of the deal.

Additionally, although the developer may have an idea of how they want to use the space, or maybe even how they want the physical space to lay out or materialize, a developer still does not necessarily have the skills to manifest working drawings in order to relay that vision to others. The developer, instead, relies on a preservation architect—meaning an architect accustomed to designing plans within already existing spaces—to produce construction drawings for the project. The technical measures represented in the drawings then inform the contractor who conducts the actual rehabilitation work on site.

Through every aspect of the rehabilitation process, the developer must also be in touch with a tax credit specialist at the SHPO, who offers guidance on the specific preservation

practices that must be observed during construction. The SHPO ensures that the mill structure has been nominated to the National Register of Historic Places, a requirement to receive the historic mill credit. The SHPO's tax credit coordinator also receives the project's "Part 2," an initial application in which the developer declares their intentions for the project regarding construction phases, estimations for overall project expenses, alterations to the historic fabric of the building, and the anticipated completion date. Once the mill rehabilitation is complete, the developer submits his "Part 3," the final step in the application process, in order to receive the tax credit from the state in the next year. These steps ensure that the developer must work closely with the SHPO throughout the duration of the project.

Somewhat outside and above the business procedures of redeveloping buildings, an historic real estate non-profit agency can help to direct a developer's eye to vulnerable mill buildings that may be suitable for rehabilitation. Non-profits, particularly with a statewide perspective, can also be helpful in facilitating amicable discussions between private and public interests. For this interview series in particular, Howard's position as president of PNC, and his understood role as the man to which historic interest groups in the state should defer, allowed him to head the movement to create the North Carolina historic mill rehabilitation tax credit.

Howard relied on his law background and considerable understanding of each county's economic status and historic preservation needs to guide the mill credit's initial structuring. He served as a somewhat neutral third party, his job mandating only that he work for the welfare of historic mills across the state. Howard led the meetings of a committee containing professionals from every angle of the credit's procedure, some with opposing interests.

For instance, developers would like a way to recover the tax credit over a shorter time period so that they lose less money off their initial awarded credit. Investors would prefer to take a larger cut of the credit's percentage, leaving developers with fewer cents on the dollar collected from the credit. Of course, the state representatives would like to award as small amount of a credit as they can so that the government can still collect a substantial amount of tax revenue on the project to contribute to the annual budget. By relying on someone not concerned with making a profit and more concerned with creating a fair and effective tax credit, the committee created a bill that allowed all professionals at each stage of the mill project to conduct their business. Therefore, the credit theoretically spreads the greatest level of benefit across the state of North Carolina.

By diversifying the professional backgrounds of the pool of interviewees, I hoped to gather the full truth surrounding the mill credit's strengths and weaknesses. Similar to the varied demands of the initial committee upon the tax credit's creation, a plethora of experts on the credit's current operation should shed light on where the credit falls short or which professional party its composition may favor. The rate of responses, while mostly in harmony, reveal the motivations behind each interviewee particularly when asked about the improvements that might be applied to the mill credit. The collection of interviews serves as a qualitative means to expand upon the findings of the economic impact study conducted in the fourth chapter.

Eddie Belk	Preservation Architect
Tim Simmons	SHPO Tax Credit Coordinator
Andrew Stewart	Historic Real Estate Developer
Myrick Howard	Preservation Non-Profit President
Tara Sherbert	Historic Tax Credit Accountant

Figure 6-1. Table comparing Summarized Question #1 Responses. *Table by author.*

QUESTION 2 RESPONSES

2. ***Please rate the effectiveness of the NC mill tax credit on a scale of 1-10, 10 being the most successful.***

The interviewees answered many questions in a similar fashion, but this question in particular produced identical results from all participants. Each person found the North Carolina mill tax credit to be an extremely successful program, awarding the credit the highest possible rating of the scale provided, seen in Figure 6-2. Every individual enthusiastically voiced their support of the credit and its ability to push some otherwise doomed mills into rehabilitation. Belk claimed that of the 24 projects completed by the end of 2013, the credit saved roughly fifteen mills that would not have made financial sense to rehabilitate otherwise. Simmons backed the claim particularly within small town economies.

The mill credit looks a great deal more successful when paired against the expectations that professionals had at its inception, particularly juxtaposed to the regular state historic tax credit. People wondered how the credit was going to work. They doubted whether the mill credit would have better pricing or be effective in increasing efficiency in the market. Having been a part of the creation of the credit and now in a position to use it professionally, Stewart

holds that the mill credit boasts a higher level of effectiveness than the regular state historic rehabilitation tax credit.

If the most basic measure of effectiveness is not how the credit performs against expectations, but instead whether or not professionals are actually carrying out rehabilitations on historic mills in North Carolina, then the question most assuredly should produce high marks. Taking only eight years to complete 24 projects—an average rate of six completed projects per year—North Carolina communities have put the mill credit to work. Additionally, for a majority of the mill credit's existence, the real estate industry has been unhealthy due to the nationwide economic recession beginning in 2008. Where the typical size of a mill project ranges between 50,000 to 150,000 square feet, the effort required to use the mill credit at such a high rate since it first became available is testament to its power to encourage economic growth in the state.

Eddie Belk	10
Tim Simmons	10
Andrew Stewart	10
Myrick Howard	10
Tara Sherbert	10

Figure 6-2. Table comparing Summarized Question #2 Responses. *Table by author.*

QUESTION 3 RESPONSES

3. Is the mill tax credit necessary to make the completion of an average mill rehabilitation project feasible?

The overall size of a mill rehabilitation project can vary a great deal. The Brogden Produce Company Warehouse, located in Raleigh, occupies only 18,900 square feet. Its redevelopment using the mill credit in 2010 required only $3,370,000, a mere $370,000 over the minimum rehabilitation cost that the state requires for a developer to claim the historic mill tax credit.[112] Located in the heart of the capital city, the project also saw high demand for the new commercial space made available in the building. Although the project appears to be a cheap and low-risk endeavor, leading to the impression that the project did not need the mill credit in order to occur, a closer look reveals the true nature of most cheap mill projects.

Some mill buildings with smaller square footages do not provide enough rentable space upon completion to offset the initial cost of rehabilitating the structure. Even in Wake County, one of the most urbanized counties in the state, redeveloping a property for a negative profit makes little financial sense. The implementation of the mill credit allows developers to approach projects with a $3,000,000 buffer. In that way, developers could spend the $3,000,000 minimum to complete the project, regain almost a third portion of their original budget the next year when they reclaim the money through the mill credit, and push the project into the positive by collecting rent from the mill's new tenants. Because the margin for profit is so small on undersized mill projects, the mill credit is usually necessary to encourage their redevelopment at all.

[112] North Carolina State Historic Preservation Office, "Mill Tax Credit Projects in North Carolina," Raleigh: Department of Cultural Resources Division of Archives and History, December 3, 2013.

In a smaller town falling within Tiers 1 or 2, the 10 percent increase in the mill credit is even more crucial because the developer has a harder time finding strong tenants that can afford higher rents. Therefore, the definition of an average mill project can range from an average-sized mill, such as 80,000 square feet, or an average-sized town with an adequate population to create a market for redevelopment without the high demand existent in Tier 3 counties. In this average environment, the demand for common services such as food, office space, and residences exist, but developers fill the quota for certain uses more quickly. When such obvious programs are no longer a viable option to fill the space, developers may have to be more inventive with their project strategies. A prime example of a mid-range market location would be cities like Salisbury, Burlington, or Asheboro.

In contrast, Revolution Cotton Mill in Greensboro occupies 574,000 square feet, making it roughly 30 times the size of the Brogden Produce building. A phased project accumulating $27,303,897 in rehabilitation costs, the Revolution Mill first opened for office and commercial use in 2009.[113] At one point in its redevelopment history, the Revolution project faced financial struggles due both to the recession and the mismanagement of a smart, adaptive design that could meet approval once under review at the SHPO. Additionally, the project took place in Guilford County, a county at the time ranked as a Tier 3, where the urban centers of North Carolina received only a 30 percent rather than a 40 percent credit at the end of their mill projects. The 30 percent credit allowed the developers responsible for completing the project to successfully claim a just over $8,190,000 credit to their income taxes the next year.

[113] North Carolina State Historic Preservation Office, "Mill Tax Credit Projects in North Carolina," 4.

The mill credit, it is apparent, is needed for projects of any size in thinly-populated areas while also obligatory for most any large-scale mill project at any location. Ultimately, however, vacant mills are problem properties in the communities that surround them no matter the size or the location. Many experts use extreme situations to show the successes of the mill credit or the need for its continued existence. For instance, the new Biotech campus in Winston-Salem, currently in phased construction among the city's campus of old Hanes and R.J. Reynolds mill buildings, is the newest and brightest conglomeration of mill rehabilitations in the state. Also, the American Tobacco campus, although constructed almost entirely without the assistance of the mill credit, has become a poster child among the mill credit projects. Projects executed under tremendous circumstances may make the necessity of the mill credit more readily evident. Nevertheless, no mill rehabilitation project in the state that still waits to be attempted could be executed without the mill credit. Every feasible project that could have been executed without the mill credit happened before its creation in 2006. Today, an average mill rehabilitation—either in the size of the mill site or in the population and market of the surrounding community—also needs the kind of financial assistance that the mill credit affords. The response table contained in Figure 6-3 simplifies the responses of each interviewee to a succinct statement with the range of the argument.

Eddie Belk	Absolutely necessary because any projects possible without the credit have already been done
Tim Simmons	Probably necessary since the numbers to make a mill project feasible are often close
Andrew Stewart	Case-by-case basis, but projects possible without the credit are already done, so the need is greater today
Myrick Howard	Yes, because economic environments that can support a mill rehab without the credit are already done
Tara Sherbert	Absolutely necessary because the cost of a mill rehab is so much higher than new construction

Figure 6-3. Table comparing Summarized Question #3 Responses. *Table by author.*

QUESTION 4 RESPONSES

4. ***When considering the difference in credit offered to Tier 1, 2, and 3, counties, what do you believe the distribution of projects actually is among all 100 counties? Why? Is that good or bad for the state as a whole?***

No interviewee felt comfortable giving an estimation of the percentage of mill projects completed in the 30 percent Tier 3 counties versus the 40 percent Tier 1 and 2 counties. However, every participant spoke openly about the overall trend to develop vacant mills in urban areas as opposed to rural areas, as seen in Figure 6-4. The actual distribution of completed projects, calculated from the SHPO's most recently released listing, confirms their expert impressions. Since 2006, the state has processed 24 mill rehabilitations. 18 of those projects took place in Tier 3 counties, a rate of 66 percent, encompassing such large North Carolina cities as Raleigh, Durham, Charlotte, Asheville, Greensboro, and Winston-Salem.

The SHPO's most recent information also provides a list of ongoing and proposed mill credit projects. As of December 3, 2013, developers have planned 27 more mill rehabilitations in the state. Similar to the completed project's distribution, seventeen of the total proposed or

ongoing project, or 63 percent, will also take place in Tier 3 counties. In the past eight years of the mill credit's existence and marching consistently into the future, developers favor by a roughly two-thirds majority the relative ease and safety of filling a newly-developed space inside an urban core rather than a less reliable market located in either a Tier 1 or 2 county.

The reasoning behind the heavily-tilted dispersal of mill projects has a lot to do with the location of large populations and, therefore, large markets. Today, few industries exist in North Carolina capable of thriving outside of a large market area the way a mill prospered in years past. Historically, a mill has the ability to generate its own market, so that a mill company could, and often did, establish operations away from urban centers where taxes would be cheaper and mill bosses could control conditions in the town. Mill companies employed unskilled laborers for long work shifts and provided housing for management and mill-hands alike just off-site. When they were not on the job, the mill workers and their families purchased groceries and other goods from company-owned stores, played games on company-owned fields, and attended a company-sponsored school. The mill's ability to create what came to be referred to as a "company town[114]," wherein the mill and its workers generated an isolated micro-economy of supply-and-demand, led to the spread of mill-centric small towns across the state.

Ultimately, the largest number of mill buildings constructed in the state lay in small towns rather than large cities. A state citizen, therefore, might like to see small town mill rehabilitations match the number of projects conducted in urban environments. The typical layout of an established mill town places a newly rehabilitated mill building on prime real estate in the center of a community. However, few uses can be so universally applied in order to

[114] J. D. Porteous, "The Nature of the Company Town" *Transactions of the Institute of British Geographers*, no. 51 (Nov., 1970): 127-142.

stimulate the economy of a small Southern town the way the textile and tobacco industries did throughout the last 80 to 100 years. Developers must invent more creative solutions to make a rural mill viable for current demands. Also, what works for one mill will not necessarily work in another community, whereas more people are always looking for a place to live or work in a large city. It is for this reason that urban areas attract redevelopment more easily—the scenarios are more varied and potential tenants easier to secure and accommodate.

Whether or not such a distribution of projects is healthy for the state as a whole is a more complex issue. With the milling industries in mass exodus from the state, the question of how to fill the large buildings has become apparent. Several mill demolitions in the last decade, including the 2005 implosion of the largest single mill building in the state at Pillowtex, Inc. in Kannapolis,[115] demark the now dangerous environment for vacant mill buildings that do not meet the communities' current needs. As small town mills close and disappear, entire communities are left without an anchor to tie them to their own heritage, or worse, to a reliable source of financial well-being. The desolation and disappointment brought to small-town North Carolina as a result of the loss of the milling industries is not an uplifting story.

However, while the majority of mill rehabilitations are concentrating in the urban areas, some projects are finding their way into Tier 1 and 2 counties. The tendencies evident in the mill credit distribution reflect only what the free market would do without the help of the credit. The cities see new life as a result of their greater opportunities. However, without the credit, developers would be able to save fewer urban mill complexes and rural redevelopment projects would be nonexistent. The mill credit's use allows what would otherwise be a more limited

[115] Timothy J. Minchin, "'It knocked this city to its knees': the closure of Pillowtex Mills in Kannapolis, North Carolina and the decline of the US textile industry," *Labor History* 50, no. 3 (Aug 2009): 287-311.

market to stretch across a wider canvas of mill projects and reach into parts of the state that would otherwise be left untouched. If the measure of success for the mill credit is whether or not the state sees any of its old mills rehabilitated, then the credit's ability to extend financing to even one, otherwise unfeasible project, means that its continued existence is good for the state as a whole.

Eddie Belk	Majority of mill rehabs in Tier 3 counties
Tim Simmons	Majority of mill rehabs in Tier 3 counties
Andrew Stewart	Majority of mill rehabs in Tier 3 counties
Myrick Howard	Majority of mill rehabs in Tier 3 counties
Tara Sherbert	Majority of mill rehabs in Tier 3 counties

Figure 6-4. Table comparing Summarized Question #4 Responses. *Table by author.*

QUESTION 5 RESPONSES

5. ***In your opinion, what is the greatest advantage that the mill credit offers to developers? Surrounding communities? The state?***

First and foremost, the benefits which the mill credit affords developers are likely the most tangible to discuss in terms of monetary gain. Stewart, the developer in the group of interviewees offered the most varied list of benefits for developers working with the mill credit. First, developers are allowed to bifurcate, or split, the mill credit between multiple parties, unlike working with the federal credit, so that the deal structure is simpler. Second, as the tax credit system is currently set up, the mill credit allows developers to approach more projects across the state, resulting in a larger market of potential investors and therefore more competition to finance the deals. When developers have more people interested in hearing a

project pitch and can vie for the best offer, this means better pricing for the developer or more percentage of each dollar of credit going directly to the project, providing higher returns.

Belk contributed the idea that the heightened percentages granted with the mill credit versus the regular state historic tax credit allowed developers the necessary breathing room that they needed to conduct projects amongst the uncertainty in weaker communities. An additional 10 percent tax credit grants a developer the ability to place better incentives on the mill's leasing agreements. If leasing the property to office or commercial tenants, for instance, the developer can offer more attractive incentives in the way of up-fit costs, such as a customized working space, or other more luxurious amenities. If tenants choose a simpler space, then, the mill credit's excess percentage could supplement the tenant's rent in order to help offset the negative effects of an overall higher rental rate than in a newly constructed building. The increased credit also gives developers a cushioned period of time in which to go seek the optimum tenant to fit the property that may not necessarily be as readily found in an area of less economic opportunity.

Simmons, Howard, and Sherbert concern themselves mainly with completing the projects and filling the mills no matter who particularly the tenant turns out to be. Therefore, their perspective on the greatest advantage the mill credit affords to developers takes a straightforward approach. The mill credit benefits developers, the three interviewees claim, because it awards more money to the developer than if they were to attempt the same mill project using the regular state historic tax credit. Additionally, the ability to use the entire credit in the next year means that the developer gets a higher overall amount of money at the end of the construction period because the credit is not depreciated over several years of inflation

before being claimed. The ability to claim the credit so quickly also allows the developer to turn around and invest into a new project more quickly, rather than tying up large amounts of capital in old projects. This high return rate on invested capital allows developers to complete more projects over time, and therefore generate more revenue for their businesses. In terms of dollars and cents, a larger and more efficient tax credit helps all parties, but particularly benefits the professional who is in charge of steering the project from start to finish without losing money—that is, the developer. Figure 6-5 summarizes the interviewees' responses to the question about the HMTC's greatest benefit to developers.

Eddie Belk	Higher credit percentage gives developers a cushion to offer better incentives to potential tenants
Tim Simmons	Being able to take the full credit in one year
Andrew Stewart	Lots of advantages: more investors means more competition and better pricing; ability to bifurcate; more from each dollar of credit goes directly into project
Myrick Howard	Being able to take the full credit in one year
Tara Sherbert	Credit offers an extra tier of financing that covers the cost differential between a rehab and a new construction project

Figure 6-5. Table comparing Summarized Question #5a Responses. *Table by author.*

The mill credit's greatest benefit to surrounding communities is a more abstract advantage and certainly an effect that has to be witnessed over time. As Howard asserts, it is a big deal just to get vacant buildings out of a neighborhood. Through the years, these empty mill buildings have become cancers on their communities, attracting crime and effecting the surrounding neighborhood's reputation as well as market prices. If an empty shell of a building sits in the middle of a neighborhood, the surrounding properties' values automatically drop, so that a vacant mill can cause an entire area to fall into a state of undesirability.

Referring to vacant mill buildings as the white elephants of their communities, Tim Simmons also believes that the presence of underutilized mills can create problems for a local population. While decreasing tax values are a financial issue in neighborhoods surrounding the mills, the overall morale of a community can plummet alongside a vacant mill just as easily. An institution that once hummed with life, supported hundreds of families, and shaped local culture, now sits idle and empty. Individuals who likely once worked inside the mills before they were laid off still live nearby. Everyone in the community faces a somber realization every time they lay eyes upon the vacant structure. Once vibrant businesses, old mills often serve as a sign of failure and remind a community of its dying economic prospects.

Although most mills cannot return to their manufacturing roots, new adaptive uses give the building a respectable purpose once again. Some old employees may be able to find new work within the mill complex's new business direction. The building itself is no longer dilapidated, abandoned, and sullen. Instead, the mill serves a new niche in the community, such as providing affordable housing or senior living options, or loft apartments for young professionals. Also, mixed use tenants or entertainment venues can be powerful forces for local change in a mill building. Tim Simmons uses Golden Best in East Durham and Edenton Cotton Mill as prime examples of the power of rehabilitation work in revitalizing a community. Glencoe Mill in Burlington, a project currently underway at Belk Architecture, is bringing an entire mill village back to life. Another example would be the NODA (North Davidson) district in Charlotte or the North Carolina Music Factory, a rehabilitated mill that attracts roughly one million people a year for performances. In an area with a larger market, the common office and commercial uses implemented in mill projects draws jobs and clients to a neighborhood once avoided.

Also, the present credit's community advantages in a more concrete state, the rehabilitation process results in increased tax revenue to the local and state governments. Rather than dragging other properties down, a rehabilitated mill actually increases the value of buildings in the immediate vicinity. This newfound hot spot in the market typically results in the rehabilitation of other properties around the mill. The area's increased desirability opens doors for new potential tenants and businesses that are now becoming interested in a unique heritage center that was not available the year before. The concentration of downtown revitalization benefits local communities that see new services and more competitive pricing emerging in a walkable block nearby. Either the developer who created the market with their mill project or entirely new development firms who see an opportunity for financial gain come into the area to conduct more rehabilitation projects at no extra cost to the state. What the state's mill credit began is often spurned on at significant levels of private investment. However, even without additional development in the area, putting a mill back to work saves it from demolition and allows communities to once again feel pride in their heritage. No matter the mill's new direction then, mill rehabilitation projects are very securing actions for neighborhoods. Figure 6-6 summarizes the interviewees' responses to the question about the HMTC's greatest benefit to surrounding communities.

Eddie Belk	Changing the overall impression of the city from dead to vibrant, both externally and among local citizens
Tim Simmons	Catalytic redevelopment effect on real estate in immediate area
Andrew Stewart	Saving the community's identity in favor of a new, productive use
Myrick Howard	Putting vacant properties back into active use, which would otherwise cause problems with crime, low citizen morale, and a decreased tax base
Tara Sherbert	Revenue coming to the town as a result of economic growth spurred by the mill project

Figure 6-6. Table comparing Summarized Question #5b Responses. *Table by author.*

The state government of North Carolina is the last major group to consider when determining the mill credit's distribution of wealth. Because the mill credit generates more revenue than the credit costs, the state is able to supply a self-sustaining program to its citizens that produces plenty of local excitement. Although the increased property taxes of each mill project benefit the local governments more directly, the state gains additional sales tax revenue through the surge in spending as a result of construction costs. Also, wherever a mill reopens as an office or commercial center, the state benefits from the increase in economic activity. The state can enjoy the new market in terms of even more sales tax revenue gathered from retail sales or collecting more income taxes as a result of the new jobs taking root in the area.

In his interview, Eddie Belk offered a prime example of a site that turned from desolation to riches with the help of the mill bill. Before its rehabilitation, the American Tobacco mill complex stretched over fourteen acres in the heart of downtown Durham, occupied one million square feet of unused space, held zero employees or residents, and sat on the tax records at only four million dollars annually—almost no value relative to its size. To demolish the property would have required carting 1,800 dump truck loads of debris to the landfill just to have a barren piece of land on which to spend even more money and energy developing new buildings that would not be as attractive to people as renovated heritage buildings. The site became the symbol of the city, its vacancy perpetuating the idea that Durham was dying, unsafe, and unfit for families.

Today, however, the investment in American Tobacco totals $160 million, all of which provided jobs that produced taxable income to the state and federal governments. 4,000 people

arrive each day to work at their jobs located on the campus, producing four thousand different income streams from the state and federal governments are benefitting that did not exist before the mill rehabilitation. The American Underground, American Tobacco's basement-based tech start-up incubator, has been selected as one of five locations in the country where Google will test out all their newly-developed products. Several other services are also being addressed on the new campus. Several restaurants have emerged along the various warehouse bays along with multiple forms of entertainment. The regional public radio station headquarters at American Tobacco along with the famous Burt's Bees skincare company. A special event space gathers large crowds. Community activities abound, including a local basketball league, YMCA, professional baseball park, and performing arts center. Once the home of the powerful Duke tobacco family operations, Durham is quickly becoming one of the premiere cities in the country due to its newly-rehabilitated commercial hub. Winston-Salem, home to another tobacco tycoon, R.J. Reynolds, is following closely behind.

The positive monetary effect on the state budget, however, is not the government's largest benefit. The state gains its greatest advantage from the mill credit not in tax revenues but in preservation. The mill credit allows North Carolina to viably retain large pieces of its historic heritage that help to make the state unique for visitors and residents alike. The cultural landscape that emerges across the state when mill buildings are able to endure ties the farmland in the east to the cities in the west. The pattern of construction visible in most mill towns would make little sense to future generations without a mill building at the heart of the neighborhood configuration. The retention of historic mills helps to paint a comprehensive picture of the state's development over the last one hundred years and ties North Carolinians to

their past. Figure 6-7 summarizes the interviewees' responses to the question about the HMTC's greatest benefit to the state government.

Eddie Belk	Credit encourages work in all North Carolina communities, not just urban areas
Tim Simmons	Local economic benefits, like increased property taxes, that take burden off the state
Andrew Stewart	Low-risk because state doesn't pay until after project completion; additional out-of-state money coming in from paired federal credit
Myrick Howard	Jobs for the state that facilitate more spending inside the state and an increased tax base for local communities
Tara Sherbert	Years of tax revenue returning to the state which eventually exceed the cost of the credit

Figure 6-7. Table comparing Summarized Question #5c Responses. *Table by author.*

QUESTION 6 RESPONSES

6. ***What improvements, if any, would you like to apply to the NC mill credit (legislation, administration, use, etc.)?***

More than any other, this question produced varied responses from almost all participants. When asked to consider how the mill credit could be improved upon, it seems obvious that each expert would be interested to see the credit work more efficiently in favor of their own enterprise. Since each participant comes from a different professional background, changes to the credit that would provide individuals with added income could potentially be in direct opposition to one another. The needs of a developer, for instance, might contradict the needs of the tax credit accountant, where the two professionals split a percentage of the awarded credit. Where the developer gains profit, the tax credit accountant loses profit.

However, if both the developer and the tax credit accountant were to obtain higher returns from an amended credit, the state would likely incur the cost. Thankfully, for the sake of an accurate analysis of the overall administration of the mill credit, each respondent kept their answer focused on the increased efficiency of the credit as it relates directly to a heightened ability to rehabilitate the highest number of mill properties.

Rather than launch into impassioned discussions regarding the mill credit's room for improvement, each of the five interviewees praised the simplistic, fair, and level-headed construction of the current form of the mill bill. Some struggled to find a suggestion at all. Tara Sherbert, who works with tax credit projects in multiple states, even suggested that North Carolina's tax credit program functioned at the highest level in the country. In particular, she applauded the informed and supportive staff at the SHPO, whose administration of the credit maintains focus on the end goal of mill rehabilitations and works to make the program run as smoothly as possible.

It also seems that the majority of North Carolina professionals regard the mill credit as a reasonable approach to mill rehabilitation. They are happy with the availability and distribution of credit percentages for each of the three tiers, although Simmons of the SHPO suggested that the state could scale back the rates by about five percent if they needed to find a way to make the tax credit less risky for budget discussions. Most of the improvement suggestions delineated below, then, are not necessarily complaints or expectations for improvement as much as they are analytical considerations.

Eddie Belk, whose experience with the mill credit and his work with historic North Carolina mill properties since at least 1996, provides him with the analytical eye to know

whether the state has established a fair credit program with few issues. He calls the current percentages comfortable and approves of the grandfather clause that allows all expenditures made on reviewed projects after the start of 2015 to fall into the purview of the mill credit program. He also favors the developer's ability to collect the entire mill credit award in one year, rather than stretching it over five years which would delude the impact of the credit. Belk claims that the best way to enhance the mill credit would be to renew the credit before the deadline and to renew for an extended amount of time—more than two years—so that developers can feel more comfortable getting larger projects underway that will take several years to complete without being at risk of the next sunset deadline.

Tim Simmons, whose job requires him to look at the benefit of the mill credit as it is spread across the entire state, offered a holistic view of the present credit requirements. Currently, for any project to qualify to receive the mill credit, the developer must spend a minimum of three million dollars. This effort is supposedly in an attempt to prevent partial reuse design projects that would not succeed in stabilizing the mill structure itself. Additionally, three million dollars is only a baseline fee on several of the large projects completed in the state, often in Tier 3 counties where the initial investment will pay off in higher tenant fees at the end of the project. However, a mill in a rural area of a small town in eastern North Carolina versus Charlotte or Durham, Simmons claims, should not necessarily be held to the same spending requirements since the economic situation is so different.

Many possible mill rehabilitations in small towns can be completed to a satisfying degree of restoration without spending three million dollars. The mill credit's requirement, therefore, becomes debilitative and forces smaller projects to spend money that they do not

need to spend, increasing the overall cost of the project to an amount that, even with the credit, does not work with the types of rents that the developer will be able to charge at the end of the project. That is, the projects become infeasible, so that several small town mills are caught in limbo and are unable to rehabilitate their deserted mills because there is no low-cost solution available. Simmons suggests that a way to balance the distribution of projects between urban and rural areas would be to decrease the minimum spending requirement in Tier 1 and 2 counties at an equal ratio to raising the minimum spending requirement in Tier 3 counties. Such a method, he hypothesizes, would make small town projects more viable without increasing the cost of the credit to the state.

Perhaps the most bold of the improvement suggestions came from Raleigh developer Andrew Stewart. An economics major and urban planning master's student, Stewart understands the urge the state's Republican majority feels to restructure the entire tax code the way they have been debating in recent months. At the moment, the mill tax credit is used against a developer's income taxes in the year immediately following the project completion. However, a developer has to make the amount of annual salary to which the mill credit amounts in order to take it all at once. Additionally, the income tax may be a tax that sees significant alteration once the tax code debates move to a vote, probably either reducing sharply or just completely falling out of use. Therefore, if the mill credit depends on the rate at which the state taxes a developer's income, the credited amount will likely exceed the amount that the developer can actually accept through his total income tax.

Not only will the direct benefits of the mill credit to developers decrease, but also a large part of a mill project's financial structure currently relies on the interest that investors

have in the company's income tax exposure on the project. If the income tax disappears, then an investor's appetite to invest in a deal will be significantly curbed since their profits will be limited by the lowered risk that developers will face. Without investors to finance a mill rehabilitation project, the increased cost and risk to a developer makes most if not all mill projects unworkable, thus significantly, although unintentionally, lowering the impact of the once effective mill credit program.

Seeing a possible Catch-22 on the horizon, Stewart suggested a radical new approach to help encourage a greater quality and higher rate of mill rehabilitations in the state. Theoretically, at the end of the project when the developer submits a Part 3, the state supplies the tax credit based on the amount of money the developer spent. Stewart holds that if the state believes that $100,000 in tax credit actually costs the state $100,000, meaning that the legislature currently expects that every cent of a dollar that they credit is worth its weight in actual currency, then the state could abandon the tax credit program for more of a direct deposit system. Instead of planning to collect a lower amount of taxes in the following year, the state could simply take the $100,000 they are not expecting to see in the next year and funnel $100,000 of their budget directly into the project expenses.

Stewart argues that by reserving the money until the end of the project, the state would still be able to limit its risk involved in financing such a large and at times precarious project because it would not have to replenish the developer's spending account until the work was complete. Essentially, nothing about the process would change for the state except the method by which they grant the mill projects their award. However, by foregoing tax credits and providing a simple direct payment, the state would help developers to channel a larger

percentage of each dollar directly toward the project rather than toward profits for financing partners.

Currently, mill projects only see about $0.73 of every dollar the state grants in tax credits. The percentage is better than the $0.48 afforded by the regular state historic tax credit, but the translation is still mysteriously low. Actually, the rest of the money goes to an investor who creates the spread, meaning that they had a dollar in tax liability and paid $0.73 per dollar of the credit to invest in the mill project. Assuming the mill project carries out as planned and the project does not hit bankruptcy or other obstacles that greatly increase the cost of the overall rehabilitation work, the investor makes a profit because they bought the tax credit that would go to the developer at the end of the project at a discounted rate. Without contributing any money directly into the construction or really being involved in the project in any way other than assuming financial risk, the investor is able to profit $0.27 on every dollar of the mill credit granted to the project they funded.

Stewart claims that such a method, which is the normal way of constructing a deal in the tax credit industry, does not necessarily work toward the best interest of the state and definitely not toward the best interest of the developer. However, without this structure, the investor is not willing to put up the capital. By losing a certain percentage of the credit that would otherwise go directly toward project expenses, thus increasing the level of work achievable in a project or lowering the overall tax credit needed to finance the project, the mill credit instead performs inefficiently as compared to its potential. Therefore, by lowering a 30 percent tax credit to a 25 percent tax credit, the state could realize some of those gains by slightly reducing the amount of the credit and having the money go directly into the rehabilitation deal rather

than adding in an external investor. Stewart admits that those parties who have shaped their livelihoods around siphoning off a portion of the credit in payment for their services in structuring a deal would not be happy with the shift. However, he holds that by cutting out the middle man with some kind of grant program or other direct deposit system, the state could more efficiently get the benefit where it needs to go—into the mills.

Most of the interviewees were willing to discuss potential improvements to the credit. However, the currently tense atmosphere surrounding the mystery of the credit's renewal caused each participant to admit that they would prefer to see it smoothly passed over as is than to jeopardize the credit's future by tampering with the legislative details. Howard, for instance, a large part of whose job over the next year will encompass meetings and strategic planning to ensure the mill credit's survival had no comments of consequence on the suggestion for amendment. He suggested, rather, that tampering with the credit at all at this crucial point could open the door at the state legislature for discussions regarding the credit's effectiveness, if it did in fact need to be improved upon, which may be used to dismiss the credit in 2015. Instead, "Get it renewed" appears to be the slogan for every professional involved in the mill credit industry. Figure 6-8 summarizes the interviewees' views on possible improvements to the historic mill rehabilitation tax credit.

Eddie Belk	Renew it for quite a few years to give larger projects more time
Tim Simmons	Renew it and reduce the minimum spending requirement
Andrew Stewart	Renew it or transder to direct project grant alternative
Myrick Howard	Currently adequate, just needs to be renewed
Tara Sherbert	Currently well-structured, but renew it and get rid of the grandfather clause

Figure 6-8. Table comparing Summarized Question #6 Responses. *Table by author.*

QUESTION 7 RESPONSES

7. ***What trajectory do you expect the NC mill tax credit program to take in the next 5-10 years? (Ex: Will the NC legislature renew the credit next year? Will the number of annual projects increase or decrease?)***

No matter the mill credit's performance in the last eight years, the legislation faces a dire obstacle at the beginning of 2015. The law originally passed with the understanding that the tax credit would eventually sunset and require a revote in the state legislature to continue as a legitimate program. With a recent swing in the state assembly toward a conservative majority that has shown their willingness to make big legislative changes, the mill credit is at risk. Currently, efforts are underway to convince the necessary proponents in the state legislature of the many benefits of the credit.

The expert responses logged in the round of interviews reinforced the economic impact study that suggests the positive effects of mill rehabilitations in the state. Every interviewee is looking for the eventual renewal of the mill tax credit before its expiration on January 1, 2015. The program has already catapulted several mills into a vibrant new future and will continue to do so for any project approved before the expiration date. However, even more mills remain for later rehabilitation options if the credit gets renewed. Howard, president of PNC and Belk, chairman of PNC's board, voiced their confidence that the state legislature will safely reintroduce the mill tax credit before the deadline. Because PNC is the organization designated to head lobbying efforts with individual legislators, Howard and Belk remain two of the most informed professionals in the state regarding the credit's future availability. The rest of the interviewees remain hopeful that PNC carries out its strategy successfully and that the legislature agrees that the mill credit is an economically and culturally significant program worth continuing.

Assuming that the mill tax credit passes unscathed through its renewal phase, the interviewees' expect to see all other feasible mill rehabilitation projects that have not yet been attempted to come under production. Belk, a preservation architect who has worked heavily with the credit since its commencement, anticipates that the annual number of completed projects will grow due to the initial success stories of mill projects such as the Golden Belt and Brightleaf mill buildings in Durham. As time passes, Belk claims that professionals and communities alike are increasingly learning that the best way to create a vibrant, urban area is to recycle neighborhoods rather than build from scratch. Sherbert, the tax credit accountant, as well as developer Stewart reinforced Belk's opinion, particularly as the state emerges from the recession and recent real estate slump.

Although providing no end date for the point at which he expects to see all remaining mill projects completed, Belk hypothesized that the mill tax credit will still be a viable program for the state in ten years. While Stewart's firm, Empire Properties, has only worked on one mill tax credit project, he already has two more mill rehabilitation tax credit projects planned in the Raleigh area. It is evident that those involved in actively selecting and rebooting mill properties are invested in those types of large heritage projects for the long run. Sherbert believes, however, that the majority of the mill projects will be complete in the next three to four years. Howard offers what is perhaps the most calculated evaluation of the mill credit's remaining life after renewal.

Howard believes that the first five years of the program were successful and that the second five years will be just as strong. He even suspects that the third five-year period will yield significant mill redevelopment. However, after the third increment—in roughly the year 2020—

mill credit usage will drop off. On the other hand, historic preservation terminology as well as the mill credit generally defines a historic building as being at least 50 years old. With the turn of each year, a small number of post-World War II mill buildings will pass into the historic realm. While Howard does not know specifically what to expect from these buildings, he anticipates that they can be applied to a lesser degree in adaptive reuse projects.

Mill builders during the Industrial Revolution and at the turn of the century tended to construct ornamented buildings that would please the eye and reflect the power of its company. Today, the thought of an historic mill conjures images of lofty heights, hardwood floors, handsome columns, and floor-to-ceiling windows. The architecture in post-World War II manufacturing facilities, a product of the war era's strive for efficiency, focus much more on the utilitarian function of the activities within the walls of the building rather than its outward appearance. Most of them are in the shape of a large cube rather than the long rectangles of a typical early 1900s textile mill. Boasting few windows on the exterior to begin with, a modern manufacturing facility therefore tends to trap its vast interior space away from sources of natural light. Post-World War II mills are not the attractive, charming, rusticated locations that their older cousins tended to be. As a result, the movement to save and reuse the building has less support and is a more difficult project to figure.

Howard indicates the depot district in downtown Raleigh, where several warehouses are currently located, as the type of modern neighborhood that might be able to anticipate some kind of redevelopment. The old Dillon Supply buildings collected around the now demolished Union Station are already transforming into the city's newest art district. In some cases, post-World War II mills may be able to move into a new phase of industrial function,

supporting such emergent trades as three-dimensional printing. However, the redevelopment of these buildings is only able to happen because they are in the heart of downtown Raleigh, home to one of the strongest real estate markets in the state. Right now, a trend in real estate development seems to indicate that tenants enjoy working or living in buildings with a visible past, where the architecture holds interest and the spaces are unique. Even with a handsome facade, weaker markets still face challenges in revitalizing their attractive mill buildings. Howard hypothesizes that smaller towns will not be able to generate the revenue necessary to redevelop a building with such a lack of architectural character and people-friendly space as a modern manufacturing facility.

No matter the fate of more modern mills, interviewees agree that mill rehabilitation projects will not go on forever, as seen in Figure 6-9. Underutilized mill structures will continue to be demolished in areas that cannot generate a friendly economic environment for redevelopment, such as a community with a high unemployment rate or an area that is losing population. Eventually, every feasible mill project will have been completed. While such a realization may upset those professionals who have been able to turn the historic mill rehabilitation tax credit market into a steady revenue stream, the end of the age of mill rehabilitations means that the state's historic preservationists can turn their attention to a new campaign. Although the age of the traditional American textile mill or tobacco factory is now past, North Carolina's role in the dominating industries is now partially preserved in the physical architectural remnants. The state leadership's present effort to save an important piece of North Carolina heritage will allow this story to be told for many years to come.

Eddie Belk	Credit will be renewed and become a stronger program with more competition
Tim Simmons	If credit is extended, the SHPO's overall project load will increase; Probably see a rush to beat the sunset deadline
Andrew Stewart	Possible restructured tax code would weaken investors' appetite for buying income tax credits; Increased number of projects due to upswing in economy
Myrick Howard	Credit will be renewed, grow for the next 5 years, hold steady for another 5 years, and then trail off as all feasible projects reach completion
Tara Sherbert	Lion's share of feasible remaining mills will be completed in the next 3-4 years

Figure 6-9. Table comparing Summarized Question #7 Responses. *Table by author.*

CHAPTER SEVEN

ANALYSIS OF ALTERNATIVE FINANCING OPPORTUNITIES FOR MILL REHABILITATION EFFORTS

Before the North Carolina legislature enacted the historic "Mills Bill" in 2006, state leaders considered what types of incentives would encourage the highest number of mill revitalizations while also generating the largest amount of new economic activity in the state. Luckily, Stewart (2005) helped those not involved in the decision-making process to better understand why North Carolina politicians decided that offering a new tax credit was their best option.

The coalition comprised to determine the best course of action for the new historic mill tax credit looked to North Carolina's existing historic tax credits as well as examples of industrial revitalization incentives from other states in order to shape the new legislation. Determined to ease the difficult political process of passing a law that demands appropriations, the coalition attempted to model the mill credit closely after the state historic credit. However, they also wanted to increase the mill credit's efficiency.

The coalition designed parameters that increased the total amount of compensated QREs from 20 percent to 30 or 40 percent. The parameters also opened the mill credit to be used against franchise or premiums taxes for investors, in addition to the standard income taxes. Most importantly, the legislation shortened the pay-in period, or the span of time over which the state requires the developer to use the credit. The developer's newly-found ability to

receive the full credit in one year significantly increased the credit's overall efficiency from roughly $0.48 on the dollar to $0.73 on the dollar in the syndication market.[116]

Currently, the developers have used the mill credit to complete 24 projects in 17 counties, generating $431,255,790 in total qualified rehabilitation expenditures.[117] However, for all the work that the mills bill has generated in its first eight years of use, the HMTC, along with the regular state historic tax credits, faces an uncertain future. The new Republican majority in the state legislature is now considering restructuring the state tax code to reflect a conservative approach to the state budget. The new economic plan involves re-evaluating the effectiveness of each of the current tax credits offered in the state of North Carolina, meaning that the mill credit has come under fire.

Not only does the mill credit face the threat of extinction but also, should it remain, may have to endure a significant defunding initiative. In addition to reconsidering the overall tax credit program, the state legislature hunts for ways to supply citizens with new forms of tax relief. Therefore, in coming years, North Carolina may also see the elimination of the income tax, similar to Tennessee.[118] While potentially useful to individuals, the loss of an income tax would inadvertently weaken the mill credit.

Assuming that the legislature deemed the mill credit program successful and decided to keep it intact, the public might expect to see the program continue to build momentum and produce similar preservation and economic results into the future. However, each tax credit, in order to produce any value to its claimant, must be taken against a particular tax that the state

[116] Andrew Stewart, interview by author, Raleigh, NC, December 11, 2013.
[117] North Carolina State Historic Preservation Office, "Mill Tax Credit Projects in North Carolina," Raleigh: Department of Cultural Resources Division of Archives and History, December 3, 2013.
[118] Andrew Stewart, interview by author, Raleigh, NC, December 11, 2013.

collects annually. Because developers take the mill tax credit against their income tax, a significant reduction in the state income tax means that developers have a lower taxable total revenue against which they can accept a tax credit. Essentially, if a developer uses a tax credit as a form of equity in their mill rehabilitation project, they can only take as much of the credit as they owe in income taxes the following year.

Should the developer make less money than they expected in the next year, their due income tax for the year also drops, limiting the total amount that the state can credit back to the developer. Similarly, if the state decides to decrease the rate at which they tax an individual's income, the total amount of tax relief which a developer can accept in one year will also drop. Ultimately, the developer can only take tax credits on the taxes that they owe.

Developers can claim the remaining part of the mill credit they do not collect in the first year in the following year. The state established an official maximum collection period of nine years, beginning with the year after the developer places the building into service. However, one of the credit's best benefits, according to developers,[119] is the ability to take the entirety of the credit in just one year. Immediately following the date when the developer first puts the rehabilitated mill back into service, they can reclaim the full either 30 or 40 percent of the project's QREs.[120] By regaining their investment so soon, the developer can reinvest their capital into new projects more quickly. Additionally, the ability to claim the mill credit in one year after the project is completed—rather than claiming 20 percent each year over the next five years as

[119] North Carolina State Historic Preservation Office, *Survey of Developers of Completed Projects Using the State Historic Mill Rehabilitation Credits Regarding Financing and the Use of the Tax Credits* (Raleigh, April 24, 2013), 1-3.

[120] North Carolina General Assembly, "Mill Rehabilitation Tax Credit," under Chapter 105, Article 3H of North Carolina General Statutes, http://www.ncleg.net/EnactedLegislation/Statutes/PDF/ByArticle/Chapter_105/Article_3H.pdf (accessed August 30, 2013).

the regular state historic credit requires—allows developers to receive a larger amount of capital. For instance, due to inflation, the first 20 percent of a $100,000 QRE taken in 2007 holds more buying power and therefore a greater market value than the same twenty percent portion collected in 2011, the fifth and final year of the project's credit. A dollar is worth more to developers the sooner they can use it.

Considering the political environment surrounding the aggressive tax code restructuring, the mill tax credit's current outlook is poor. New mill projects funneling through the SHPO in 2013 have slowed even though a provision in the mills bill allows any mill project qualified and registered before the January 1, 2015 sunset deadline to proceed to completion with the full support of the credit.[121] With only the SHPO's official approval before the end of the year, a developer could break ground on a two-year project on January 2, 2015 and still receive the full 30 or 40 percent available for every qualified expense they entail over the course of the project.

However, following the sunset deadline, the amount of mill rehabilitation work carried out in North Carolina will fall off because developers will have no financial incentive to attempt such risky and ambitious projects. The issue with renovating a vacant mill building versus a typical downtown commercial property with the regular national and state historic rehabilitation tax credits is the sheer size of the project. The dramatic increase in square footage requires developers to invest a larger amount of capital in order to complete the project. The high price tag on mill rehabilitations, therefore, limits not only which companies are capable of financing the project, but also how many projects those companies can take on.

[121] Tim Simmons, interview by author, Raleigh, NC, December 10, 2013.

Additionally, the longer a project takes to reach completion, the greater the risk that something will go wrong. At times, mill buildings are so large that developers rehabilitate only one section of the mill at a time, breaking the total structure into a series of construction phases. This process creates financial milestones in which a developer can collect their credit for the first phase in order to finance the next phase of the project. The more the state is able to improve the efficiency of the credit, the more value the state can add to each project.

By saving developers money on their income taxes, the state might actually encourage more mill redevelopment. Developers would have to dedicate less of their profit to paying taxes and could channel more funds into rehabilitation projects. However, developers do not always use the tax credit as a form of direct equity. Instead, the mill credit provides a developer with leverage to finance a deal as well as decreases the personal investment—and therefore, risk—that the developer takes on during the construction period. Some developers use the incoming credit to subsidize lower rental rates in the rehabilitated mill so that they can secure tenants in an economically-depressed area. However, in large part, developers sell their credit to external investors who have made a business out of buying up tax credits at a discounted rate and cashing them in for a profit at the designated time. This transaction allows developers to transfer a large portion of the project's financial risk to investors since the state does not issue the credit until the project is completed and put into service. Should the project not reach completion, the state pays nothing and the tax credit on which the developer relied to establish a profitable budget disappears.

Considering the plausibility of that situation on a project as complex, long-term, and expensive as a historic mill rehabilitation, investment firms agree to assume the risk of the tax

credit system in exchange for a significant return. Developers sell their mill credits for roughly $0.73 on the dollar,[122] or less than three-quarters of the expense that the state agrees to cover, in order to avoid some of the financial risk associated with such high-risk projects.

Typically, the higher the project risk, the greater percentage of the credit that goes to the investor rather than into the mill rehabilitation. Currently, the mill credit presents less financial risk than the regular historic credit because it can be collected all at once in one year rather than by 20 percent increments over five years. Since inflation will deflate the value of the credit over time, thereby doubling their profits, investors typically purchase the regular historic credit at a rate of only about $0.48 to the dollar.[123]

One dollar in state tax credits, then, is not equal to one dollar in direct investment into a development project.[124] When the developer does not collect the credit on their own in order to supplement initial rental rates and add value to the project, the developer sells the credits on the syndication market. Often, external investors looking for opportunities to finance tax credit projects buy the credits from the developer at a discounted rate and collect the allotted credits instead. This way, the developer receives hard money at the start of the project to support hard costs such as construction materials and to pay workers on site, as well as losing some of the risk associated with collecting tax credits. The syndication market holds the worth of a credited dollar at less than face value because of its illiquidity and lack of immediate pay-in. If a mill project successfully runs through to completion, investors make a certain percentage of profit by essentially cashing in their tax credits without having been directly involved in the project.

[122] Andrew Stewart, interview by author, Raleigh, NC, December 11, 2013.
[123] Andrew Stewart, interview by author, Raleigh, NC, December 11, 2013.
[124] Andrew Stewart, "North Carolina Tax Credit for Revitalization of Historic Mill Facilities: Other States' Legislation; Legislative Process; Parameters and Rationale; and Cost and Revenue Projection" (master's project, University of North Carolina-Chapel Hill, 2005), 23.

This disposition provides an appetizing mode of making money for those investments firms that have the capital necessary to take on the risk.

The reason that investors actively seek out tax credit deals lies in large part with the degree of liability associated with the projects. However, if the state cuts the income tax, that liability decreases significantly and an investor's appetite to buy tax credit diminishes accordingly. Without investors competing to offer the best pricing for the mill credit, developers are forced to accept a lower compensation for each dollar of credit they sell. Also, having a fewer number of investors to contribute to the mill projects would mean that a fewer number of total projects could be completed. A majority of the tax dollars which the state credits to encourage the redevelopment of North Carolina's historic mills would subsequently end up in the hands of external investors, rather than being applied directly to rehabilitation expenses. Therefore, if the state legislature decides to extend the HMTC program, but also lowers the state income tax, the mill rehabilitation program could be rendered inefficient and ineffective by default.

Judging by the active first session of North Carolina's new legislature, the likelihood that the state will experience a change in the administration of either the HMTC or the income tax is strong. Preservation leaders in the state, along with developers who use the mill credit with great frequency, should therefore return to the conversation they began in 2005. Assuming that the current tax credit system is made unavailable, future research needs to consider which alternative incentive option will achieve the credit's original purpose: encouraging development in economically-depressed areas and saving the greatest number of historic mills possible across the state.

The 2005 committee analyzed a number of options, including the South Carolina Textile Communities Revitalization Act, Rhode Island's historic tax credit regimen, and the option of using property tax abatements or tax credits instead of relying on the income tax. Todd Brockmann, a tax credit attorney on the North Carolina HTMC coalition, drafted The South Carolina Textile Communities Revitalization Act in 2004 before he volunteered to write North Carolina's version. The South Carolina mill credit, therefore shares similar legal language with its sister state; however, the parameters of each tax credit are actually quite different.

The South Carolina credit provides a 25 percent tax credit for any textile mill or ancillary building that has been 80 percent vacated for at least one year. The state offers flexibility by allowing owners to use the credit against their income or property taxes. However, the South Carolina credit features one blatant issue for the preservation community: it does not restrict projects to historic structures.[125] Therefore, the state's historic preservation department has no reviewing authority over the projects and developers do not have to follow the Secretary of the Interior's Standard for Rehabilitation. A contractor could gut the mill building, keeping only the exterior bricks-and-mortar skin, and every dollar they spent to replace the materials that they demolished would qualify for a tax credit. The mill therefore encourages economic development, but not smart growth. Because some of the biggest proponents for North Carolina's version are historic preservation professionals, this lack of protection for historic buildings proved unacceptable.

Rhode Island also provides a multi-credit regimen of incentives for rehabilitating its historic mills. Established in 1996, the "Mill Building and Economic Revitalization Act" issues a

[125] South Carolina General Assembly, "South Carolina Textiles Communities Revitalization Act," under "South Carolina Code of Laws, Unannotated, Current through the end of the 2013 Session," http://www.scstatehouse.gov/code/t12c065.php (accessed March 2, 2014).

set of coordinated incentives to encourage redevelopment from all sectors of the market. Historic mill building owners receive a 10 percent credit to their QREs on top of the state's thirty percent regular historic tax credit. In order for mills to qualify for the credits, the local government must certify the building as a site for the most redevelopment potential and the developer must begin the rehabilitation within two years of receiving that certification.

Rhode Island entitles lenders a credit for 100 percent of the interest that accumulates on project loans, up to $20,000 per year. Because the credit is awarded at face value, rather than at a percentage of each dollar, this credit is generous. Essentially, the state encourages lenders to invest in mill rehabilitations by paying off their loan interest, thus relieving some of their financial burden. Additionally, in order to create a friendly environment for potential tenants who ultimately determine the success of the project, Rhode Island incentivizes business growth. The state credits 100 percent of wages paid to each new employee up to $3,000, or if the mill sits in a designated Enterprise Zone location, grants 50 percent of wages paid to each new employee up to $10,000.[126]

By surpassing developers, who would normally collect the credit for their ownership over the property, and by sending tax credits straight to the tenants, the state encourages small business development, as well as construction development and mill redevelopment. The best way to save a building is to use it. The more content and prosperous tenants can be within a redeveloped historic structure, the more likely they are to remain in place. The tenants not only maintain their physical rented space, but also help to sustain the local economy in a more permanent way than the initial construction expenditures. This kind of incentive also gives

[126] Rute Pinhel, "Rhode Island's Mill Building and Economic Revitalization Act," *OLR Research Report*, June 17, 2008, (http://www.cga.ct.gov/2008/rpt/2008-R-0357.htm), accessed March 2, 2014.

developers an easier path to filling the spaces that they renovate. In economically-depressed areas, developers have to use their mill credit to attract a suitable tenant and supplement their rent. If the credit could go directly to the tenant, without the intimidating requirement that the occupant sign a 35-year master lease, the state might be able to inspire more businesses to seek out a home in historic, rehabilitated properties.

Similar to the idea of bringing mill rehabilitation incentives down to the local level by sponsoring tenants directly, another type of Rhode Island credit relinquishes state control in favor of local governments. Because individual municipalities collect property taxes, should the state allow mill projects to use their credit against property taxes, or as property tax abatement, then the municipal government gets to regulate the incentive. Each county develops its own policy for granting property tax credits and may be the best organization to stipulate what parameters would do the most good in the surrounding community. Additionally, granting the mill credit as a form of property tax relief reduces the state's responsibility to administer financing for the mill project. However, in poorer counties, where the mill credit is most needed, the local government may not have the resources necessary to forego collecting all the property taxes owed to them. Therefore, although the North Carolina state income tax may soon disappear altogether, a shift toward a local property tax credit system may not prove economically practical.

Many states offer some form of historic rehabilitation incentive to their citizens, but few states offer programs specifically for historic mills. Because a large number of American textile mills are in North and South Carolina, these states unsurprisingly accommodate for their vacant mills in some way. Rhode Island also dedicated a piece of its budget to the revitalization of mill

buildings. Surprisingly, however, no mill rehabilitation incentive program seems to exist in other famously industrial states, such as Georgia, Massachusetts, or Michigan. Are these states already so urbanized that their economies can support the rehabilitation of vacated mills without state aid? Are the markets so strong that no incentive offered by the state can encourage preservation over demolition? Have companies learned how to adapt their manufacturing processes so that they can still employ their mill properties for productive, industrial uses? The reason why these states do not supply a mill rehabilitation incentive is mysterious, particularly concerning Georgia, whose development reflects that of the Carolinas. North Carolina and her southern neighbor may be leading the country in producing innovative and effective mill redevelopment opportunities. Ultimately, the presence of mill incentives in the Carolinas' over the last decade has one, practical explanation. While preservation and community groups advocated for the bill, the legislatures in Raleigh and Columbia found a way to reduce the risk of high cost to the state.

Despite developers' attempts to lower the risk associated with their projects, the state experiences the least amount of stress when it comes to risk on investment. By offering to pay a developer in tax credits rather than some other form of incentive, the state assumes a low-risk investment in which they indirectly encourage mill redevelopment by reimbursing developers after the fact. When analyzed carefully, however, it could be claimed that the state loses money by issuing a tax credit rather than some other form of incentive. Directly, the state sees no greater financial commitment based on what percentage of the tax credits that they grant go to an investor, rather than a developer. In other words, the state remains revenue-neutral based on the outcome of negotiations between a developer and their investors. In this case the state

assumes the role of a mother allowing her children—the developer and the investors—to work out a compromise on their own.

However, because the state aims to use the credit to support revitalization in economically-depressed areas, the amount of credits that the developer is able to funnel directly into the project determines the state's ability to foster economic growth in its communities. The greater percentage of the credits that must be sifted out to profit the investing middle-man, the less money the state actually supplies to its citizens in need. Therefore, the popular system of issuing tax credits to encourage historic preservation and redevelopment work translates into an ultimately inefficient mode for motivating growth. The discussion, now, should turn toward analyzing other incentive forms that could more directly impact the projects.

The optimum direction likely involves not a shift from historic tax credits on an individual's income taxes to credits on an individual's property taxes, but rather the development of an incentive completely removed from the existing tax credit market. Although the tax credit option is the most widely used form of incentivizing any kind of historic preservation work in the United States, new and better programs might be possible. As an historic real estate developer in Raleigh, Stewart suggests that the money that the state awards developers via tax credits could transfer into a new grant program, in which the state provides its contribution in terms of hard currency at the end of the project.[127] That option would significantly raise the efficiency of the rehabilitation incentive because the developer could

[127] Andrew Stewart, interview by author, Raleigh, NC, December 11, 2013.

avoid all technicalities associated with collecting the credit and keep the total incentive amount without losing a portion of each dollar to a third-party investor.

A number of variations on the current mill credit also exist. In addition to a grant program, the state can consider adding a spending cap, adjusting the credit percentages, or offering loan guarantees. Future studies on tax credit alterations, however should use caution when judging whether completed mill projects could have happened without the mill credit. Although Durham and Winston-Salem are receiving the highest levels of mill credit support due to their larger markets and concentrations of mill buildings, most professionals involved with the credit claim that developers completed any projects feasible without the credit before the credit's creation. In order to promote more development in poorer areas, the state could withdraw the credit offering in Tier 3 counties and add that percentage to Tier 1 and 2 counties. Such a shift in funds could potentially put Tier 1 and 2 projects on par with the marketability of an urban mill without any additional financial commitment from the state. However, analysts should study whether not offering an incentive in Tier 3 counties would cause the loss of a mill that would have otherwise been developed. Eliminating the tax credit in Tier 3 counties risks inciting a lower level of rehabilitation work overall, rather than maintaining the current rates and transferring the economic redevelopment to poorer counties. Another option to limit costs to the state and potentially redirect rehabilitation costs to Tier 1 and 2 counties includes adding a new project expense cap in Tier 3 areas. Therefore, the tax credit can still ensure that difficult projects located in Tier 3 counties see redevelopment without the state risking a commitment to finance the entire 30 percent of a large-scale $100,000,000 project such as the American Tobacco or Winston-Salem Biotech campuses.

Future studies can also analyze the property tax rates by county, rather than the Wake County tax rate assumption applied to the Chapter 4 study, because the areas of the state most in need of redevelopment possess very different economic environments from the state's capital city. A county-by-county comparison, while requiring the scholar to tediously contact the appropriate representative or website for each county, would provide a more accurate understanding of property tax increases following a historic rehabilitation project. Also, a county-by-county analysis of unemployment rates and hotel accommodations taxes would help to determine the degree to which specific areas of the state benefit from heritage tourism.

While the Department of Commerce has conducted limited studies on the effects of an altered mill credit on the state budget, scholars need to direct more research toward finding a proper solution. The Department of Commerce established a Labor and Economic Analysis Division (LEAD) and Office of State Budget and Management (OSBM) working group to analyze the state historic tax credits in IMPLAN and to study new incentive options. The group considered lowering the mill credit percentage, placing a hard cap on each project's total expenditures, or denying incentives for particularly expensive updates such as kitchens and bathrooms. Figure 7-1 shows the calculations behind the options that the Department of Commerce considered. However, their findings yield a significant drop in overall economic development in the state.[128] Additionally, the Department of Commerce claims that significant results are difficult to detect in additional modeling, aimed at identifying developers' behavioral

[128] North Carolina Department of Commerce, "Income-Producing and Mills Credits Suggested Changes from DCR," (presented to North Carolina Department of Cultural Resources, Raleigh, NC, January 2013).

responses to credit alterations along with the resulting net fiscal impact, without a large-scale change in the current rates.[129]

Income Producing and Mills Credits

Suggested Changes from DCR

	QREs	Est. Credits Generated	Reducing Rate to 20%	Plus hard cap of $20 M	Plus 10% above $20 M
All Years	$1,089,158,698	$251,177,563	$217,831,740	$185,817,800	$201,824,770
Post-2005	$639,761,535	$161,298,130	$127,952,307	$112,796,816	$120,374,562
% Chg from Actual (Post-2005)			-13%	-19%	-16%

Hard Cap of $10 million

	QREs	Est. Credits Generated	Reducing Rate to 20%	Plus hard cap of $10 M	Plus 10% above $10 M
All Years	$1,089,158,698	$251,177,563	$217,831,740	$156,659,353	$187,245,546
Post-2005	$639,761,535	$161,298,130	$127,952,307	$91,138,217	$109,545,262
% Chg from Actual (Post-2005)			-13%	-28%	-21%

Hard Cap of $5 million

	QREs	Est. Credits Generated	Reducing Rate to 20%	Plus hard cap	Plus 10% above $5 M
All Years	$1,089,158,698	$251,177,563	$217,831,740	$127,809,111	$172,820,425
Post-2005	$639,761,535	$161,298,130	$127,952,307	$71,033,530	$99,492,919
% Chg from Actual (Post-2005)			-13%	-36%	-25%

Figure 7-1. Department of Commerce table modeling the effects of various mill tax credit adjustments on state budget savings. *North Carolina Department of Commerce, "Income-Producing and Mills Credits Suggested Changes from DCR," (presented to North Carolina Department of Cultural Resources, Raleigh, NC, January 2013).*

Because the Department of Commerce's research on alternate forms of mill rehabilitation incentives is so far minimal, further research on the topic will provide a clearer

[129] North Carolina Department of Commerce Labor and Economic Analysis Division and Office of State Budget and Management, "Historic Rehabilitation Collaborative Discussion: LEAD/OSBM Working Group Summary," (presented to the North Carolina Department of Cultural Resources, Raleigh, NC, January 9, 2014).

understanding of the mill credit's potential. Topics left for study include modeling the effects of an overall credit percentage reduction on the efficiency of a dollar in state tax credits or investigating which credit form will best encourage greater economic development in the Tier 1 and 2 counties most in need of assistance rather than market-rate urban centers. For that matter, scholars could explore whether the current tiered system is the best way to identify North Carolina's impoverished areas.

Finally, in order to understand the capacity which the mill credit may require in future state budgeting procedures, scholars need to conduct a comprehensive study identifying all remaining mill buildings, ancillary buildings, and utility buildings eligible for the mill credit. Specific notes documenting the opening, closure, and demolition of the various mill operations in North Carolina over its 300-year history do not seem to exist. The year in which North Carolina contained its highest number of mill buildings remains unclear and no accounts can positively cite the maximum amount of mills that have existed in the state. As such, no one knows the specific number of mills left for redevelopment and the state cannot accurately estimate how many more projects it will have to finance before developers rehabilitate the last of the feasible projects. Additionally, identifying the scope of work remaining will help the state to understand which counties still contain a mill at all in order to predict what sections of the state will find the greatest advantage in the mill credit's continuance.

No matter the incentive option that appears most likely to foster the greatest number of mill rehabilitations, however, the optimum new program should financially benefit the state as well as developers in order to create a self-perpetuating program, as demonstrated by the Venn diagram in Figure 7-2. Obviously, should the state agree to pay 70 percent of a mill project's

QREs, mill rehabilitations would be much cheaper and more projects would move into the realm of feasibility. However, the program would still run a high negative cost to the state, making it unsustainable.

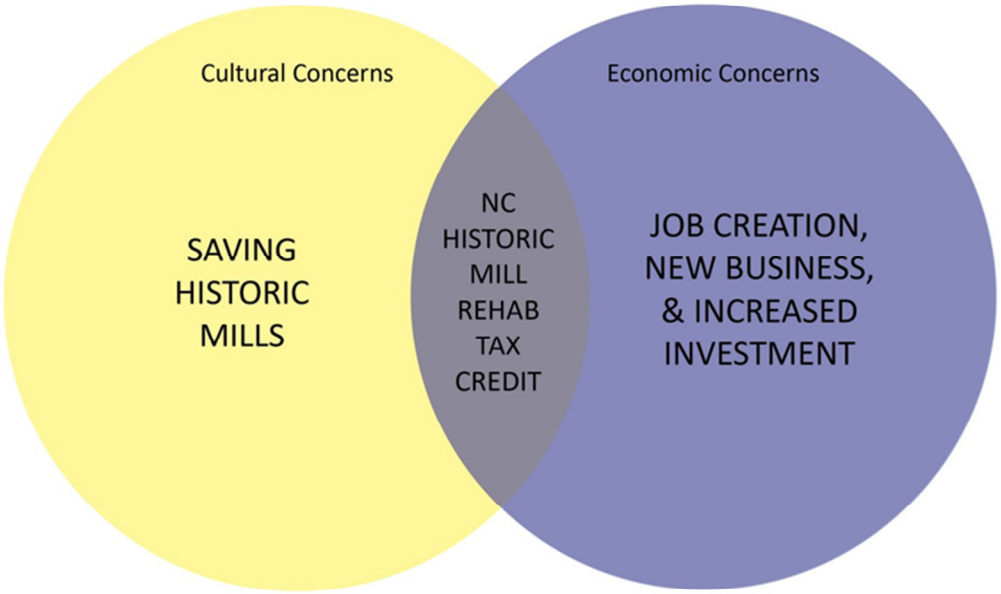

Figure 7-2. Venn Diagram showing the optimal balance of the historic mill rehabilitation tax credit to benefit all state parties. *Chart by author.*

The selected incentive should balance costs to the state with its ability to create new mill projects. According to Chapter 4's economic impact study, the current mill credit usage has cost the state as little as five million dollars in a year, with the annual average cost to the state totaling $13,189,679. The amount of economic development generated as a result of that initial

project, however, far surpasses the basic cost-to-benefit ratio surrounding the comparison of state taxes credited to state taxes collected. The resulting estimated economic development generation in the state as a direct impact of the mill credit's eight-year implementation is over one billion dollars. The general financial success of the mill credit rings clear, but more specific analysis at the county level can reveal even more accurate results. The potential for further analysis encompasses a variety of issues and is no more opportune than now, as the North Carolina legislature gathers the data that will inform its decision to extend the mill credit.

CHAPTER EIGHT

CONCLUSION

The concept of a textile or tobacco mill town is iconic in the South. Many North Carolina towns owe their last century of development to mill culture. The heavy-handed scattering of mills across the state in large part defines the state's late-nineteenth and early twentieth century landscape. To see the majority of North Carolina mills demolished because their intended use is no longer applicable to the changing economy would destroy a large piece of the state's cultural and architectural history and deter what should become an active part of North Carolina's heritage tourism.

Should North Carolina real estate investors and developers lose access to the historic mill rehabilitation tax credit in 2015, the remaining historic mills around the state face an arduous journey. North Carolina's historical identity as "the vale of humility between two mountains of conceit" means that the majority of the state's early historic structures wane in comparison to their neighbors in Virginia and South Carolina.[130] Virginia is renowned nationally for its late-seventeenth and eighteenth-century architecture. South Carolina's colonial port city of Charleston ranks internationally for its preservation efforts and tourism industry. North Carolina, however, struggled as a backcountry colony for a long period of time. The region only achieved recognized prosperity with the introduction of efficient land travel, particularly

[130] Mary Oates Spratt Van Landingham, *A State's Scant Literature: The Native Literature of North Carolina: Influences of the Past; Prospects for the Future*, Charlotte, NC: The Observer Printing House, 1922.

alongside the expansion of the railroad. The state's most significant building heritage, therefore, resides in the era of industrialization.

The mill owners' and rural workers' distrust of city forms and love of country life influenced the placement of mills outside town limits and creation of downtowns nearby. When the mills closed and the towns expanded to annex the mill villages, the state solidified a distinct piece of its character. North Carolina is now one of the most industrial states but also one of the least urbanized in the nation. In 1951, North Carolina had as many as 1,047 mill buildings.[131] The state's leading preservationists now estimate that roughly 200 relevant structures remain standing. The capacity for mill demolitions over the last 50 years is staggering. If North Carolina wishes to maintain any significant sign of its industrial past, the state must act to defend its history.

Consider the financial efforts that Virginia and South Carolina have applied to their most precious architectural legacy. Why should North Carolina neglect its inheritance? Rather than transforming its buildings into shrines of the past, the state can usher its mills into a future of continued vitality and service. Rather than drain the coffers of organizations hoping to maintain these empty buildings in an unaltered museum state, North Carolina can retain the important history lessons associated with its mills while also encouraging their best fit use in the present economy. Utilitarian in

[131] Brent D. Glass, *The Textile Industry in North Carolina: A History*, Raleigh: North Carolina Department of Cultural Resources Division of Archives and History, 1992, 78.

composition, the philosophy exists that mill buildings are made to be used and adapted in whatever way best serves their occupants.

The economic impact study contained in this thesis adds the first preservation-minded analysis of the North Carolina HMTC to the ongoing discussion in the state legislature. A comparison of the assumptions utilized in the Department of Commerce's study against the assumptions used in this and at least two other tax credit analyses demonstrate the extent to which an economic analysis can be skewed. The same raw data, paired with different assumptions, yielded significantly different results. While the Department of Commerce found that the HMTC only generated a total annual net tax revenue impact of -$29.6 million, this original fiscal analysis conducted in Chapter 4 found the state only lost, on average, $13,189,679 annually. This economic impact study may help legislators decide how best to act on the state historic mill tax credit. This is especially so since the presence of multiple studies requires lawmakers to consider how specific an economic impact analysis can actually be. While many people rely on financial numbers to tell them in plain terms whether a program is or is not successful, economic impact studies are only estimates and should be treated as such.

Some benefits of the tax credit can be difficult to measure. Even when maintaining the focus on the economic development which the credit inspires, a number of indirect effects must be considered and require complex evaluation in order to produce somewhat accurate results. This thesis uses for the first time a popular Donovan Rypkema multiplier to estimate "ripple effect" that North Carolina's historic

mill rehabilitation tax credit sends through the state economy. The tax credit's indirect development effects prove to be its greatest advantage to the state. With $1,092,977,950 of net gain, including $1,043,639,015 in economic impact, $379,979,478 in household income, 10,436 construction jobs and 9,012 other jobs, the indirect economic effect of the HMTC outweighs the cost for funding the program. Additionally, Chapter 5 analyzed the unquantifiable benefits associated with the HMTC in order to help the public understand the extended benefits of historic preservation programs beyond the wallet.

This thesis is significant because it focused not only on the state's immediate financial gains, but also on the mill credit legislation's ability to meet its own expressly-stated purpose. While revenue for the state is a bonus, the mill credit's original intention was to encourage economic development in economically-depressed areas of the state and to save historic mills. In regards to its primary objective, the mill credit is a success. The credit aided the rehabilitation of historic mills 24 times over, saving the sites from demolition or decay. Additionally, seven of those projects, or roughly 29 percent, occurred in Tier 1 or 2 counties, the poorest designated areas of the state.

The real success of a mill credit project becomes visible after the fact. As a result of the rehabilitation, for instance, 800 new housing units exist, along with large amounts of office space. If those spaces were not in the rehabilitated mill, they would be somewhere else, yes, but the effect is the not same. Additionally, the mill building once sat vacant with no tax generation. Now, a piece of legislation helps to put these mills

back into use and bases a certain number of businesses and employees in the area. Although the cost to the state for such a project is negative, the purpose of the act is not to generate revenue but rather to create jobs and get vacated mills back into service. The mills bill accomplishes these objectives while also generating a small amount of direct and immediate revenue.

Although other state programs focused largely on business and spending may foster a more rapid level of immediate economic growth, the HMTC or other preservation incentive creates an environment for the steady, teamed efforts of economic development and historic redevelopment. The resulting rich patchwork of unique places and irreplaceable community assets in the state generates a sense of pride that North Carolina citizens can embrace. The decisions made in the coming year will determine to what extent North Carolina will be able to blend preservation with economy in the era following the age of the mill town. North Carolina's new direction is yet to be determined and, for now, the state's citizens and mills must wait to discover their fate.

APPENDICES

Appendix A
NC General Statutes—Chapter 105, Article 3H

Article 3H.
Mill Rehabilitation Tax Credit.
(See G.S. 105-129.75 for repeal of this Article.)

§ 105-129.70. (See note for repeal) Definitions.

The following definitions apply in this Article:

(1) Certified historic structure. – Defined in section 47 of the Code.
(2) Certified rehabilitation. – Defined in G.S. 105-129.36.
(3) Cost certification. – The certification obtained by the State Historic Preservation Officer from the taxpayer of the amount of the qualified rehabilitation expenditures or the rehabilitation expenses incurred with respect to a certified rehabilitation of an eligible site.
(3a) Development tier area. – Defined in G.S. 143B-437.08.
(4) Eligibility certification. – The certification obtained from the State Historic Preservation Officer that the applicable facility comprises an eligible site.
(5) Eligible site. – A site located in this State that satisfies all of the following conditions:
  a. It was used as a manufacturing facility or for purposes ancillary to manufacturing, as a warehouse for selling agricultural products, or as a public or private utility.
  b. It is a certified historic structure or a State-certified historic structure.
  c. It has been at least eighty percent (80%) vacant for a period of at least two years immediately preceding the date the eligibility certification is made.
  d. Repealed by Session Laws 2008-107, s. 28.4(a), effective for taxable years beginning on or after January 1, 2008.
(6) Repealed by Session Laws 2006-252, s. 2.22, effective January 1, 2007.
(7) Pass-through entity. – Defined in G.S. 105-228.90.
(8) Qualified rehabilitation expenditures. – Defined in section 47 of the Code.
(9) Rehabilitation expenses. – Defined in G.S. 105-129.36.
(10) State-certified historic structure. – Defined in G.S. 105-129.36.
(11) State Historic Preservation Officer. – Defined in G.S. 105-129.36. (2006-40, s. 1; 2006-252, s. 2.22; 2008-107, s. 28.4(a).)

§ 105-129.71. (See note for repeal) Credit for income-producing rehabilitated mill property.

(a) Credit. – A taxpayer who is allowed a credit under section 47 of the Code for making qualified rehabilitation expenditures of at least three million dollars ($3,000,000) with respect to a certified rehabilitation of an eligible site is allowed a credit equal to a percentage of the expenditures that qualify for the federal credit. The credit may be claimed in the year in which the eligible site is placed into service. When the eligible site is placed into service in two or more phases in different years, the amount of credit that may be claimed in a year is the amount based on the qualified rehabilitation expenditures associated with the phase placed into service during that year. In order to be eligible for a credit allowed by this Article, the taxpayer must provide to the Secretary a copy of the eligibility certification and the cost certification. The amount of the credit is as follows:

(1) For an eligible site located in a development tier one or two area, determined as of the date of the eligibility certification, the amount of the credit is equal to forty percent (40%) of the qualified rehabilitation expenditures.
(2) For an eligible site located in a development tier three area, determined as of the date of the eligibility certification, the amount of the credit is equal to thirty percent (30%) of the qualified rehabilitation expenditures.

(b) Allocation. – Notwithstanding the provisions of G.S. 105-131.8 and G.S. 105-269.15, a pass-through entity that qualifies for the credit provided in this section may allocate the credit among any of its owners in its discretion as long as an owner's adjusted basis in the pass-through entity, as determined under the Code, at the end of the taxable year in which the eligible site is placed in service, is at least forty percent (40%) of the amount of credit allocated to that owner. Owners to whom a credit is allocated are allowed the credit as if they had qualified for the credit directly. A pass-through entity and its owners must include with their tax returns for every taxable year in which an allocated credit is claimed a statement of the allocation made by the pass-through entity and the allocation that would have been required under G.S. 105-131.8 or G.S. 105-269.15.

(c) Forfeiture for Change in Ownership. – If an owner of a pass-through entity that has qualified for the credit allowed under this section disposes of all or a portion of the owner's interest in the pass-through entity within five years from the date the eligible site is placed in service and the owner's interest in the pass-through entity is reduced to less than two-thirds of the owner's interest in the pass-through entity at the time the eligible site was placed in service, the owner forfeits a portion of the credit. The amount forfeited is determined by multiplying the amount of credit by the percentage reduction in ownership and then multiplying that product by the forfeiture percentage. The forfeiture percentage equals the recapture percentage found in the table in section 50(a)(1)(B) of the Code.

(d) Exceptions to Forfeiture. – Forfeiture as provided in subsection (c) of this section is not required if the change in ownership is the result of any of the following:

(1) The death of the owner.

(2) A merger, consolidation, or similar transaction requiring approval by the shareholders, partners, or members of the taxpayer under applicable State law, to the extent the taxpayer does not receive cash or tangible property in the merger, consolidation, or other similar transaction.

(e) Liability from Forfeiture. – A taxpayer or an owner of a pass-through entity that forfeits a credit under this section is liable for all past taxes avoided as a result of the credit plus interest at the rate established under G.S. 105-241.21, computed from the date the taxes would have been due if the credit had not been allowed. The past taxes and interest are due 30 days after the date the credit is forfeited. A taxpayer or owner of a pass-through entity that fails to pay the taxes and interest by the due date is subject to the penalties provided in G.S. 105-236. (2006-40, s. 1; 2006-252, s. 2.23; 2006-259, s. 47.5; 2007-491, s. 44(1)a; 2008-107, s. 28.4(b).)

§ 105-129.72. (See note for repeal) Credit for nonincome-producing rehabilitated mill property.

(a) Credit. – A taxpayer who is not allowed a federal income tax credit under section 47 of the Code and who makes rehabilitation expenses of at least three million dollars ($3,000,000) with respect to a certified rehabilitation of an eligible site is allowed a credit equal to a percentage of the rehabilitation expenses. The entire credit may not be taken for the taxable year in which the property is placed in service, but must be taken in five equal installments beginning with the taxable year in which the property is placed in service. When the eligible site is placed into service in two or more phases in different years, the amount of credit that may be claimed in a year is the amount based on the rehabilitation expenses associated with the phase placed into service during that year. In order to be eligible for a credit allowed by this Article, the taxpayer must provide to the Secretary a copy of the eligibility certification and the cost certification. For an eligible site located in a development tier one or two area, determined as of the date of the eligibility certification, the amount of the credit is equal to forty percent (40%) of the rehabilitation expenses. No credit is allowed for a site located in a development tier three area.

(b) Allocation. – Notwithstanding the provisions of G.S. 105-131.8 and G.S. 105-269.15, a pass-through entity that qualifies for the credit provided in this section may allocate the credit among any of its owners in its discretion as long as an owner's adjusted basis in the pass-through entity, as determined under the Code, at the end of the taxable year in which the eligible site is placed in service, is at least forty percent (40%) of the amount of credit allocated to that owner. Owners to whom a credit is allocated are allowed the credit as if they had qualified for the credit directly. A pass-through entity and its owners must include with their tax returns for every taxable year in which an allocated credit is claimed a statement of the allocation made by the pass-through entity and the allocation that would have been required under G.S. 105-131.8 or G.S. 105-269.15.

(c) Forfeiture for Change in Ownership. – If an owner of a pass-through entity that has qualified for the credit allowed under this section disposes of all or a portion of the owner's interest in the pass-through entity within five years from the date the eligible site is placed in service and the owner's interest in the pass-through entity is reduced to less than two-thirds of the owner's interest in the pass-through entity at the time the eligible site was placed in service, the owner forfeits a portion of the credit. The amount forfeited is determined by multiplying the amount of credit by the percentage reduction in ownership and then multiplying that product by the forfeiture percentage. The forfeiture percentage equals the recapture percentage found in the table in section 50(a)(1)(B) of the Code. The remaining allocable credit is allocated equally among the five years in which the credit is claimed.

(d) Exceptions to Forfeiture. – Forfeiture as provided in subsection (c) of this section is not required if the change in ownership is the result of any of the following:

(1) The death of the owner.

(2) A merger, consolidation, or similar transaction requiring approval by the shareholders, partners, or members of the taxpayer under applicable State law, to the extent the taxpayer does not receive cash or tangible property in the merger, consolidation, or other similar transaction.

(e) Liability from Forfeiture. – A taxpayer or an owner of a pass-through entity that forfeits a credit under this section is liable for all past taxes avoided as a result of the credit plus interest at the rate established under G.S. 105-241.21, computed from the date the taxes would have been due if the credit had not been allowed. The past taxes and interest are due 30 days after the date the credit is forfeited. A taxpayer or owner of a pass-through entity that fails to pay the taxes and interest by the due date is subject to the penalties provided in G.S. 105-236. (2006-40, s. 1; 2006-252, s. 2.24; 2007-491, s. 44(1)a; 2008-107, s. 28.4(c).)

§ 105-129.73. (See note for repeal) Tax credited; cap.

(a) Taxes Credited. – The credits allowed by this Article may be claimed against the franchise tax imposed under Article 3 of this Chapter, the income taxes imposed under Article 4 of this Chapter, or the gross premiums tax imposed under Article 8B of this Chapter. The taxpayer may take the credits allowed by this Article against only one of the taxes against which it is allowed. The taxpayer must elect the tax against which a credit will be claimed when filing the return on which it is claimed. This election is binding. Any carryforwards of the credit must be claimed against the same tax.

(b) Cap. – A credit allowed under this Article may not exceed the amount of the tax against which it is claimed for the taxable year reduced by the sum of all credits allowed, except payment of tax made by or on behalf of the taxpayer. Any unused portion of the credit may be carried forward for the succeeding nine years. (2006-40, s. 1.)

§ 105-129.74. (See note for repeal) Coordination with Article 3D of this Chapter.

A taxpayer that claims a credit under this Article may not also claim a credit under Article 3D of this Chapter with respect to the same activity. The rules and fee schedule adopted under G.S. 105-129.36A apply to this Article. (2006-40, s. 1.)

§ 105-129.75. Sunset.

This Article expires January 1, 2015, for rehabilitation projects for which an application for an eligibility certification is submitted on or after that date. (2006-40, s. 1; 2008-107, s. 28.4(d); 2010-31, s. 31.5(a); 2012-36, s. 12(b).)

§ 105-129.75A. (See note for repeal) Report.

The Department must include in the economic incentives report required by G.S. 105-256 the following information itemized by taxpayer:

(1) The number of taxpayers that took the credits allowed in this Article.
(2) The amount of rehabilitation expenses and qualified rehabilitation expenditures with respect to which credits were taken.
(3) The total cost to the General Fund of the credits taken. (2010-166, s. 1.8.)

North Carolina General Assembly, "Mill Rehabilitation Tax Credit," under Chapter 105, Article 3H of North Carolina General Statutes, http://www.ncleg.net/EnactedLegislation/Statutes/PDF/ByArticle/Chapter_105/Article_3H.pdf (accessed August 30, 2013).

Appendix B

SHPO List of Completed/Ongoing/Proposed Mill Credit Projects in North Carolina

Proposed/Ongoing North Carolina Historic Mill Rehabilitation Tax Credit Projects

Project/Address	City	County (Tier)	***Rehab Cost	Square Footage	New Use	Estimated Completion
Asheville Supply & Foundry Co. 35-47 Eagle Street	Asheville	Buncombe (3)	$5,750,000	50,322	Commercial Residential	2015
E. B. Bain Water Treatment Plant 1810 Fayetteville Street	Raleigh	Wake (3)	0	Not Available	Not Available	Not Available
Brown-Rogers-Dixson Company 516 N. Trade Street	Winston-Salem	Forsyth (3)	0	Not Available	Not Available	Not Available
Chatham Manufacturing Co./ Western Electric Company 800 Chatham Road	Winston-Salem	Forsyth (3)	$33,000,000	260,000	Residential	2013
Chesterfield Building Liggett & Myers Tobacco Co. 701 W. Main Street	Durham	Durham (3)	$80,000,000	361,000	Commercial Office Residential	2016
Dr. Pepper Bottling Plant 416 S. Dawson Street	Raleigh	Wake (3)	$800,000	14,000	Office	2013
Dunavant Cotton Manufacturing Company 109 E. Fleming Drive	Morganton	Burke (1)	$5,000,000	100,000	Commercial Residential	2018
Electric Motor & Repair Co., Inc. 418-422 S. Dawson Street & 321 W. Davie Street	Raleigh	Wake (3)	$1,500,000	28,000	Office	2013
Fiber Mills 1000 Seaboard Street	Charlotte	Mecklenburg (3)	$10,000,000	120,681	Commercial Office	*2008
Glencoe Mill (Phase 1) 2832 Glencoe Street	Burlington	Alamance (2)	$1,215,000	13,215	Commercial Office	*2010
Golden Belt Manufacturing Company Plant, Mill No. 1 800 Taylor Street	Durham	Durham (3)	0	Not Available	Not Available	Not Available
Hollar Hosiery Mills 883 Highland Avenue SW	Hickory	Catawba (2)	$4,500,000	41,374	Commercial	*2012
Johnston Mill 3315 N. Davidson Street	Charlotte	Mecklenburg (3)	0	Not Available	Not Available	Not Available
Kouris Warehouse 200 W. Warren Street	Shelby	Cleveland (2)	0	Not Available	Not Available	Not Available
Liberty Tobacco Warehouse 222 E. Main Street	Elkin	Surry (2)	$3,128,000	30,661	Commercial	2013
Loray Mill (Project 1) 1101 W. Second Avenue	Gastonia	Gaston (2)	$22,500,000	660,000	Commercial Office	2014 (Project 1)

					Residential	
Mecklenburg Mill 3327 N. Davidson Street	Charlotte	Mecklenburg (3)	$13,040,820	43,383	Residential	2014
Mock, Judson, Voehringer Company Hosiery Mill 2610 Oakland Avenue	Greensboro	Guilford (2)	$15,000,000	154,274	Residential	2014
R. J. Reynolds Tobacco Co. Bailey Power Station Block 33	Winston-Salem	Forsyth (3)	$55,000,000	122,570	Commercial Office	2014
R. J. Reynolds Tobacco Co. Factory 60 403 Vine Street	Winston-Salem	Forsyth (3)	$130,000,000	330,862	Commercial Office	2014
R. J. Reynolds Tobacco Co. Factory 64 Complex 500 E. Fifth Street	Winston-Salem	Forsyth (3)	$38,000,000	421,317	Commercial Residential	2014
R. J. Reynolds Tobacco Co. Factory 90 601 Vine Street	Winston-Salem	Forsyth (3)	$164,261,000	544,886	Commercial Office	2014
Raleigh Bonded Warehouse 1505 Capital Boulevard	Raleigh	Wake (3)	0	Not Available	Not Available	Not Available
Royal Crown & Seven-Up Bottling Company 321 W. Geer Street	Durham	Durham (3)	$3,500,000	18,282	Commercial	2013
Sanford Buggy Manufacturing Co. 115 Chatham Street	Sanford	Lee (2)	$4,500,000	30,200	Commercial Residential	Not Available
Whisnant Hosiery Mills 74 Eighth Street SE	Hickory	Catawba (2)	0	Not Available	Not Available	Not Available
White Furniture Company 202 E. Center Street	Mebane	Alamance (2)	$38,000,000	225,982	Commercial Residential	**2010
27 Total Projects			***$628,694,820			

*Construction ongoing although some portions of building have been completed and placed in service.
**Construction has not started.
***Estimated Rehabilitation Costs not available for all projects.

North Carolina State Historic Preservation Office
December 3, 2013

Completed North Carolina Historic Mill Rehabilitation Tax Credit Projects

Project/Address	City	County (Tier)	Rehab Cost	Square Footage	New Use	Completion Date
Alpha-Orient Cotton Mill 311 E. 12th Street	Charlotte	Mecklenburg (3)	$11,243,540	Not Available	Residential	2006
****Asheboro Hosiery Mills & Cranford Furniture Co. Complex 133-139 S. Church Street 230 W. Academy Street	Asheboro	Randolph (2)	$9,194,143	90,888	Residential	2013
Brogden Produce Co. Warehouse 409 W. Martin Street	Raleigh	Wake (3)	$3,370,000	18,900	Commercial	2010
Brown Prizery 401 E. Fourth Street	Winston-Salem	Forsyth (3)	$1,752,938	86,179	Office Income-producing Residential	2006
Brown Prizery 401 E. Fourth Street	Winston-Salem	Forsyth (3)	$4,890,233	86,179	Nonincome-producing Residential	2006
Bull Durham Tobacco Factory & Noell Building American Tobacco Company 300 & 312 Blackwell Street	Durham	Durham (3)	$41,043,709	156,931	Office Residential Commercial	2011
Durham Hosiery Mill No. 15 301 W. Washington Street	Mebane	Alamance (2)	$10,793,655	110,930	Residential	2011
Globe Tobacco Warehouse 838 S. Main Street	Mount Airy	Surry (1)	$6,894,030	77,000	Residential	2007
****Golden Belt Manufacturing Company 807 E. Main Street	Durham	Durham (3)	$20,332,000	152,214	Commercial Office Residential	2011
P. H. Hanes Knitting Building 675 N. Main Street	Winston-Salem	Forsyth (3)	$16,895,323	137,462	Residential	2009
P. H. Hanes Knitting Company Mill Building 101 E. Sixth Street	Winston-Salem	Forsyth (3)	$11,053,042	96,644	Residential	2013
P. H. Hanes Knitting Company Warehouse & Shipping Building 600 N. Chestnut Street	Winston-Salem	Forsyth (3)	$13,455,971	141,000	Residential Commercial	2007
Highland Park Manufacturing Co. Mill #3 2901 N. Davidson Street	Charlotte	Mecklenburg (3)	$23,600,000	Not Available	Residential Office Retail	2006

Hill Warehouse American Tobacco Company	Durham	Durham (3)	$20,199,711	Not Available	Office	2012
Liggett & Myers Tobacco Co. South Complex (5 Buildings)	Durham	Durham (3)	$52,926,915	Not Available	Office Residential Commercial	2008
Lillian Knitting Mills 335 E. Main Street	Albemarle	Stanly (2)	$5,589,047	31,039	Office Residential Commercial	2008
Lucky Strike Building American Tobacco Company 310 Blackwell Street	Durham	Durham (3)	$13,043,191	60,000sf	Office	2011
Monroe Hardware Company Warehouse 109 N. Hayne Street	Monroe	Union (3)	$5,444,745	50,000	Commercial Residential	2010
****Power Plant & Engine House American Tobacco Company 324 Blackwell Street	Durham	Durham (3)	$6,144,093	25,306	Commercial Office	2009
Premiere Hosiery Mill 305 E. Union Street	Morganton	Burke (1)	$10,878,602	Not Available	Office Residential Commercial	2006
R. J. Reynolds Tobacco Co. Factory 91 (Phased Project) 401 E. Fifth Street	Winston-Salem	Forsyth (3)	$90,966,176	225,000	Commercial Office Laboratory	2011
****Revolution Cotton Mill (Phased Project) 1200 Revolution Mill Drive	Greensboro	Guilford (3)	$27,303,897	574,000	Office Commercial	2009
****Venable Tobacco Company 302-304 E. Pettigrew Street	Durham	Durham (3)	$14,722,930	129,479	Commercial	2010
Wilkes Hosiery Mills 407 F Street	North Wilkesboro	Wilkes (1)	$950,000	85,862	Income- producing Residential	2009
Wilkes Hosiery Mills 407 F Street	North Wilkesboro	Wilkes (1)	$5,126,282	85,862	Nonincome- producing Residential	2009
Win-Mock Farm Dairy 168 E. Kinderton Way	Bermuda Run	Davie (2)	$3,441,617	22,357	Commercial Office	2011
24 Total Projects			**$431,255,790**			

****Completed and awaiting Final Mill Certification by the North Carolina State Historic Preservation Office.

North Carolina State Historic Preservation Office
December 3, 2013

North Carolina State Historic Preservation Office. "Mill Tax Credit Projects in North Carolina." Raleigh: Department of Cultural Resources Division of Archives and History, December 3, 2013.

Appendix C
Eddie Belk Interview

1. What is your professional experience in working with the NC mill tax credit program?

Belk: I personally was involved in all the initial campaigns and development of information to convince the legislature to pass the bill, so right from the start I was involved in getting the bill in place. Since then, we've done more mill adaptive renovation architecture than anyone, so we've been constantly utilizing it. (These projects range) from Pilot Mill in Raleigh, which was in extremely poor condition, so without the benefit of the additional tax credits of the mill bill it would not have happened, to Glencoe Mill north of Burlington, a similar situation—it's kind of out away from everything so the rents from the tenants are not going to be very high— so without the benefit of the mill bill it wouldn't have happened. This one, of course, was way before the mill bill, back in 1983, and Durham Hosiery Mill in 1986, at a time when the tax credits were different. The federal (credit) was 25% at that point in the time and the state tax credit was just evolving at 5% and it grew to 20%.

We're currently using the mill bill on Revolution Mill in Greensboro, Mott-Judson Mill in Greensboro, Glencoe Mill in Burlington, Mount Holly Mill in Mount Holly, we're looking at a mill in Hickory (on which to utilize the credit), and we are still evaluating a mill in Monroe. Here in Durham, it was used on the Golden Belt Mill and it was used on the American Tobacco project that we did, and it wasn't in play yet when West Village happened. (Concerning) Revolution Mill north of Greensboro, Greensboro's economic strata was qualified for a 30% mill credit, but it was one of the few times a county was actually downgraded when the economy worsened, so it became a 40% credit. That's what's helped us move additional phases of Revolution Mill in place. That'll also help with the Mott-Judson Mill west of Greensboro—it's going to be apartments for UNCG. That (increase to a 40% rather than 30%) credit is going to help it finally come into play. It was unique at the time we did it. South Carolina has done their own version, but they have since decided that they needed a textile-oriented add-on for the state taxes. They implement their credit differently and we're utilizing it to renovate the 500,000 square feet Drayton Mill in Spartanburg, SC.

Morton: So you work in South Carolina as well?

Belk: Yes, always have. My first historic tax credit project was in South Carolina; it was in 1979 in Charleston. My second historic tax credit project was Brightleaf Square here in Durham, in North Carolina.

Morton: What percentage of your work would say concerns mill rehabilitations?

Belk: At the moment, it's probably 75%. It's not always that high. For instance, we just renovated Y.E. Smith School on Driver Street in East Durham, turning it back into active school use for the Maureen Joy Charter School. Probably 90% of our work is historic tax credit work, but some of it will be office buildings and some of it will be schools and some of it will be downtown small commercial buildings. Right now, however, three-quarters of it is probably mills.

2. Please rate the effectiveness of the NC mill tax credit on a scale of 1-10, 10 being the most successful.

Belk: It's a 10, it's easily a 10. It has allowed probably fifteen mills in North Carolina to be renovated that just would not have worked otherwise. Every one of those mills that's renovated becomes a prime catalyst for the community it's in, to help give new activity and give substantial rebirth to the community itself. So it's a 10, it's a hit.

3. Is the mill tax credit necessary to make the completion of an average mill rehabilitation project feasible?

Belk: Yes, it is. The ones that were done prior to the mill bill were the easy ones, the ones that were in an urban area where it was easier to find strong tenants to pay better rents and the buildings themselves were in better condition—they didn't require as substantial of a rehab. North and South Carolina, Georgia, and many other states just have hundreds more mills. They were the hub of most of the communities they're in, but a lot of them are in small towns, and the economy of small towns makes it hard to get good, strong, rent-paying tenants into the mills. The mill bill allows for a little more flexibility in rents because it gives (developers) a more comfortable way of financing the project when the mill may be solid—it may not be too deteriorated—but it's in an area that has a deteriorated economy so you can't find good tenants.

A good example would be Rocky Mount Mill that we've been working on since 1996 and it's not quite happened yet. It's all because Rocky Mount's economy has taken one hit after another and it's stayed completely in a weakening state, rather than starting to come back. If we did apartments in Rocky Mount Mill, where the rents here (in Durham) would be $1100 for a two-bedroom apartment, in Rocky Mount they'd be $550, maybe $600. So if your rents are only going to be able to support that level of economic strength in the project, then you're going to have to really be able to economize on how you get the project done and the mill bill gives us that extra little measure to get it done for a reasonable cost.

Morton: So you started to work on the Rocky Mount Mill in 1996. How has that financing changed when you've been able to apply the credit? Is it feasible now or are you still trying to work the numbers?

Belk: It's much more feasible. The area, the economy, is still weak, so we don't think apartments are going to happen. We do think that by creating our own new business we'll be able to get it done, and we're getting close right now. We think we've got a new business start-up that will be a good catalyst to get the mill underway.

4. When considering the difference in credits offered to Tier 1, 2, and 3 counties, what do you believe the distribution of projects actually is among all 100 counties? Why? Is that good or bad for the state as a whole?

Belk: That question is a little difficult to answer. The distribution of projects among the 100 counties would be concentrated in the more urban areas, or close enough to get stronger tenants to occupy the mill. The smaller projects that are happening in more rural areas tend to be those that utilize dual credits, like the combination of historic (the regular historic rehabilitation state tax credit) + mill credit + senior housing type credits. You'll see elderly apartments or affordable housing going into a lot of those so that they can get some additional tax credits beyond just the historic and the mill credits. That'll make it work with very limited incomes from the rents that exist in smaller communities. So probably two-thirds of the mills that are happening are within a reasonable driving distance from an urban area. The ones that are more rural are the ones that are becoming almost always senior apartments.

Morton: How effective do you think that extra 10% is (for Tier 1 and 2 counties)?

Belk: Extremely effective. Most projects have to operate on some level of uncertainty as to how fully they'll lease up right away, so they (the developers) have to be able to carry the project for a couple of years in order to get it into a fully-occupied, self-sustaining state. The extra 10% of the tax credit gives the developer that little bit of contingency to be able to build another project.

It's always 10% as far as the mill bill goes, but it can be an extra 20% above the historic tax credit, like at Revolution Mill in Greensboro. We all know that the North Carolina tax credit, if you're marketing it to sell to gain equity in the project, that it's at a reduced rate because of the offsetting benefits of using the federal tax credit. Right now you might get $0.94-$0.95 on the dollar for marketing the federal credit, whereas you may only get $0.64-$0.65 for the state. But still, if you're talking about a $10 million project and you've got $2 million worth of equity, you're getting almost a dollar for a dollar on the federal side, and you've got $4 million in these 40% areas that you're getting for two-thirds of a dollar rate (2.2-2.4 million in actuality), so that's a substantial equity. If you can get it where you've got almost $4.5 million in marketable equity of a $10 million project, then you have that breathing room that lets you have a little flexibility in how long it might take to get the mill leased up and fully income-producing.

5. In your opinion, what is the greatest advantage that the mill credit offers to developers? Surrounding communities? The state?

Belk: (For developers,) pretty much what I just said. It gives them a little bit of breathing room to where the uncertainty in some of the weaker communities for how they will lease it up can be offset by giving them a little more time and an increased ability to put better incentives—like if they were leasing to office or commercial tenants – they can offer a better incentive in the way of up-fit and amenities to that tenant in order to get them in there. Or they can offer a little bit of support to the tenant to help them get underway, like a better rent to start with that

will escalate as they go along. (For potential tenants, the greatest advantage would be) more assistance with the up-fit cost of getting the space ready for a commercial tenant's needs. In residential tenants, it's the ability to offer lower rents.

Morton: What about benefits for the surrounding communities?
Belk: One of the best examples is Durham, which had a whole lot of this type of adaptive reuse and funky projects like we're sitting in right now (an old mill on Ninth Street in Durham, now adaptively used as the Belk Architecture headquarters), still was viewed by many as a dead city. You had the giant 1,000,000 square foot American Tobacco project sitting there in barbed wire and totally unused, and so as long as it was sitting there unable to be active and vibrant, everybody saw it as the way that the city was, even though the city was actually doing better than that. Once we were able to use those tax credits to do American Tobacco and make it the vibrant, exciting project that it is today, all of the sudden that was the gateway and the viewpoint guiding what everyone thought about Durham. All the sudden Durham's a happening place, even though it had been somewhat all along. There's a reason why nowadays we get so many awards here in Durham: best place to start up a new company, best place for entrepreneurship, "foodiest" city in the nation, best place for young people entering the business world. On and on, Durham fools people—it's not the gritty, blue-collar, industrial city that it used to be. I'm a Durham person saying this, so I'm prejudiced, but in many ways everything's reversed. Years ago if a realtor had a company moving people in to the Triangle, they would never bring them to Durham to look for housing. They'd hit Cary and North Raleigh, and maybe Chapel Hill, but they'd never come to Durham. Now they would come here first.

So, that's for the city. For a small town, you can't measure accurately the impact on a small town when this mill that used to be the hub of everything in the town died and everything else started dying, and now it's back in active use and is giving people hope that the whole town can bounce back. There's a mill in Lansing, just west of West Jefferson, that's done exactly that. It's a very small mill, but it's given Lansing, NC, which is probably 4,000 people, the feeling that they too can become a vibrant economy. West Jefferson's done extremely well as a tourist venue and the small mill in West Jefferson right down the hill from downtown has done well for residential. The commercial side of it didn't do very well but that wasn't the mill tax credit's fault— that was bad design.

Morton: You said earlier that the most likely use for a mill in a small town was going to be senior living because you can get that additional tax credit. Since that's not necessarily another town center, as far as business goes, how does it serve as a community hub?

Belk: Yes, in very small towns that's the case. What it does is provide very comfortable and very enjoyable residential space for the senior citizens of the town. In some cases, that in itself allows other buildings to be rehabbed. But you're exactly right, small towns where all the mill is doing is becoming senior apartments have much less of a catalytic effect.

The projects that do better—like Glencoe Mill north of Burlington, which is on the Haw River but is way outside of town—it's going to be a hybrid. It has an office tenant in the Smart Start program. It has another office tenant that's an environmental researcher, an artist tenant who's a sculptor, and we haven't done the main mill yet. We've been doing the dye house and

the carpenter's shop and the cotton warehouse bays, getting those tenants in, and then we will do the main mill as apartments. But they'll be market-rate apartments by then because the mill village has been renovated, all those houses are now occupied, and we've gotten these other tenants. At that point in time, Burlington will be okay, still probably $750-$800 for a month's rent—it won't be Research Triangle rents—but it'll be better than we expected. It'll probably be the highest rents in Burlington, but there's always a little pocket of folks that'll be comfortable paying that to get something that's not just an old sheetrock box type of apartment.

Morton: And the last part of the question, which might be trickier, what is the greatest advantage for the state?

Belk: I don't think it's tricky, though many folks in the legislature seem to think that erroneously. But the mill bill, like we said in all these earlier questions, has allowed the benefit of the historic tax credits to work more viably in all of North Carolina's communities, not just in the urban, concentrated areas. It's allowed projects to be executed in a price range where the rents that the local community can support are workable for the project. So that lets every community have the chance to rebuild a hub of heritage projects in their community, and make them vibrant and active within the community.

Again, the prime example for the state is American Tobacco. It was a million square feet of deteriorating industrial architecture, zero employees, and it was on the tax records at a $4 million value even though it was fourteen acres of land and one million square feet of buildings—it was almost no value relative to its size. Today, the investment in American Tobacco is totaling $160 million dollars, all of which provided jobs that produced taxable income to the state and federal governments. 4,000 people a day show up to American Tobacco to work in their jobs, so that's 4,000 people with income from which the state and federal government are benefiting, that just weren't here. You can't count the number of businesses that have been attracted into this area because of that hub. You know, Google recently awarded the American Underground (a start-up incubator in the lower levels of the tobacco-storage bays) one of the high-tech hub sites in the nation. They only chose five in the United States, and American Underground is one. That's where they're going to test out all their newly-developed products, so that's how strong of a project it is.

For the state of North Carolina to not see the economic value, they're just not looking, they're not listening. Not only does the credit build jobs, not only does it provide higher-valued taxable properties within these communities, but it has recycled. (The credit) has used labor-based activity rather than material-based because, unlike a new building, you're utilizing 90% of what's already there and putting the work back into the energy that's built into this building. So you can still use it instead of knocking it down and hauling it to a site. You know, American Tobacco would have taken 1,800 dump truck loads of debris being taken to a landfill just to have a barren piece of land to spend all that money and energy developing new buildings that would not have been as attractive to people as these renovated heritage buildings.

I'll get the numbers a little bit wrong from memory, but there've been many studies done that show that if you took $1 million and invested it in developing a new building, that your net value back out of that in the first five years would be about $300,000. So it'll take a while to

get it back. But if you took the same $1 million and you renovated a historic building using the tax credits that are in place, your net value back out of that in the first five years is $860,000. So it pays itself back very quickly.

Morton: Is that for a developer or for the state?
Belk: No, that's the value to the community, that's what it puts back into the community. Jobs are the biggest thing. Once you have the community active and vibrant, jobs start to show up in the area. As long as you have a dead industry in the community, everyone's heading elsewhere and to a large degree they'll head out of state. You know, we can't just support our urban hubs because North Carolina is still 70% rural.

6. What improvements, if any, would you like to apply to the NC mill credit (legislation, administration, use, etc.)?

Belk: Well the first thing I'd like to do is I'd like for it to be renewed. It's due to sunset at the end of next year. I'd like for it to be renewed for more than two years so that the larger projects feel comfortable that they could be executed and not be at risk of a sunset. The mill bill actually has a benefit above what the state historic tax credit has in that, with the latter, if a contractor starts a project today and they're not finished come December 31, 2014 and the legislature allows the bill to sunset, than any expenditure after that date do not qualify for historic tax credits. So they could only qualify up to that date.

The mill bill is written such that if you start that project today and you get your Part 2 submitted to the state and get it under review, then you don't have to be finished by December 31, 2014; anything you do on that project, even if you don't finish until 2017, count as QREs and you get the tax credits. So the mill bill is written to where you just have to have the project legitimately started, and not chop it off as finished (by a particular deadline). That's a big benefit of the mill credit right now, so I don't think that needs to be improved. I think the percentages are set up well, I don't think you need to increase those. I think they're comfortable now. The timeline for recovering the credit within one year is great. The biggest improvement needs to be: renew it, don't allow it to sunset, and make the renewal for quite a few years so that larger projects will feel comfortable getting underway.

7. What trajectory do you expect the NC mill tax credit program to take in the next 5-10 years? (Ex: Will the NC legislature renew the credit next year? Will the number of annual projects increase or decrease?)

Belk: I think it's going to get stronger, I think it's going to get more and more active. That's why it's critical that the credit stay in place, because more and more, everybody is seeing the value in reutilizing structures that are here rather than building from scratch where you have to invest so much in raw materials. More and more communities are seeing that the way to make a strong, vibrant industrial and urban area is to recycle neighborhoods. And in a lot of ways, the recycled neighborhoods are also recycling these heritage structures, so that the neighborhood actually feels like its history-based and folks feel like they're still walking in their grandparents footsteps.

I think it's just going to get stronger and stronger. I know the competition's getting higher and higher, more and more people are starting to do it. We used to be among the few that were doing it. (Belk Architecture works heavily in designing adaptive use spaces, especially mill credit projects.)

Morton: So you think it will still work the same way in 10 years, as well?

Belk: Yes, I do.

Morton: And do you think it will be renewed next year?

Belk: Yes, I do. I think we still need to have conversation with quite a few of our legislators, but yes. I'm still in the position of being the chairman of Preservation North Carolina's Board of Directors, so we're kind of on the front line of all of that discussion to get it done.

Eddie Belk, interview by author, Durham, NC, December 9, 2013.

Appendix D
Tim Simmons Interview

1. What is your professional experience in working with the NC mill tax credit program?

Simmons: Since 1990, I'm the Senior Preservation Architect within the State Historic Preservation Office, so I coordinate all income-producing federal and state tax credit projects. We do the historic certification reviews in conjunction with the National Park Service.

Morton: And are you the guy that would make the final call on which expenses qualify under the mill credit?

Simmons: We have nothing to do with expenses; we just do the historic certifications. That's all, we do not do the tax and money side. That's the IRS and the North Carolina Department of Revenue and the owner's tax attorney and accountant. The IRS actually tells us not to get into the tax side of it. They say 'You do the historic side and we'll do the tax side. It's my understanding that only in an audit situation would those expenditures be reviewed.

Morton: Interesting, so they have somebody over there (in the IRS) who knows whether or not buying this particular piece of wood qualifies as an appropriate expense?

Simmons: They're not going to get to that level of detail concerning type of wood. It's generally any hard construction costs on or within the building.

Morton: I know that the Revolution Mill in Greensboro has been through a number of hands and at some point, someone who was in charge of the project had been doing—and I forget what the example was—but had been doing something with the mill rehab that they weren't supposed to have been doing, like door treatments or something like that.

Simmons: That was a design issue, not a cost issue. They were making some design decisions that weren't compatible with the mill.

Morton: Right and that was in the Part 2 that I guess it was the SHPO that discovered the issue and said 'This isn't going to work for us, you need to change it.' When he didn't and got into financial trouble and tried to close out the project with his Part 3, it was denied.

Simmons: That was the National Park Service. We review these projects, we administer it at the state level—Every State Historic Preservation Office administers it at the state level. But the final historic review authority is by the National Park Service, and that decision is made by the NPS. The state credit piggybacks the federal credit. So if the National Park Service says no then you don't get a state credit because they have the ultimate review authority.
Morton: That's interesting. I've been thinking that it was the other way around—that the state was in charge of the review since they could get a closer eye on the project. Well, thanks for setting me straight. We'll move on to the next question.

2. Please rate the effectiveness of the NC mill tax credit on a scale of 1-10, 10 being the most successful.

Simmons: Effective as compared to?

Morton: To what its potential can be, I suppose. Since its inception in 2006, do you think it's been used to its utmost potential in, say, volume of projects or development outside Tier 3 counties?

Simmons: Well, I've given you the statistics on the projects that have happened. I think it's been very effective. The majority of these mills have been in your urban areas, from Charlotte to Durham, and Raleigh's had some. The urban areas are growing, so there's already an economic driver there that helps with the economic impact of the tax credit. But we've also seen it happen in smaller areas that may never have happened without the mill credit because the mill credit is an additional economic incentive. It's happened in smaller areas like Albemarle and Wilkesboro. There have been several small towns that have benefitted from the mill tax credit as well. The mill tax credit can be used more effectively from a business standpoint than the state historic tax credit because you can use the mill credit in one year—the year the building's completed. The historic credit you have to spread out over five years, which makes it less valuable for businesses.

Morton: So then very effective, in general?

Simmons: Absolutely, yes. A ten.

3. Is the mill tax credit necessary to make the completion of an average mill rehabilitation project feasible?

Simmons: What do you mean average?

Morton: Well, you've got American Tobacco (in Durham), which I'm completely cutting out of my fiscal analysis because it's so big it would skew my results. So that wouldn't be an average project. You've also got mills in towns reaching a population of 4,000 people, smaller mills that are being rehabilitated kind of on the lower level. As far as the expense range goes, we're talking more middle-of-the-road. I know that the credit helps small mills exceedingly because there's just no market where those mills are located. So how necessary is the credit to that middle-of-the-road project being feasible?

Simmons: It's probably very necessary from a business point of view and making the numbers work once you calculate your acquisition and rehab cost, and then factoring in the state mill and federal tax credits. I know a lot of times the numbers are close in trying to make these things work, so they probably wouldn't happen without the mill credit—especially for your average projects and especially in smaller towns.

4. When considering the difference in credits offered to Tier 1, 2, and 3 counties, what do you believe the distribution of projects actually is among all 100 counties? Why? Is that good or bad for the state as a whole?

Simmons: It's definitely in your more urban areas, the Tier 3 counties. From the statistics, you could figure out the exact percentages of where they're happening. The urban area mills, without the mill credit, probably would be more likely to happen regardless, but I don't think it would ever happen in the Tier 1 and 2 counties without the mill credit.

Morton: There's a follow-up question that is essentially 'Why' or 'Do you think that is a good or bad thing' that the distribution is so much in the urban centers. But I suppose that question has already been answered, essentially, because that's the way the market would go anyway. It just sort of extends how far those projects would actually leak out to smaller areas.

Simmons: Yeah, well we like seeing them happen in smaller areas too. I was just talking to the Hudson Mill, in Hudson, Caldwell County—you know they're looking at doing a tax credit project. As a mill, that's still going to be a mill instead of some kind of reuse. But one thing about the mill credit in smaller areas is that there's a three million dollar spending requirement and that may actually hurt smaller areas because the Hudson Mill probably won't spend three million. I don't know yet, I haven't seen their application, but that's one thing where in urban areas you've got the market to spend three million dollars, but you may not have that market in a smaller area.

5. In your opinion, what is the greatest advantage that the mill credit offers to developers? Surrounding communities? The state?

Simmons: For developers, the added incentive—the increased tax credit—and the fact that it can be used in one year. That's the biggest thing from a business point of view.

Morton: I agree, I think that's a pretty slow pitch for you. What about for the surrounding communities where those mill buildings are located?

Simmons: Oh yeah, I think when you have a mill in a neighborhood or small town that's vacant and boarded up, that's going to do nothing for the surrounding community, but once the mill is brought back to life, look at Golden Belt in East Durham. East Durham houses and businesses are starting to be rebuilt or renovated. Look at the Edenton Cotton Mill—that was before the state mill credit—but that's just sort of revitalized the whole community. Glencoe Mill in Burlington is an entire mill village that's being brought back to life. You could probably look at every mill project that we've done and see the impact of how it's revitalizing the entire community.

Morton: When I was talking to Eddie (Belk) yesterday, we were talking about the difference in the catalytic effect between a mill that's turned into a commercial use versus what's happening in most of the small towns, which is combining the mill credit with some sort of other incentive to make it a feasible project, such as senior living, where it's not necessarily a draw for community activity. How are you seeing that work with projects in smaller areas?

Simmons: Mixed use mills are probably the best, like Golden Belt for instance, where you have people living there, you have events facilities, you have offices, and you have retail. So it's something for everyone in the community. We're working with a couple of mills in Charlotte right now, Johnston and Mecklenburg Mills in what's called 'NODA', the North Davidson district.

Morton: Oh yeah, that place is really growing.

Simmons: Absolutely. And those mills are going to be mostly affordable housing. Housing also invigorates a community. While housing is also good for a neighborhood, it's also nice if you can have something to bring the community into it, which is why mixed use is probably the best. Am I answering your question?

Morton: Somewhat, we were just discussing that dichotomy, where if you renovate the mill to be something that people can use then it's going to be more of a social catalyst than if it's a closed, private use.

Simmons: Yeah, if it's a mixed use, that's probably the best. Now let's consider the North Carolina Music Factory in Charlotte. That's just a live music venue with some restaurants, and it draws I think a million people a year that come to this mill just to see performances. On the other hand, if you took a mill and made it all office space, you're bringing people there 8-5 Monday to Friday, but then it's not generating any activity for the community the rest of the time. That's why mixed use is going to be the better development plan for revitalizing an area's economy.

Specifically for mills, they are sort of like a white elephant. From blighted neighborhoods in larger cities and towns and even rural communities, they are just sitting there vacant. It's been great to see these mills come back to life and be an economic driver as well as bringing the community back to life for these neighborhoods. That's a thrilling thing to see. Sometimes it can take years and years from the initial concept of the project to seeing it come to fruition.

Morton: What do you believe is the greatest advantage for the state, which has to administer and pay for the credit?

Simmons: Probably the greatest advantage is that it's revitalizing communities from an economic point of view, providing jobs, and saving our historic heritage. Most of these mills are monumental buildings that are pivotal for the community. I think the credit does provide that economic and cultural benefit. There are all kinds of studies out there to enumerate the economic benefits, like increased property taxes and jobs created, that show that while there is a loss to the state because the state's not benefitting from increased property taxes—it transfers to a local increase— but instead the state benefits when you look at the big picture.

6. What improvements, if any, would you like to apply to the NC mill credit (legislation, administration, use, etc.)?

Simmons: I think the credit's doing a great job as it is. If the state is concerned about the loss, we

could tweak it. Right now it's a 30-40% credit, but the state could lower the credit some to help offset the loss to the revenue department, if that was a concern.

One thing that might help your Tier 1 and 2 counties is maybe you reduce the minimum three million dollar spending requirement and increase it for the Tier 3 counties to make up for the distribution. The amount of money you have to put into a mill in a rural area or a small town in eastern North Carolina versus Charlotte or Durham shouldn't necessarily be held to the same spending requirement since the economic situation is so different.

Morton: I think that's a good point too, because if you aren't going to spend that kind of money in the first place than the mill credit discount isn't going to help you. It would only require you to increase your overall costs.

Simmons: Right, exactly.

7. What trajectory do you expect the NC mill tax credit program to take in the next 5-10 years? (Ex: Will the NC legislature renew the credit next year? Will the number of annual projects increase or decrease?)

Simmons: Well, you know there's a pending sunset, but as long as you have your eligibility certification from our office—which means that the mill is on the National Register of Historic Places, it meets the definition of a mill and it meets the 80% vacancy test—those mills will be, as the law is written now, grandfathered in so that they can still happen after the sunset. I forget, we have twenty-five or twenty-six completed projects, but we have more than that number still in the pipeline, so we still have those projects that will happen. There are a lot of mills out there. Myrick and Preservation North Carolina did a survey of all of the mills in North Carolina, so that would be a good source to see how many mills are actually working on a rehab or not. There may be a way to do a database search through our National Register folks to see what mills—how they key that field. I'm not sure how they keyed that to get industrial buildings, because it might have been 'The Smith Company' and you have to figure out whether that was a mill building or not, but I think there's a way that they can see what mill buildings are on the National Register currently.

The mills have to either be on the National Register or contributing to a historic district in order to expect a credit. And that's why we have some mills that are not on the National Register right now that have to be on the Register by the end of next year if the sunset is not extended in order to get their eligibility certification.

Morton: Are you seeing a significant increase in mill projects proposed or in the pipeline as people are anticipating that it won't be renewed and they want to push it through? Or are you seeing maybe fewer projects than last year?

Simmons: I haven't looked at the difference between the historic projects and the mill projects, but our overall project load is up over 50% just for this year. Last year, in 2012, I think we had about fifty new projects, this year we're almost at eighty new projects now (early December).

I attribute part of that—the economy's better—but also, there is some concern about the expiration of the state mill credit creating an increased project load too.

Morton: And do you think that the mill credit will be renewed?

Simmons: I'm hopeful. I think it has a lot of bipartisan support. The General Assembly is looking at all the tax credits—there's a dozen or so state tax credits—so they're just kind of studying them all to see which ones are useful or not. You have to really look at the economic benefits from the small towns. The hot spot right now is Winston-Salem. There's a million-and-a-half square feet of Hanes and R.J. Reynolds buildings that are in the process of being renovated. They're doing the Piedmont Triad Research Park, which is probably one of the largest urban research parks in the country happening right now as far as historic rehabilitation buildings. What an impact that's going to have to the downtown, or to Winston-Salem in general. Winston, who has lost Wachovia and R.J. Reynolds who were they're anchors, they're Fortune 500 companies headquarters. But to see what's happening now is a wonderful thing.

Tim Simmons, interview by author, Raleigh, NC, December 10, 2013.

Appendix E
Andrew Stewart Interview

1. What is your professional experience in working with the NC mill tax credit program?

Stewart: We just did a deal this year for the first time. We used it for a building—it's a one-story warehouse— that was to be built out for restaurant in downtown Durham. The process was pretty clear and straightforward; I wouldn't say that it's any less clear than the regular credit. It provided really good benefits to the project directly. The pricing was good and the finance indicator was pretty straightforward. Getting our certifications and everything from the state was very straightforward.

Morton: So you've done one project so far that's used the credit?

Stewart: That used the mill credit, yeah. One so far and two others that are on deck to use it.

Morton: And those are in Raleigh?

Stewart: Those are in Raleigh, yes.

Morton: And before you started working with the mill credit, you were involved somewhat with its creation, correct?

Stewart: Yes, it was a big, collaborative process with a bunch of people who were involved with the industry at the time, sharing what ought to be in a credit like this. For example, how it ought to be structured, how it ought to be structured relative to what South Carolina had and what the current North Carolina credit was. I think the process was focused on making it better and more efficient than the existing North Carolina credit. So the key issues of design were about making the credit open to insurance companies; instead of just income tax, it was open to premiums tax too. So that expanded the pool of potential investors.

Also, allowing the credit to be used in one year instead of five years was a big decision in those meetings to improve the efficiency of the credit. Our theory at the time was that if we structured the credit like that the pricing would be higher and, therefore, more of the cost from the state's perspective would actually go to benefit the project directly because it would be more efficient. That was the theory. So, from our experience doing this mill credit deal this year was that that's exactly what happened. We would get $0.48 for a regular state credit and we got $0.725 for a mill credit. So the efficiency was much better and it led to a greater effect on the project.

The process getting it going was a lot about figuring out a structure that was more efficient and seemed to achieve the goals of the credit without being too costly to the state. Then we worked on modeling what it looked like it would cost for the state. Finally, we talked to some key state representatives about how those costs predictions would compare to their ability to sell it their ability to pass it. And I think once we got all the structure figured out and once we

were able to satisfy the sponsors' concern about what the cost to the state would be—how it would actually play out—passing it was really easy. It just went right through, no problem. It was very straightforward.

That was all going through after the initial work, but that initial work was six or nine months of figuring it out and getting all these perspectives from people who dealt in various parts of the industry. All that work to make sure that it wasn't just the developer's perspective, there were also attorneys, syndicators, investors, tax credit accountants, and developers, and all of them sharing how the credit works, what really matters and what doesn't, and their thoughts on how it could be better. I think Myrick (Howard, president of PNC) being relatively impartial but having a statewide perspective, he was able to kind of take all this feedback and funnel it into some kind of structure that still could be sold to the state representatives.

Morton: Do you think Myrick being in charge of it was important because he was seen as a third party?

Stewart: Yes, I do, I think what was important about him packaging the credit was that he had a statewide perspective unlike anyone else in the group, because real estate is so local. Maybe the investor or the accountant had a pretty broad view because they were working with developers from different areas, but still they were working more in their region. His job is preservation across the state, so I think it was understood that he's going to have a preservation-friendly point of view as was his whole group helping to design this thing, but I do think it's really relevant that he was statewide because he had a sense of what was going on in various parts of the state. He knew which parts of the state would get a bigger impact from the credit and when asked 'Is this benefit going to be spread out throughout all one hundred counties in the state' or 'Where are the impacts going to be felt,' he could give a real answer based on what he does and what Preservation North Carolina does every day. So I do think having that statewide person who's a little bit above the industry, I think that mattered a lot. It would be different than some accountant or attorney trying to go in and do the same thing because I think their motives would be more questioned. You know, are they just loading the deck to get themselves paid?

Morton: So, money versus cause?

Stewart: Money versus cause, and the ability to boil it all down means that he had to take all of those perspectives into account. And what he sold—not everybody got what they wanted. There were already built-in compromises. He was able to work through and find those compromises.

2. Please rate the effectiveness of the NC mill tax credit on a scale of 1-10, 10 being the most successful.

Stewart: I would say 10, and the reason I rate it so high is I'm rating it against expectations. People wondered how was it going to work, was it going to have better pricing, was it going to lead to more efficiency in the market. Now that I've done a deal with it, the answer is that all of those things came through. The projects do benefit more. I think, legitimately, for the same amount of cost that the state gives up, it gets way more benefit directly into the project. That's a

win for everybody because anything that drags the pricing down in my mind is just dead weight loss. So I'd rate the credit as a 10 compared to expectations—well, anything can be better—but compared to what we thought it was going to be, it hit everything.

3. Is the mill tax credit necessary to make the completion of an average mill rehabilitation project feasible?

Stewart: I don't know. It's a case-by-case every time. In some cases yes and in some cases no. I mean, that's the honest answer. I think you have to answer that question by considering that a lot of the average mill projects that could happen without the mill credit were already done. So the average mill project after however many years of the credit being in place was a harder project than from Day 1 of the regular historic state credit. Like, the regular historic credit started in 1998. So, you've got the think that theoretically the easiest projects were done from 1998-2006. So every mill project that could have been done, more than likely got done in that period without the mill credit. They just used the regular credit. So the ones that were left over, either there wasn't an overall market for it or they just needed something extra to get them done. And so I think, on average, yes, they probably did need the mill credit because the low-hanging fruit had already been completed without the credit.

Morton: So you think that there was a slowing down of mill rehab work closer to 2006? Do you think that was a driving factor in creating the credit?

Stewart: I don't know. I'm speculating at this point. But I think that if you want an answer to the question 'does the average project need it,' I would say that the average project needs it more after eight years of the regular credit has been in place than at the beginning. If you rolled it all out at the same time, then every mill project would use the mill credit because it was a better credit. But the easier projects got done, and that may or may not mean there was a slowdown, but it means that there should have been a pick-up as a result of the mill credit because it was taking those borderline projects that otherwise wouldn't otherwise have happened or had stalled out for one reason or another and making them possible to get over the hump.

Morton: So currently, then, for an average project that's available to be done today, then you would say the credit is necessary to make it feasible since it's now a more difficult project?

Stewart: I would because all of that has been informed by what's been done in the past. A deal that we did ten years ago isn't a project today. So all you have left to discuss are the buildings that are left still to be rehabbed.

4. When considering the difference in credits offered to Tier 1, 2, and 3 counties, what do you believe the distribution of projects actually is among all 100 counties? Why? Is that good or bad for the state as a whole?

Stewart: My impression of how the distribution would go between the wealthier tier and the poorer tiers, my guess is that the credit would be used at maybe 30% in the poorer counties and

at 70% in Tier 3. That's just because you're going to have a larger population in Tier 3, probably have more buildings, and you get more benefits there. But ultimately, population still is what drives real estate development.

Morton: Do you think that developing the urban center as opposed to smaller, rural communities is good or bad as a whole for the state?

Stewart: I guess I'd say good. The ideal would be 50/50, but as long as it's in that range. I think bad would be heavily tilted one way or the other. But as long as it's in the range of 50/50, then it's probably good for the state overall.

Morton: Yeah, mostly with this question I just wanted to take a closer look at how it's distributed since there are tiers in place to encourage development in those lower economic sectors of the state. Just to examine how effective that obviously deliberate measure has been at creating development opportunities outside of North Carolina's larger cities.

Stewart: Well, I think that's an interesting question because I think it's a complicated question. You get more credit in the poorer counties than in the wealthier counties, so if you were exactly 50/50, you'd be spending more money on the poorer counties by definition, right? I guess part of my guess about the 70/30 distribution is that you are going to have more projects happening in the wealthier counties, but the ones that did happen in the poorer counties would receive greater contributions from the state for those projects. So it's a tricky question.

Morton: Yeah, it's interesting when you've got the small towns that a lot of them probably exist because a mill was there that have lost that economic center. So you have to consider whether it would be more beneficial to turn that vacant mill into something that can produce for this community or to revamp a mill that's in an urban setting and can serve more people. You know, just seeing, statewide, what percentage of those two kinds of projects would be the best combination.

Stewart: Well, my underlying thought on something like that is that no project is going to happen unless there's a user. Unless there's a valid user to be able to put the building to work at the end of the project, you're not going to get it financed, mill credit or not. Every once in a while a project will go through that way, but on the whole, if a project happens then somebody has sized up how likely it is that someone is going to rent it or use it at the end of the day.

Morton: It has to serve somebody.

Stewart: It has to, or at the end of the day it's just a waste. If not, there is no benefit in doing that project. It has to ultimately have a use long into the future.

5. In your opinion, what is the greatest advantage that the mill credit offers to developers? Surrounding communities? The state?

Stewart: To developers, the benefits are numerous. More investors, so there's more competition. We have more people to pitch the projects to and therefore better pricing and more efficiency. Therefore, for each dollar of credit, more dollars go directly into the project versus the regular state credit.

The greatest advantage—I can't help but think of it relative to the state credit—is that it's better than the regular state credit. Also, it's more simplistic than the federal credit. You can bifurcate the mill credit, which you can't do with the federal credit, and so your deal structure is simpler if you only do state. There are lots of advantages.

Morton: What about for surrounding communities?

Stewart: I think the benefit for surrounding communities is saving a part of the community's heritage that wouldn't otherwise happen. It gets a building into use that would otherwise just sit vacant. The ultimate protection for a building is having it be used. Every historic building can't be a museum. It needs to have an active life into the future. So it saves a part of the community's identity. I think that the mill credit gets at that well by getting at that big building—by definition it has to be a relatively big project—so it gives that big building the chance at being used on into the future, and therefore keeping that piece of the community's identity. And there's employment benefits and everything else, but I think ultimately it's that aspect of keeping a piece of the community's identity.

Morton: Okay, and what do you think is the greatest advantage to the state?

Stewart: The greatest advantage to the state is jobs created during construction, federal dollars that come in that have been paired with the mill credit and wouldn't otherwise come in. So that's money from investors from out-of-state putting money into the state. It doesn't cost the state anything until after the project has already been completed.

Morton: So no risk?

Stewart: It's very low-risk, exactly. Because all the jobs for construction, all the financing has to be put together, and the whole project has to be executed before the state gives up anything. So, just because the state approved a project, if the developer never went forward with it, they wouldn't see a dime of historic tax credits. Historic tax credits don't come to them until they go through and finish the whole project. So I think the greatest benefit to the state is, yeah, low-risk is a great way to think about it. They only have to pay if the project gets done. And that generates a lot of economic activity that wouldn't otherwise happen.

Then you have end users, who lead to more employment, lead to more tax revenue. And I think ultimately, it keeps our state more interesting—it's the same thing with the community. It gives the state a chance to keep its heritage, and to do it in a way that generates a lot of economic heritage that will last long into the future.

6. What improvements, if any, would you like to apply to the NC mill credit (legislation, administration, use, etc.)?

Stewart: Let's see…so we can bifurcate already… Well, one of the things I wonder about is that the mill credit is used against income taxes, and lately we've been wondering about how long income taxes are going to be around in this state. Just because of the Republicans' desire to come in and restructure the tax code. So it works, the way the credit works right now, to spur new activity and make deals happen where they wouldn't otherwise happen. But if the income tax goes away or gets reduced sharply, then the benefit of the credit will also be reduced sharply. If companies don't have income tax exposure anymore then there's not much appetite to invest in a deal.

So I think one thing to look at for improvement is that if the income tax gets radically adjusted, that we adjust the credit to be more of a direct credit invested into the project. I'm not sure how you do that. Theoretically, at the end of the project when you get your Part 3, you're being supplied with these state tax credits based on the amount of money you spent. Well you could just as easily put that money directly into a project instead of having it go against tax credits. If the state believes that $100,000 in tax credits is a cost of $100,000, then it's the same thing as putting $100,000 directly into a project. I would argue that if we're going to improve the credit, we would structure it that way, rather than structuring it as a tax credit at all.

Morton: Would you still say that the money should be essentially replenished at the end of the project?

Stewart: I would still say the money only comes in at the end of the project, like it is now, to keep it ultra-low risk for the state. But in my mind, as a developer, we lose efficiency because we have to syndicate a credit. If the state thinks that a dollar a tax credit costs it a dollar, then our project only sees $0.73 of that. Right, which is better than $0.48 like the regular state historic credit, but the project only sees $0.73—where did the rest of the money go? It went to an investor who made the spread between, you know, they had a dollar in tax liability and they paid $0.73 to invest in this project. That's great that they benefitted from that, but I'm not sure that it works directly toward the best interest of the state and it's certainly not in the best interest of the developer. It's better than nothing, but it's inefficient. If the state views a dollar as the cost of a dollar then I'd rather the value go straight into the project. Because then, theoretically, if you get $0.73 for a dollar as a developer, instead of a 30% credit, I could take 25% less and still have the same exact thing happen in the project. So the state could realize some of those gains by slightly reducing the amount of the credit but having it just go directly into the deal.

Morton: Rather than adding in this external investor.

Stewart: Yes, the fact that it's structured as a tax credit and not as a grant or something like it—which is a really scary word, I think, politically—but that fact that it's structured as a tax credit leads to this major inefficiency of having to structure a deal every time. If it could be just hard money that goes directly into the deal, from my perspective, it would be incredibly efficient. It would save the state money, it would save us money, and the burden of risk would still be the same as well.

Morton: Yeah, just cutting out the middle man so that the two parties directly involved in the project get 100% of the benefit.

Stewart: The investors wouldn't like it very much, I'm sure. And I think the people who structure these deals, the accountants and the attorneys, probably wouldn't like it that much. But, it would get the benefit where it needs to go.

Morton: Now when you structure this kind of deal, would the developers have the money on their own, without an investor, in order to be able to complete one of these projects?

Stewart: Well, they have to come up with it on their own typically anyway to bridge it. We're used to dealing in a world where we bring an investor in at the beginning of a deal, but funding doesn't come until the end of the deal. So, if there's a $1,000,000 benefit coming at the end of the deal, then we need to raise $1,000,000 of extra cash, or a loan, or something—even if it's a one-year loan—we need to have that $1,000,000 to do the project and then we get paid at the end. I mean, I'd love to have the money from the beginning, but I think that puts the risk back on the state, which, from a conservative point of view, I think is still one of the best things about the credit. So, we're used to dealing in a world where we would need to come up with that money in advance anyway, so it would be no different without an investor.

7. What trajectory do you expect the NC mill tax credit program to take in the next 5-10 years? (Ex: Will the NC legislature renew the credit next year? Will the number of annual projects increase or decrease?)

Stewart: If the legislature renews the credit, which I think is beneficial overall—I think it actually makes the state money, I've done some analysis on that and it's a whole different issue—but assuming the state does renew the credit, I think the number of projects actually will increase. You know, our whole industry was affected by the lack of finances in the recession, so I think the credit probably saw relatively low use. If you saw a drop-off in 2008 or 2009, it was probably not because of the credit, it was because of everything about the financing of real estate projects during that time. So I think if it stays in place, we'll see an uptake I think that would be an overall good thing for the state because of all the reasons I talked about before.

But I guess for me the biggest threat to the tax credit at the legislature is an unintended threat. You know, we can argue whether it's good or not to completely restructure the tax code and reduce the income tax. As an economics major, I might argue that it's really good to restructure the tax code and bring down the income tax. So my biggest worry about that is that harming the tax credit along with other unintended consequences, come along with that. On the one hand, the legislature may be recognizing the benefit of the tax credits and see that it's a great program, and then also they figure out a revenue-neutral way to tax the state where there's a higher sales tax and a lower income tax. However, while that theoretically shouldn't have changed anything, it dramatically altered the appetite for tax credits and therefore made the program a whole lot less valuable. What that would do is that it would just drop pricing and we'd be back into the world inefficiency, where the state's still giving a dollar, but the projects only get $0.50, or whatever they get, as a result of the lowered appetite for buying income tax credits in

the first place. And I think that would be a shame because nobody would want a program that's really functioning inefficiently that could have stayed efficient otherwise.

Morton: And do you see that kind of grant as a realistic possibility or just something that would be a good idea if it were to happen?

Stewart: Yeah, I think it actually is a realistic possibility, especially if the legislature gets much more serious about restructuring the whole tax code, reworking everything and making a radical alteration. I think the people who are doing IMPLAN stuff are smart enough to look at the second order consequences of that movement. I think that have to. You know, it's so complicated because there are all these things that come out of it. I guess my optimistic side of the legislature is that there are a bunch of smart analysts down there who a trying really hard to figure out what the real impacts are and they'll figure it out.

Andrew Stewart, interview by author, Raleigh, NC, December 11, 2013.

Appendix F
Myrick Howard Interview

1. What is your professional experience in working with the NC mill tax credit program?

Howard: Been there from day one. I mean, I haven't done any mill renovations myself. I was involved in helping conceptualize it and getting it through the North Carolina assembly.

2. Please rate the effectiveness of the NC mill tax credit on a scale of 1-10, 10 being the most successful.

Howard: Seems like it's pretty doggone close to a 10, from my observation. I mean, mills are getting renovated left and right.

3. Is the mill tax credit necessary to make the completion of an average mill rehabilitation project feasible?

Howard: Yes, except for the very few mills that are in good urban locations, and they've already been renovated. They were renovated before the mill tax credit came along. The easiest projects have already been done.

Morton: So talking with Eddie (Belk), I know that he had said that with big projects, like American Tobacco, the credit is absolutely necessary because there is that much that has to be done. For small towns, where there are only 4,000 people, it's also necessary because there just is no market otherwise.

Howard: Absolutely.

Morton: For an average project, that has more middle-of-the-road expenditures, do you feel it's the same amount?

Howard: Well, you need deeper subsidy than the local environment gives. So take a bad neighborhood in a city, where in some parts of the city it'd work fine, but in other parts of the city it's not going to work. Or consider in small towns, where the rents simply don't exist to sustain a project of size. You know, there are some places where it really doesn't matter how much subsidy you give it, it's not going to happen because there's just not a market. But there are some of those out there, there are just not that many out there.

Morton: What percentage of counties would you say experience that kind of market?

Howard: It's not just the counties; it's the projects in towns and neighborhoods. For instance, you get a difficult neighborhood in a town that is losing population—there are probably eight or ten counties in North Carolina that are losing population—it's going to be really hard to do this kind of project. But then, these are not counties that have many mills, they're more rural.

4. When considering the difference in credit offered to Tier 1, 2, and 3, counties, what do you believe the distribution of projects actually is among all 100 counties? Why? Is that good or bad for the state as a whole?

Howard: I think the substantial majority of the projects are in the wealthiest tier, Tier 3, and there probably are not many at all in the least wealthy counties, would be my guess.

Morton: And there are obvious reasons for that, one being where the market is, where the population is.

Howard: How much the rents are.

Morton: Right. Is that good or bad on the whole for the state?

Howard: Even though you'd like to have a different result, you're still taking care of really problem properties, even in the best of the cities. Many of these properties, if they weren't renovated under the tax credits, eventually they would have to be destroyed and cleaned up by the public sector. Or they're results would have to be. The mills themselves might get salvaged, but that's still going to leave environment issues and neighborhoods that have got a big hole in the middle of them. So in the ideal world, it would be nice to have the projects spread all over the state, but that just doesn't really happen when you get right down to it.

5. In your opinion, what is the greatest advantage that the mill credit offers to developers? Surrounding communities? The state?

Howard: Well, being able to take the full credit in one year is a huge advantage over the regular tax credit. So it gives a very good incentive to do what are, by the nature of the beast, really hard projects. They're hard projects because they're big. It's one of those things where you can't just go put a roof on half the building; you can't do just the windows on the front side. It's really hard to do incrementally. You might be able to take them building by building in some cases. But some of these projects are just huge. For example, the guys doing Loray Mill in Gastonia have to do hundreds of extra windows. They're going to have to do hundreds of extra windows that are actually a part of Phase 2 (a separate part of the mill building to be rehabbed after the Part 1 section is complete) in Phase 1 because you can't let Phase 1 just sit there next to a bunch of broken out windows in the adjacent part of the building.

Morton: Alright, what about for surrounding communities?

Howard: Oh, that's been one of the great things watching these projects occur. The surrounding communities have seen a good amount of renovation, revitalization, life breathed back into them, less crime, etc.

Morton: One of the more interesting things that Eddie (Belk) pointed out in his interview was that, in a lot of the smaller towns, where you are going to see a mill redeveloped is in conjunction with an additional tax credit for affordable or senior living. That is not a use that the sur-

rounding community can necessarily benefit from, except for it no longer being a vacant building. What would you say is the advantage for that kind of community?

Howard: Well, you know it's a big deal to get vacant stuff out of a neighborhood. That is a huge issue in a neighborhood so just that alone is a big deal. Through the years, I've referred to these empty mills as cancers on a community. If you have this empty shell of a building sitting in the middle of a neighborhood, the neighborhood goes down too. To see that property revived not fully regardless of use—but with the types of uses that these properties are typically adopting like affordable housing or upscale housing or mixed use or whatever—is a real benefit for the neighborhood. It's a very securing action for the neighborhood.

Morton: What about the greatest advantage for the state?

Howard: The greatest advantage for the state is probably jobs for the state and tax base for the local communities. It doesn't get more job-concentrated than doing these kinds of projects. There are not many components of these projects that can be done offsite. The work's all done right there on site and it's pretty labor-intensive work.

Morton: So you see a lot of direct spending as a result of the project, in addition to jobs.
Howard: Direct spending in the local community, both in terms of the number of jobs and the percentage of jobs that direct money into the local community. (Paying a local person to work means that when that person has needs, either for food or shopping, they will spend their money locally, thereby cycling their paycheck through the local economy.)

6. What improvements, if any, would you like to apply to the NC mill credit (legislation, administration, use, etc.)?

Howard: I've been so focused on getting it renewed. At various times people have said 'Well, what about maybe improving this or improving that,' and I have just been so focused on just 'Get it renewed.' Once you start trying to fix it, you run the risk of things happening that you don't want to have happen. So I'm sort of single-mindedly on a track of not worrying about getting things fixed. I gather that there are certain things that could work better, in terms of the allocation of credits.

7. What trajectory do you expect the NC mill tax credit program to take in the next 5-10 years? (Ex: Will the NC legislature renew the credit next year? Will the number of annual projects increase or decrease?)

Howard: If it's renewed?

Morton: Well, that's the first question.

Howard: I'm optimistic it will be renewed. I'm an optimist. I wouldn't be in this job (president of PNC, a statewide historic real estate non-profit) if I weren't an optimist.

Morton: Then let's assume beyond that…

Howard: I think if it continues, for another five years or six we'll still see a whole lot of renovations. The ones that haven't been. Their communities are so troubled. There are some places you see and you just go 'You know, I can't imagine someone putting up the money to do a multi-million, tens of millions, renovation when there's 20-30% unemployment and a community's losing population.' I just don't think it'll happen.

But I feel pretty good—it looks like the second five years are going to be just as strong as the first five years. I would guess that the third five years probably are going to be pretty dog-gone good as well, and then it will start dropping off after that point.

Morton: So you think that in ten years' time, most of the feasible projects will at least have been attempted?

Howard: I think so, yes. Now what will happen, to a certain degree, is that some mills from the post-World War II era will start coming onto the radar screen, but it's sort of hard to figure those buildings. Most of them have few windows; most of them are big squares rather than long rectangles. And big squares mean you have a lot of interior space with little sunlight, so those are going to be tougher to do. Also, there's very little design charm in a post-World War II industrial building. Certainly, there are some examples of good stuff, but most of them are really plain brick.

Morton: Do you see some of those being significant enough architecturally, or maybe for a different reason, that they would wind up on the National Register?

Howard: Some of them will. Some of them already are. You have some down here in the depot district in Raleigh. Some of the Dillon Supply buildings are down there and they were after World War II, they were built after Union Station was taken out and the railroad tracks were removed. They will happen because they're in the heart of downtown Raleigh. You go to a small town—no. Those buildings will have a utilitarian value because they're big concrete and steel spaces. Hopefully, they won't all get torn down and will still have a utilitarian value. But where the older mills have the beautiful wood floors and wood columns, and the larger windows with the great lighting, the ones after World War II are pretty much big, closed-up boxes.

Morton: So do you expect that a new use for a building like that is going to be something that is also industrial?

Howard: Yeah, industrial and other sorts of commercial uses. It's kind of funny. 'Industrial' ten years from now is going to be very different from what it was ten years ago. You know, here we are talking about 3-D printing, for example. Those mills would be great spaces to do something with 3-D printing, which is obviously a very different animal than the looms and spindles of the textile industry.

Morton: Now, post-World War II, we're talking 1950—that's a historic structure. But if we're talking 1970, that doesn't fall under the purview of the mill tax credit.

Howard: Well, ten years from now, 1970 will be there. Also though, with the newer mills, they're out on a highway. There's not the same kind of gain for a community out on the highway. From an ecological standpoint, I am all for reusing buildings, totally for it. However, considering the nature of my profession and my job here (as president of Preservation North Carolina), I focus on the historic stuff.

Myrick Howard, interview by author, Raleigh, NC, December 11, 2013.

Appendix G
Tara Sherbert Interview

1. What is your professional experience in working with the NC mill tax credit program?

Sherbert: Well, we participate in several different aspects. We have an investment firm where we come in and invest in the federal historic tax credit, which the mill credit piggybacks off on compliance and standards and bases things of that nature. For the state investor, we generally bring in a separate state investor into the transactions. If we're not the federal investor, then we work as a consultant on the project, where we work through the due diligence and the financial processing, bringing all the lenders and investors together. We also have an asset management group that manages the deals throughout construction and operation to make sure they stay in compliance with federal and state requirements with respect to the credit, lending requirements, things of that nature. And then we have a CPA and audit firm—tax return firm—that prepares investor reporting for audits as long as we're independent in the tax returns, in all cases. So fairly broad.

2. Please rate the effectiveness of the NC mill tax credit on a scale of 1-10, 10 being the most successful.

Sherbert: I would say an absolute 10. If you look at any of the towns where these mills have been revitalized, the entire town has been revitalized. If you look at the entire jobs creation from the mill credit—and you can look at Ramona's (the Deputy State Historic Preservation Officer for North Carolina) report on that—and the match on the profits to the state, meaning the amount on the credit compared the amount of revenue it brings back to the state, the benefit coming back to the state is in excess.

So these mills started out as the central core of these cities and counties. All these mill workers were in there working, and you had the general mill itself and then you had the houses with their little cow yards, and then you'd have the ballparks. They were the focus of the cities and towns. Then the mills went vacant and those same towns were completely blighted. When you look at the mill credit, which is absolutely needed to revitalize the mills, it completely turns all the focus of the town back to that mill site. They're best when they can work to bring in both apartments and bring in commercial retail, making it the center of the town again.

3. Is the mill tax credit necessary to make the completion of an average mill rehabilitation project feasible?

Sherbert: Absolutely.

Morton: So we're talking, not necessarily an American Tobacco-grade project or a mill for a 4,000 member town, but somewhere in between, at least in the spending. We know the credit

is necessary for some place that doesn't have any economic drive at all. It was possible to find some other financing maybe for American Tobacco, but the credit was also extremely helpful in that situation because of the overall high cost. But middle-of-the-road, you'd say definitely then, as well?

Sherbert: Absolutely, I have not seen a mill project in North Carolina proceed without the mill credit. If the credit expires, whatever remaining mills are out there mostly likely will be demolished. The cost of completing them is so much higher than in new construction. You have huge environmental concerns that need to be addressed. You have huge architectural concerns that need to be addressed. I just don't think these mills would be feasible without the credit. And if you look nationwide at this program, and if you look at states without these credits, the projects aren't getting done. The projects are getting done in states that have the federal as well as a state credit to team up.

4. When considering the difference in credits offered to Tier 1, 2, and 3 counties, what do you believe the distribution of projects actually is among all 100 counties? Why? Is that good or bad for the state as a whole?

Sherbert: You know, I'm not even sure I've looked at that. I don't think I'm qualified to even respond to that.

Morton: Well, I guess what I'm getting at is that it seems that urban areas are still being developed more so than the rural, 40% tiered counties, despite that extra 10% credit granted. So how effective do you think that 10% is?

Sherbert: I think it's very effective, but we see more 40% deals getting done than 30% deals because that extra boost is needed. But if you have a mill that's out in the middle of nowhere with no chance of being filled up, then you either have to find a special use for that mill out in the middle of nowhere, or you have to wait for economic development to grow out to it, a little bit. I think that's why you're seeing the difference, if you've truly got a mill that was maybe just used for distribution-- or whatever its original use was that it was not surrounded by a city or town-- those are going to be more difficult just economically to even find a feasible use for it.

Morton: So the 40% definitely would be necessary. Would you think that going any higher on that percentage would be smart? Or just wasteful?

Sherbert: I don't think given a state that just passed a flat tax that it's even practical to talk about it, considering we're trying to save it. I think there have been enough mills done successfully that there's a track record they can get behind at 40%.

5. In your opinion, what is the greatest advantage that the mill credit offers to developers? Surrounding communities? The state?

Sherbert: Well, for developers, it's that extra tier of financing, obviously, that helps. It's always helpful to know that a state is behind you on historic preservation. It just generally means that the state agency working with you is going to be supportive of the program, but it all comes down to financing and the sources you need to get one of these projects completed. If you take a typical new deal in new construction, you might be able to do residential rental units at $88,000 per unit. The average cost we see on historic buildings is about $125,000. So you have a true cost differential that needs to be covered.

Morton: Okay, what about for surrounding communities. And I think, at least in part, this has already been addressed.

Sherbert: Yeah, it's interesting. Generally, we find a lot of surrounding communities, outside of the economic development offices, not being supportive of the program until the property gets under construction.

Morton: Really? They just can't see it?

Sherbert: They can't see it, they like to nay-say the developer. You know, they tend to see the developer as this big guy from out of town trying to make money off of their little community. The developer is typically an outsider because insiders just don't generally want to do the project, so others do come in. It's interesting to see that negative energy that we do have quite a bit of that has to be overcome. But as soon as the press release goes out 'The construction is starting,' the energy just immediately pops. But they have to see the start of that construction. However, from an economic development office point of view, they see it as 'revenue, revenue, revenue' coming back to them from economic growth and generally they're very supportive.

Morton: That's good to hear. And what about the greatest advantage for the state?

Sherbert: Well again the greatest advantage for the state, there's study after study that shows that the money coming back to them exceeds the cost of credit in and of itself. That benefit comes back to them fairly quickly, and then they're dealing with years and years and years of tax revenue. It can be real estate tax or sales and use tax from new commercial uses in the buildings, or what have you, coming back to them that single redeveloped property and everything that will redevelop around it.

6. What improvements, if any, would you like to apply to the NC mill credit (legislation, administration, use, etc.)?

Sherbert: Well, for one, get rid of the grandfather clause. But in all sincerity—and we work in most states nationwide that have the federal and state credits—I would say North Carolina is the best at working for the program. The state has an incredibly informed and supportive SHPO. You can't get any better than them. And the credit itself is good, it's structured very well.

7. What trajectory do you expect the NC mill tax credit program to take in the next 5-10 years? (Ex: Will the NC legislature renew the credit next year? Will the number of annual projects increase or decrease?)

Sherbert: Well, you have the list from Tim (Simmons at the SHPO) of the number of mill deals out there. I would expect to see that if the economy hopefully continues to grow and the capital markets continue to peak open just a little bit, that if this credit remains, the lion's share of the remaining mills will probably be done in the next three to four years. Then it will either tail off or, if the credit's pushed a little fit further on the grandfathering, then there will be rush to get them done. I think that there are enough mills being looked at in North Carolina that need to be redeveloped that, from a timing perspective, just need the capital markets to open back up, and that should happen in the next three years.

Morton: So you think the majority of the mills left to be redeveloped will be at least begun in the next five years?

Sherbert: I would think so, if there's any type of market feasibility. That's my guess.

Tara Sherbert, interview by author, Charlotte, NC, December 16, 2013.

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