

HISTORIC TAX CREDITS

Historic Redevelopment...Future Tax Base

Walking through the lobby of the historic Chase Park Plaza Hotel in St. Louis, it's hard to imagine that about twenty years ago, the sole occupants of the hotel were pigeons. After years of grandeur, the Chase was shuttered, and the Central West End neighborhood around the hotel steadily declined. Several visionary community leaders hoped to restore the Chase to its historic position as the anchor of the Central West End. With the enactment of Missouri's historic tax credit program in 1998, those investors received the incentive they needed to move forward with the renovation. The equity generated through the sale of the historic tax credits available to the project bridged the gap necessary to trigger the investment of millions of dollars to restore a St. Louis landmark, and more importantly, an entire community.

It's impossible to fully quantify the ripple effect one significant historic renovation can bring to a neighborhood. But let's look at the Central West End as an example. Following the restoration of the Chase Park Plaza Hotel in the early '90s, we've seen the investment of hundreds of millions of dollars into the surrounding community. Developers have invested in new construction of hundreds of new residential homes, bringing a renewed vibrancy to the neighborhood. New retail and restaurant locations abound. The total economic impact to the region simply would not have been realized without the tool that made this staggering investment in the community possible: the historic tax credit.

What is the historic preservation tax credit?

The United States Congress adopted a federal historic tax credit program in 1976 to encourage the rehabilitation of older buildings throughout the country. Unfortunately, changes to the federal law made in 1986 led to a dramatic decrease in the use of these federal credits. In response, states began to create their own incentive programs. On January 1, 1998, Missouri enacted its own historic preservation tax credit program.

This program provides an investment tax credit equal to 25% of approved costs associated with qualified rehabilitation. These credits are administered by the Division of Business and Community Services in the Missouri Department of Economic Development (DED). The State Historic Preservation Office in the Department of Natural Resources provides oversight.

Stakeholders

There are a number of parties who benefit from these credits and their impact on Missouri. The short list below illustrates the breadth and diversity of the interested groups:

- Local municipalities
- Missouri State government
- Historic preservationists
- Construction companies
- Commercial developers
- Private homeowners
- Lending institutions
- Trade unions
- Small business owners

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Qualification standards and application process

There are clear and well defined standards that must be met for a project to be eligible for the tax credit. First, one must submit a comprehensive application to DED. After review, the application is sent to the Missouri State Historic Preservation Office, which determines if the project meets the standards of the U.S. Department of the Interior.

For a property to qualify it must:

- Be listed individually in the National Register of Historic Places, or
- Be a contributing element of a historic district that is listed in the National Register of Historic Places, or
- Be a contributing element of a Local Historic District that has been certified by the U.S. Department of the Interior as substantially meeting National Register criteria.

Once it has been determined that the property meets the standards of the Department of the Interior, the project is also required to be a “substantial” rehabilitation, meaning a minimum amount must be invested in order to qualify. This minimum is defined as 50% of the basis. The basis is the fair market value of the property at the time it was acquired. Additionally, if the project has not been started within two years of notification that the project has been approved, the credits will be rescinded. Finally, to ensure that the work is actually completed, 25% of the tax credit is withheld until the state verifies that the project is finished.

As of July 1, 2010, the Department of Economic Development can approve no more than \$140 million in Historic Tax Credits annually. In addition, from January

1, 2010 through June 30, 2010, the DED cannot approve more than \$75 million in credits. These caps do not apply to (i) individual projects that will receive less than \$275,000 of credits, that have incurred costs of either 5% of the total project cost or \$1 million, whichever is less, and that have received an approved Part I from the Secretary of the United States Department of the Interior, or (ii) projects which have received special certification from the state historic preservation officer. No more than \$250,000 in tax credits may be issued to eligible single-family, owner-occupied, residential property.

Recent Usage

Missouri makes a significant investment each year in the historic preservation tax credit program, as evidenced by the summary provided below. It is important to note that the tax credit only covers 25% of the rehabilitation costs, and it is not paid out until the developer’s funds have already been invested in the project. Because of this structure, the total investment leveraged to obtain the credits is much larger than the amount paid by the state each year.

FY-2003	Historic
Credits Authorized	142,939,000
Credits Issued	89,214,177
Credits Redeemed	43,153,986
FY-2004	Historic
Credits Authorized	100,649,000
Credits Issued	75,692,322
Credits Redeemed	66,089,980
FY-2005	Historic
Credits Authorized	116,566,180
Credits Issued	80,213,374
Credits Redeemed	74,532,355
FY-2006	Historic
Credits Authorized	237,000,000
Credits Issued	105,071,006
Credits Redeemed	103,134,226
FY-2007	Historic
Credits Authorized	128,334,628

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Credits Issued	171,508,564
Credits Redeemed	132,841,728
FY-2008	Historic
Credits Authorized	170,058,700
Credits Issued	161,621,537
Credits Redeemed	140,111,002

Data from the Missouri Department of Economic Development.

Authorized: A project has met all criteria and been approved for tax credits

Issued: A project has met all criteria, been approved for tax credits, and is verified complete.

Redeemed: The tax credits that were authorized and issued for a particular project were actually paid out.

Missouri receives many tangible and intangible benefits from the investment it makes through historic tax credits. The fiscal year 2007 report from the National Park Service reported that Missouri was first in the nation with around \$535 million in up-front investment in materials and labor related to federal and state historic rehabilitation tax credit projects.

Community Impact

The Historic tax credit program helps revitalize communities across Missouri by encouraging the rehabilitation of historic structures and bringing in new jobs.

According to the Governor’s news release on March 28, 2008, since 1997 there have been historic preservation projects that used the historic tax credit in, “Arcadia, Boonville, California, Cape Girardeau, Chesterfield, Chillicothe, Columbia, Excelsior, Excelsior Springs, Florissant, Fulton, Hannibal, Hermann, Independence, Jefferson City, Joplin, Kansas City, Kennett, Kirkwood, Lee’s Summit, Lexington, Liberty, Louisiana, Maplewood, Neosho, Nevada, New Haven, Rocheport, Sedalia, St. Charles, St. Joseph, St. Louis, Ste.

Genevieve, Springfield, Trenton, University City, West Plains, Wildwood and others.”

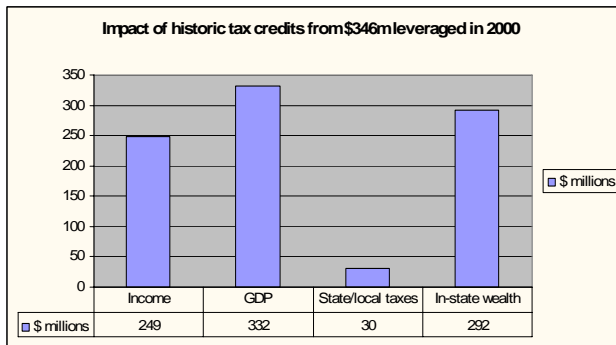
A **small** sample of only the 2006 and 2007 projects that were approved for historic tax credits reveals they are used throughout the state on projects big and small. In addition to the sample listed below, there have been numerous historic homes rehabbed as part of this program, which have helped revitalize older residential areas all over the state.

Project Name	Location	Issued Amount
LAWRENCE COUNTY BANK BUILDING	Pierce City	\$29,722.25
SNAPP'S HOTEL	Excelsior Springs	\$2,108,027.02
TWA ADMINISTRATIVE OFFICES BUILDING	Kansas City	\$5,529,010.25
MARK TWAIN HOTEL	Hannibal	\$1,519,455.59
MEASUREGRAPH COMPANY BUILDING	St. Louis	\$1,743,929.31
ELVIRA BUILDING	Columbia	\$159,839.82
301 SE DOUGLAS STREET-BUILDING #1	Lee's Summit	\$254,502.25
LOUIS CURTISS STUDIO BUILDING	Kansas City	\$169,249.75
WEINERT HOUSE, 200 FRANKLIN STREET	Hermann	\$97,368.40
BENTON PARK DISTRICT	St. Louis	\$28,804.96
SCHNEIDER, HENRY BUILDING	Greene County	\$155,977.72
R.O. STENZEL & COMPANY WAREHOUSE	Kansas City	\$255,655.88

A Rutgers University study is one of the most comprehensive and independent data sources available that estimates the impact of the historic tax credits on the Missouri economy. The following graph details the impact on Missouri of the estimated \$346

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million spent in 2000 on statewide historic rehabilitation.



8060 jobs were created due to historic tax credit projects in 2000.

Data from *Economic Impacts of Historic Development in Missouri*, available at <http://www.dnr.mo.gov/pubs/pub1230.pdf>.

Kathy Bader, former chairperson of US Bancorp Community Development Corporation, noted that US Bancorp CDC moved its offices to a renovated historic building in downtown St. Louis several years ago. She explained, “These (historic) tax credits are the key reason, if not the sole reason, why all of the redevelopment downtown has happened.”

Concerns about historic tax credits

There are many clear benefits to this program, including rehabilitation of historic structures, revitalization of older areas in Missouri communities, increased tax revenues over time for the state, and new jobs. However, some may have concerns about the fiscal impact to the state as a result of the credits that effectively reduce state tax revenues when used.

A fiscal year 2005 report by DED analyzed the historic tax credit program and reported that “997 jobs (mostly retail and local service) were created (during that fiscal year).” The analysis recommended that the program be “maintained” with **no** modifications.

Due to significant state budget concerns during the 2009 legislative session, the Missouri legislature adopted an annual cap on Missouri’s Historic Tax Credit program. Although the lack of access to capital in 2009 and the down market will prevent some development from starting, once the market returns, the use of this cap risks creating uncertainty for those who are considering a project that would utilize the tax credits. This uncertainty will likely deter new investment. Prior to the implementation of the annual cap there had been little to no uncertainty, because if the project met the standards which are clearly outlined and available from DED and the U.S. Department of the Interior, then it qualified for the tax credits. Given the recent volatility and downturn in the real estate investment market, a cap on one of the few available incentive tools may simply mean that developers and investors will not direct capital to Missouri projects.

Jerry Schlichter, a prominent St. Louis attorney who helped draft the historic tax credit statute, indicates that the cap will be devastating to the program. As a practical matter, very few developers have the ability to actually use the historic tax credit. The tax credit only has value when a developer is able to sell the credit in the open market, to a buyer who has or expects to have Missouri tax liability. The tax credit typically sells for between 80-90 cents on the financing source and will correspondingly go down.

Other important aspects of the historic tax credit

Historic tax credits have been used in many communities throughout the state to revitalize decaying areas by rehabbing historic buildings. In addition, historic tax credits allow for the “greenest” possible kind of redevelopment of these areas. Instead of constructing a new building on the outskirts of the municipality, historic

structures are reused and the existing infrastructure and public services can be utilized in more efficient ways. As a result, historic tax credits are one of the most environmentally friendly redevelopment tools Missouri has.

Prior to the redevelopment of historic buildings, the state is usually getting little to no tax dollars from them. For a one time investment, the tax credit provides an incentive to turn a decaying property that is producing no tax revenue for the state into one that is producing various forms of tax revenue year in and year out. A historic renovation often also causes a ripple effect, bringing much-needed investment dollars into the community at large once the historic renovation brings new life to the community. Each new investment in the community translates into a stronger tax base that in turn exponentially enhances the tax revenues from the community.

Historic tax credits are a critical tool to allow a developer to secure the necessary financing for historic rehabilitation projects. Given the current state of the economy, new projects are put under tight scrutiny by lenders. Often, it is crucial that the developer is certain it may obtain the historic tax credits as part of a financing package. If that certainty is taken away, the financing for many new projects may fall apart. At a time when financing available to new projects is limited, removing a key source from the project budget throws the budget out of balance. Without financing, very few redevelopment projects will move forward.

The Missouri historic tax credit program is widely praised throughout the nation and is an innovative program that we can all be proud of. Many other states are considering implementing a similar tax credit. Maine recently passed a historic tax credit law similar to the program pioneered by

Missouri. On January 6, 2008, the Speaker of the House in Maine wrote in support of a historic preservation tax credit for his state, "There are a number of Maine developers already going to states like Missouri, a state with a very thoughtful historic preservation credit, to do the kind of rehabilitation projects that could be done in Maine."¹ It is clear that other states wish to add this program to their redevelopment tool box.

It's important to remember that real estate investors have many choices when considering where to invest their dollars. Development tools such as the historic tax credit can serve as the gap-filler that brings a potential project across the finish line by securing a revenue source that is not otherwise available in the private market.

Removing or limiting the use of historic tax credits as a development tool would without question reduce the investment dollars flowing to Missouri real estate development.

Recommendations

The Missouri Growth Association supports removing the cap on historic tax credits. We believe the historic tax credit program is a vital redevelopment tool for Missouri, and that the cap will result in largely detrimental effects on the rehabilitation of historic property in the state.

In addition, sunseting the program would create similar uncertainty and would be a limiting factor in the size and scope of future rehabilitation projects in Missouri. It is in the best economic interests of Missouri to not impose a sunseting provision this important program.

¹ Speaker Glenn Cummings, D-Portland and Robert Monks, "Historic district tax credit could transform many downtowns," *Maine Sunday Telegram*, January 6, 2008.

For a small, one-time investment, Missouri reaps many tangible and intangible returns. The tax credits are a vital component to revitalizing historic parts of Missouri. In order for the state to stay competitive with the rest of the nation, this tax credit program must be preserved itself, not capped or curtailed.