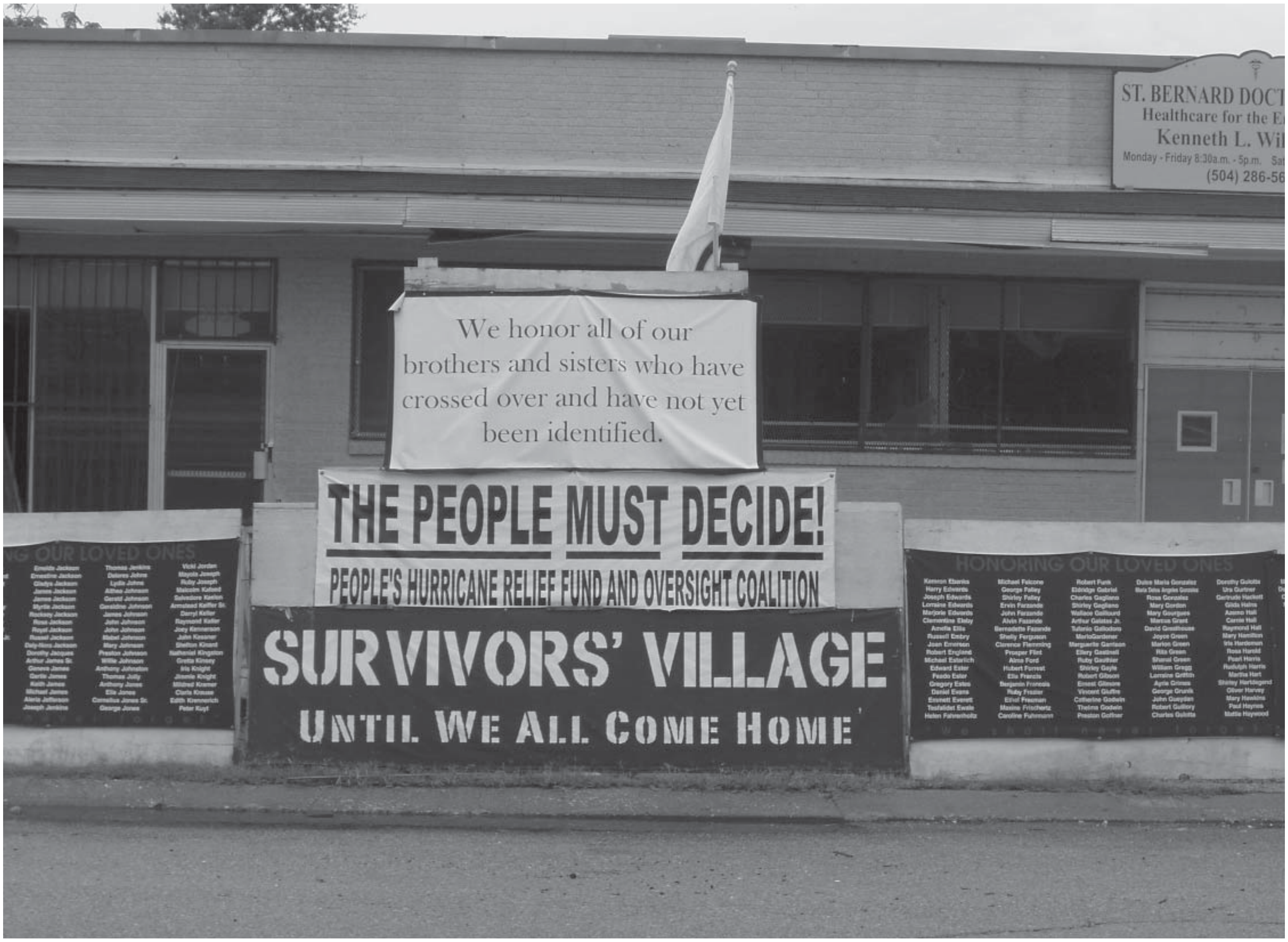
ISSN 1559-9736

No. 172
Summer 2007

Progressive Planning

The Magazine of Planners Network

Post Katrina Planning and Organizing



Tom Angotti

Also In This Issue:

The Highs and Lows of Urban Redevelopment
Planners Network Election Results

Making Preservation Pay: State Historic Tax Credits Generate Big Investment, So Why Ruin a Good Thing?

by **JOSEPH HEATHCOTT**

The State of Missouri leads the nation in the use of historic tax credits for rehabilitation and economic development. Yet year after year state senators and representatives attempt to scuttle the program by introducing crippling amendments to bills working their way through committees of the General Assembly. Despite the tremendous economic and cultural achievements of the historic tax credit program, it remains subject to perennial attacks. The nature of these attacks illustrates the vulnerability of progressive state laws and is a reminder to planners of the central role played by state legislators in shaping the frameworks for municipal planning.

In 1997 the Missouri legislature approved a rehabilitation tax credit to promote the restoration and adaptive reuse of historic buildings. The program issues a credit of 25 cents on every dollar invested in the rehabilitation of a building listed on the National Register of Historic Places or a residence located in an officially designated historic district.

It was a gift that kept on giving. By 2004, over 300 projects had been certified to receive tax credits, generating $1 billion in revenues from direct investment and tourist receipts. According to the state's own figures, the program has generated $1.78 in tax revenue for every $1.00 of credit. To date, over 900 renovation projects have been completed in thirty-seven counties across the state. What's more, the program does not merely generate personal and private wealth, but rather it ensures the wise development of a genuine public good—our heritage of great historic buildings. Citizens of Missouri are rightly proud of the historic tax credit program and the direct, measurable cash infusion that it has provided to local and state treasuries.

Nevertheless, a small group of powerful state legislators has launched yearly assaults on the program. In the fall of 2006, Senator Chuck Gross (R-District 23) introduced Senate Bill 927 to establish severe limits on a range of tax credits, including the historic preservation program. Specifically, the bill proposed to cap tax credits at 2.5 percent of the net general revenue of the state during its previous fiscal period. It further proposed to halt the use of tax credits in any given fiscal year until all tax credits from the previous year had been issued or redeemed. Finally, the bill proposed to remove residential property from eligibility, and to place strict limits on "carry back" and "carry forward" provisions. The bill died in committee, but legislators vowed to introduce similar legislation in subsequent sessions.

During the recent legislative session, Senator Brad Lager (R-District 12) introduced another round of amendments to cripple the program, including an amendment to Senate Bill 86 to establish "sunset provisions" for a range of tax credits, including the historic preservation program. Specifically, the amended bill proposes to retire all tax credit programs unless there is specific action by the General Assembly to reauthorize them. The amendments succumbed to the haste of a rapidly approaching recess deadline, however, Lager promised to reintroduce sunset provisions during the next session.

Missouri legislators have repeatedly cited "fiscal prudence" as the basis for their opposition to historic tax credits, arguing that in lean budget times citizens cannot afford to pay for such "costly" programs. But this justification is deeply flawed. First, the state's own reports demonstrate that historic tax credits generate added value, providing an infusion of money into the state budget. Moreover, unlike most development incentives, the historic tax credit program is performance-based in that it requires the front-end investment of $4.00 for the issuance of every $1.00 of tax credit. The program does not give away state money in advance; rather, it stimulates investment by awarding tax credits at the completion of a project.

To date there have been no successful legislative curtailments of historic tax credits, however, legislators realize that their ongoing attempts need not become law to be "successful." The clockwork assaults could very well dampen development by introducing unpredictability into the rehabilitation of historic buildings. Threatening to cap the amount of tax credits issued, to backlog the issuance of tax credits or to introduce sunset provisions throw rehabilitation pro formas into disarray. As a result, investors will be far less likely to pay carrying costs, taxes, insurance and engineering and design fees without knowing if tax credits will be available when their project is completed. If the availability of tax credits is contingent, rather than guaranteed, financial institutions will lose confidence in investing in historic properties. If developer and banker confidence wanes, redevelopment activity will grind to a standstill and the revenues currently enjoyed by our state will disappear.

Support for the historic tax credit program remains widespread in Missouri, and includes Governor Blunt, U.S. Senator Claire McCaskill and mayors, council members, planning staff and cultural resource offices in communities across Missouri. Anyone who thinks that this is a big city program should examine the list of grassroots organizations that support historic tax credits—such as the Jefferson County Historical Society, the Historical Society of Maries County, Friends of La Plata Preservation, Friends of Historic Boonville, the Adair County Historical Society in Kirksville, the Atchison County Historical Society and Downtown Washington, Inc.

So why are legislators such as Gross and Lager trying to undermine the historic tax credit program when it enjoys widespread support and is the leading economic development incentive tool in Missouri?

One possible explanation is that they are ideologically driven and that their devotion to the principle of free market economics outstrips pragmatic considerations of policy performance and measured economic benefit to the state. From a rational economic perspective, it makes no sense to curtail a program that puts money into the public treasury, particularly if the justification is fiscal austerity. In other words, curtailment of the program would directly contradict the "fiscal prudence" rationale.

Another possibility is that Gross and Lager acted in the narrow interests of legislative districts where new home construction on peripheral farmland is the predominant mode of economic development. Until the end of the current term, Senator Gross represented St. Charles County, a rapidly growing exurban region of tract housing, highways and office parks. Perhaps Senator Gross resented the fact that St. Charles County receives little direct benefit from historic tax credits, but regardless of which communities benefit directly, all communities benefit in broad terms. An economic development program that generates revenue, increases tourism and restores our heritage in the process bolsters the economy of the entire state.

Nevertheless, the efforts to roll back historic tax credits in Missouri will continue with every subsequent legislative session. The narrow lesson here is that planners and preservationists across the state should remain constantly attentive to the bills and amendments that circulate through the committees of the Missouri General Assembly. Perhaps more importantly, however, planners throughout the U.S. should beware of efforts within their state legislatures to tinker with crucial development programs, however subtle or seemingly inconsequential the changes. Small shifts in state law with regard to historic tax credits, such as the addition of a sunset provision or a cap based on general revenue, can have far-reaching consequences for cities and can dramatically impact the quality of urban life.

Joseph Heathcott is an associate professor of urban studies at The New School. He is the co-editor of Beyond the Ruins: The Meanings of Deindustrialization, *as well as numerous articles on preservation, planning, civic culture and the urban built environment.*