HFFI's Thoughts & Recommendations for Expanding the City of Fredericksburg's Rehabilitation Tax Exemption Program

July 2025

Expanding this existing incentive program in the City of Fredericksburg will:

- Directly support the preservation of our naturally occurring affordable housing (NOAH) while preventing instability and displacement in FXBG's older neighborhoods;

- Support the rehabilitation and safe upgrading of our existing building stock;

- Promote the sustainability of our built environment by reducing the carbon footprint and environmental costs of new construction in the City;

- Encourage revitalization and investment in older established neighborhoods where deferred property maintenance poses the greatest risk to the preservation of NOAH and reuse of existing assets; and

- Yield a greater financial return to City coffers within a relatively short period of time, while simultaneously adding value to deteriorated and outdated assets within older established neighborhoods.

Therefore, HFFI recommends the following changes to the Rehabilitation Exemption Program:

1) **Removal of the requirement for qualifying residential buildings to be officially "historic"** ("eligible" for or "listed" in the National Register of Historic Places).

a. While the program currently includes more than 4,000 buildings located in the Old & Historic District; Washington Avenue Historic District; Extended Historic District (encompassing the Liberty Town, Hanover Heights, and Fair View neighborhoods, along with 19th and early 20th-century working class housing in the Lafayette corridor and bordering the north end of the Old & Historic District up to the canal); College Terrace neighborhood, and the oldest portion of Mayfield….

b. It excludes a large portion of Small Areas 5 and 6, including the College Heights; Westwood/Westmont; Old Fairgrounds/Normandy Village; and Mill District neighborhoods.

2) **Retention of the 40-year threshold for qualifying buildings**. As such, the age restriction is a slow-moving target that ensures the program's focus on safely rehabilitating the most aged built assets in our community.

3) **Continued use of Tax Assessed Property Value percentage increase** to determine the "substantial" rehabilitation of a property.

a. This test or measure is a reasonably fair and consistent way of assessing what qualifies for relief from public coffers.

b. This measure ensures the amount of work/level of investment merits public support for relief.

4) **Minor increase in square-footage limit for expanding building footprint** depending on overlay zoning and/or future use.

a. Current 15% limit preserves the "scale and massing" of the existing resource, while permitting modest expansion. Smaller size/scale is key to maintaining affordability (smaller=lesser cost), especially if property is a SFD. Limit thereby helps to stabilize neighborhoods & prevent displacement with steep/sudden property value increases. Limiting footprint is also key to lower embodied carbon/emissions from new builds, getting as close as possible to "net-neutral" construction and development.

b. Potential proposed expansions:

i. No more than 20% footprint expansion for Single-Family Dwelling (SFDs);

ii. No more than 20% footprint expansion for Commercial;

iii. No more than 25% footprint expansion for Multi-Family Residential;

iv. Potential SUP for increase up to 30% where "affordable" measures and/or potential density bonuses will be in place, and also within local Historic District and potential Neighborhood Conservation District overlays where design review measures ensure appropriately scaled and compatible, privately-owned new construction.

5) **Continued use of Tax Assessed Value as basis for determining value of tax relief** allocated to qualifying project.

a. While the greater incentive would be based on the "cost of work," there are challenges defining what "costs" officially qualify… Historic Tax Credit programs run thru state (DHR) & federal (NPS) agencies use a 3rd-party-accountingprofessional-verified approach, and staff still spends much time assessing invoices/receipts to validate expenditures & limit fraud/abuse.

b. Using the "cost of work" as the determining factor is also likely to vary more widely than assessed value, based on contractors/materials.

c. Given City leader's hesitancy to expand this rehab 'credit' program when prompted by commissions/staff in 2021 & 2023; and continued deafness following HFFI's advocacy for the last 18 months... We think/would hope that sticking to using the ASSESSED VALUE--while also maxing out the % of it—in determining the amount of tax relief/abatement provided to the private property owner is a conservative, compromising approach (perhaps more palatable measurement for City accountants).

6) **Preservation of low fee/cost of application for program use**. Ideally, the fee for submitting an application should remain at current cost.

7) **Extend duration period of tax relief to maximum 15 years** allowed by state law.

a. HFFI recommends expanding to the max of 15 years - certainly for residential, but for commercial as well because the intent is to safely upgrade/rehab existing building stock. This promotes stable/continued property ownership & investment in higher quality/durable construction materials.

8) **Expand the percentage of tax relief**. The expert consultant advised that the City apply 100% of the assessed value increase for full duration (15 years). HFFI supports this recommendation if the program continues to use the increase in tax value as basis for amount of relief provided. **Reference:** Heritage Arts' June 2023 report for the City of Fredericksburg, "Historic Preservation Recommendations" (pp. 8–9).