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Tax credits on the line for developers

Debate of annual cap or elimination has developers worried about the fate of the popular incentive

by Matt Wagner - Reporter

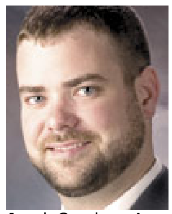
NO COMMENTS

Springfield architect and developer Allen Casey is an ardent advocate of Missouri's historic preservation tax-credit program, which he utilized for the $2.6 million renovation of the Holland Building on Park Central Square. Above, Casey stands next to the downtown Sterling Hotel, the redevelopment of which he says isn't possible without historic tax-credit aid.

A rekindled debate about Missouri's historic preservation tax credits has developers again defending a government incentive they say is a fulcrum for costly restoration projects that aren't otherwise financially feasible.

Developers who own property in center city Springfield are particularly piqued by the efforts of a handful of Republican state senators who have waged war on state tax credits in recent weeks. Among those targeted are tax credits created by the General Assembly in 1998 to spur redevelopment of historic buildings in rundown urban centers, old neighborhoods and neglected town squares.

Early in the session, lawmakers debated capping the unlimited program at $50 million each year, and a substitute to Senate Bill 45 introduced March 31 proposed a $100 million annual cap on historic tax credits. Drastically lowering the ceiling would have a significant impact on historic restoration projects, said Jacob Sanders, a certified public accountant with Elliott, Robinson & Co. LLP in Springfield.



Jacob Sanders: A cap to the state's historic tax credit program would hurt development.

Two years ago, the Missouri Department of Economic Development issued more than $171 million in historic tax credits for rehabilitation projects throughout the state, Sanders said. And last year, the total amount of tax credits issued was about $162 million, he said.

"(A) $50 million (cap) was absolutely going to kill the program; $100 million is still going to hurt pretty bad," Sanders said. "Real simply: Downtown rehab doesn't work without the credits. In my opinion, unless you're ready to turn your back on the downtown revitalization, you can't mess with these credits."

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Developers dismayed

Local developers who have utilized the tax credits to offset the high cost of renovating historic structures say that rolling the program back would be a big mistake.

Commercial Realtor Bob McCroskey said Missouri's historic tax credits have been a linchpin for ongoing revitalization efforts in downtown Springfield and along Commercial Street.

And other center city properties targeted for redevelopment - namely the Heer's building on Park Central Square - are dependent on the credits, he

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said. Springfield Business Journal's attempts to reach Heer's owner Kevin McGowan, president of St. Louis-based Blue Urban LLC, were unsuccessful.

"Nobody's going to mess with that thing, if they don't get the tax credits," said McCroskey, who owns Bob McCroskey Real Estate and is the listing agent for several downtown properties. "Just the threat of not having tax credits or capping the tax credits is changing real estate in downtown and older parts of Springfield. ... Would the banker in today's market loan money to a developer who might not get those tax credits?"

Highly unlikely, said Allen Casey, owner of Casey Architecture.

Casey has secured historic tax credits to renovate the Holland Building, opposite the square from Heer's, as office and restaurant space and the Wilshire Building, 520 S. Jefferson Ave., as condos - a project he partnered on with son Curtis last year. The Holland Building received about $450,000 in credits, and the Wilshire rehab received a little less than half that, Casey said.

Missouri law allows a tax credit equal to 25 percent of qualified expenditures associated with a qualified historic redevelopment project, and that's typically enough of a cushion to make lenders comfortable, Casey said.

"The issue is that the state tax credits are usable as equity for the project," he said.

Expectations for the credits are key if Missouri wants to maintain its role as a leader in historic redevelopment, Casey said. But before developers will move forward with projects, they - and the bankers financing those ventures - need to know that the tax-credit program isn't going anywhere, he said.

Casey, who plans to utilize historic tax credits for the eventual rehabilitation of the Sterling Hotel on Park Central East, said capping the credits also would cause difficulties for developers.

"If only so many credits are available in a particular year, then the credits you might receive for your project might be several years away, in which case - although it looks like you're getting the credit - you can't really use the credit for the financing of the project," he said.

Making the case

During the past decade, Missouri's historic tax credits have spurred $4 billion in private investment and created 40,000 jobs, according to Missouri Preservation, a nonprofit organization dedicated to historic preservation efforts.

In recent weeks, the Columbia-based group has disseminated literature characterizing Missouri's historic tax credits as "one of the most successful development incentive programs the state has seen." The Missouri Association of Realtors also has opposed efforts to cap or eliminate the credits.

Both organizations have cited a September 2008 analysis by Washington-based consultant Donovan Rypkema, who estimated that projects utilizing the tax credits have generated $673 million in direct income for Missouri households and another $700 million in indirect income.

Rypkema found that just 11 percent of all projects that received historic tax credits in the past decade involved qualified expenditures of more than $5 million, while two-thirds totaled less than $500,000 in expenditures eligible for credits.

As debate is scheduled to continue this week on the Senate floor, business trade group Associated Industries of Missouri hasn't taken an official stance on historic tax credits.

But the group does support a comprehensive review of the state's tax-credit programs to weed out the less effective ones, said AIM President Ray McCarty.

McCarty noted that historic buildings rehabilitated for commercial tenants create more long-term revenue for the state than those converted into residential units.

"I think that's where a lot of legislators have difficulty with these programs, because while you're increasing the property tax at the local level, there is no real state property tax," McCarty said. "It doesn't really put any money back in the state coffers."

Advocates of historic tax credits are hopeful that the program's strict oversight will persuade lawmakers to look elsewhere. The state requires developers to account for every dollar spent on the project with receipts and invoices - a process accountant Sanders knows well.

Since February, DED has required that all projects seeking historic tax credits undergo an independent audit by a CPA, Sanders said. Previously, the state only required audits required for projects with qualified expenditures totaling more than $250,000, said Sanders, who credited DED officials for closely scrutinizing project costs.

"If there's anything at all that looks questionable, they don't hesitate to throw them out," he said. "There's a lot of oversight on a project. There really is."

In the last five years, the state has closed loopholes and adopted new guidelines to minimize abuse - mostly related to developer fees - within the program, Sanders added.

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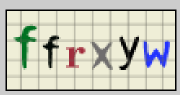
Passcode:	This form will not send your comment unless you copy exactly the passcode seen below into the text field. This is an anti-spam device to help reduce the automated email spam coming through this form.  **Please copy the passcode exactly - it is case sensitive.**
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