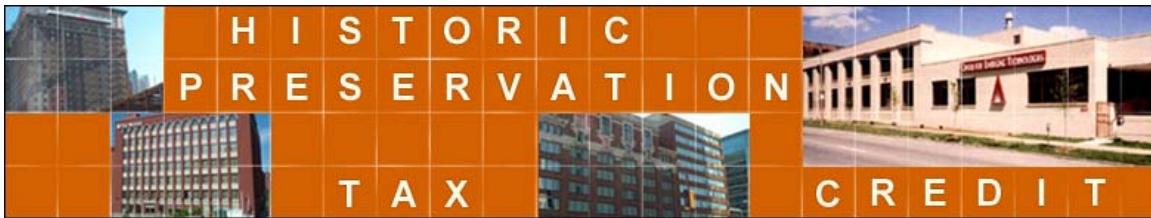


An Economic Analysis of the Missouri Historic Preservation Tax Credit

Economic impact analyses by Rubin Brown Gornstein & Co. for the St. Louis Regional
Chamber and Growth Association



Missouri Historic Preservation Tax Credit Program Overview

How it works:

- The Missouri Historic Preservation Tax Credit (MHPTC) program reimburses developers **25% of eligible historic rehabilitation costs** in the form of transferable tax credits. In other words, the developer must **raise in excess of \$4.00 in private equity and financing for each \$1.00 of tax credit.**
- The tax credits are not redeemed until **after the eligible expenses have been incurred.** Thus, the construction and rehabilitation work generates state and local tax revenue before the credits are redeemed by the state.
- According to DED-sponsored studies, during 2000, **\$20 million worth of MHPTC generated \$30 million in state and local tax revenue.**

Case Studies

The RCGA engaged accountants and financial analysts from Rubin, Brown, Gornstein & Co. to study the economic and fiscal impacts of the Historic Preservation Tax Credit over a 3-year construction period and 20-year operating horizon.

A. The Westin Hotel at Cupples Station:

The MHPTC helped to finance the renovation of several abandoned warehouses into a new Westin Hotel. In return for \$19.8 million in tax credits, the renovation at Cupples Station has already created **1,820 full-time equivalent construction jobs** and will generate **3,380 full-time equivalent operating jobs.** The activity at the Westin will also generate **\$54.5 million in state and local tax revenue.**

B. Center for Emerging Technologies:

The Center for Emerging Technologies is an incubator for high technology start-up companies that rapidly filled its original space after it opened in 1999. The renovation of a motor car factory, originally built in 1907 and financed in part by \$1.5 million in historic preservation tax credits, created increased laboratory, office, and meeting space. The companies in the Center (Phases I and II) will generate **\$14.9 million in state and local tax revenue, 2,840 full-time equivalent jobs,** and \$246 million in increased personal income.

C. The Chase Park Plaza Hotel:

The Chase Park Plaza Hotel, built in the 1920s, fell into disrepair and closed in 1989. With the help of the MHPTC, a \$137 million renovation began in 1997. The Chase Park Plaza is now home to a 251-room hotel, 270 residences, retail shops, offices, restaurants, and a 5-screen movie theater. In return for \$20.3 million in tax credits, the renovation of the Chase generated **1,860 construction jobs** and **\$6.9 million in state and local tax revenue.** The operation of the Chase Park Plaza Hotel and ancillary activity at the site will generate **5,578 full-time equivalent jobs, \$114.5 million in increased personal income,** and **\$45.9 million in state and local tax revenue.**

Case Studies prepared by Rubin, Brown, Gornstein & Co. LLP.

For further information, contact RCGA Chief Economist Bryan Bezold at (314)444.1125 or bbezold@stlrcga.org



The Chase Park Plaza Hotel in St. Louis' Central West End neighborhood is an excellent example of the Missouri Historic Preservation Tax Credit's success in fostering urban development and preserving St. Louis' unique heritage. The original hotel was built in 1922 and closed in 1989. Thanks to the Missouri Historic Preservation Tax Credit, developers began renovation work in 1997. The facility is now home to a 251-room luxury hotel, 270 residences, office space, restaurants, and a 5-screen movie theater.



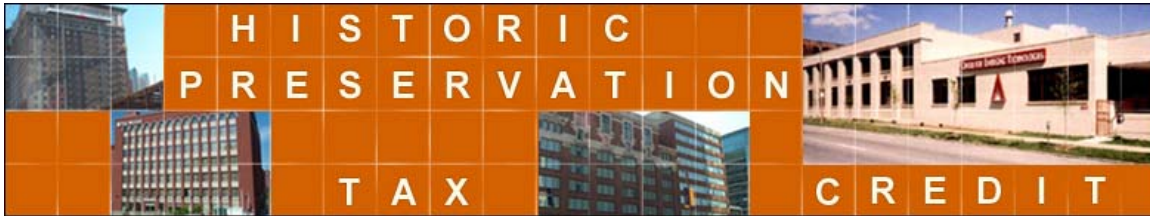
Economic Costs and Benefits:

Accountants and financial analysts at Rubin, Brown, Gornstein & Co. conducted a detailed case study of the economic and fiscal impacts of the redevelopment of the Chase Park Plaza Hotel over a 3-year construction period and 20-year operating horizon. According to their analysis, the renovation, hotel operations, and ancillary activity at the Chase site will provide significant economic and fiscal benefits.

Total Private Investment:	\$137 million
Missouri Historic Preservation Tax Credits:	\$20.3 million
Increased Personal Income:	\$161.0 million
Increased State and Local Tax Revenue:	\$52.9 million
Full-Time Equivalent Jobs:	7,438

Each dollar of Missouri Historic Preservation Tax Credit invested in the Chase hotel project will generate \$7.93 of increased personal income and \$2.60 of increased state and local taxes.

The totals above include the 1,860 full-time equivalent construction jobs and earned income of \$58.2 million realized through the rehabilitation activity. *That component of the economic benefit was realized before the credits were redeemed.*



The Westin Hotel at Cupples Station is an example of the Missouri Historic Preservation Tax Credit's success in fostering downtown development and preserving St. Louis' unique heritage. A former warehouse, the facility was abandoned and empty prior to its re-development by McCormack Baron & Associates in 1998.



Economic Costs and Benefits:

Accountants and financial analysts at Rubin, Brown, Gornstein & Co. conducted a detailed case study of the economic and fiscal impacts of the redevelopment of the Westin over a 20-year horizon. According to their analysis, the renovation, hotel operations, and ancillary activity at the Westin site will provide significant economic and fiscal benefits.

Total Private Investment:	\$97.3 million
Missouri Historic Preservation Tax Credits:	\$19.8 million
Increased Personal Income:	\$127.3 million
Increased State and Local Tax Revenue	\$54.4 million
Total Full-time Equivalent Employment:	5,195



Each \$1.00 of Missouri Historic Preservation Tax Credit invested in the Westin hotel project will generate \$6.41 of personal income and \$2.74 of increased state and local taxes. These figures include 1,815 fulltime equivalent jobs and \$6.8 million in state and local tax revenue, ***benefits that were realized before the credits were redeemed.***



MYTHS AND REALITIES

Myth #1: Immediate savings to the state will be realized if the Missouri Historic Preservation Tax Credit (MHPTC) Program is capped or eliminated.

Reality: There is a substantial lag between initial approval of a project for tax credits and when the credits are ultimately claimed. A project that receives initial application approval today would not receive tax credits until after the rehabilitation is complete, the project is certified and the credit is issued. This could be as much as 2 or 3 years later. A change in the program now **will not** have an immediate impact on Missouri's budget.

Myth #2: The MHPTC Program is a net cost financially to the State of Missouri.

Reality: According to Joe Driskill, Director of the Missouri Department of Economic Development, the MHPTC Program generates **positive cash flow** for the state – \$1.78 for every \$1 of tax credit. In fact, the state derives considerable fiscal benefits from a rehabilitation project even before the credits are issued through income, payroll and sales/use taxes generated during the construction phase of a project.

Myth #3: The Missouri Historic Preservation Tax Credit is “free” money to the developer of the historic project.

Reality: The developer must raise in excess of \$4.00 in private equity and financing for each \$1.00 of Missouri Historic Preservation Tax Credits issued. The equity and financing must be raised and the rehabilitation of the property complete **before** the credits are issued. The risk of capital is very real to the developers, investors and lenders involved.

Myth #4: The MHPTC Program needs to be more closely monitored. If someone spends the money, they automatically get the tax credits.

Reality: Missouri's Departments of Economic Development and Natural Resources jointly have one of the most stringent certification processes in the USA, even stricter than that of the US government for the federal historic tax credit. In fact, as part of the certification process, rehabilitation projects with development costs in excess of \$500,000 are required to submit cost certifications attested to by a CPA **before** being issued the tax credits. Experts with the state verify that the rehabilitation work was completed as originally planned and approved by the state under strict historic

preservation guidelines. If a property owner incurs costs, but doesn't follow the guidelines, credits are **not** issued.

Myth #5: Historic rehabilitation deals in Missouri would still get done without the credit.

Reality: The federal historic tax credit was severely restricted in the 1986 when Congress overhauled the federal tax code. At that time rehabilitation activity declined drastically. From a 1982 high of \$188 million invested in rehabilitation activity in Missouri, investment activity declined to a meager \$3.4 million during 1995, a **98% decrease**. The reality is that without the added funding source provided by the Missouri Historic Preservation Tax Credit it is generally not feasible to rehabilitate historic properties. Bottom line, deals are not getting done without the availability of the state credit.

Myth #6: The MHPTC Program only benefits the urban areas of St. Louis and Kansas City.

Reality: Though widely used in the distressed urban cores of St. Louis and Kansas City, the program is available for the rehabilitation of eligible historic buildings across the state, in large and small communities alike. This credit program has been utilized to restore properties in Missouri communities such as Hannibal, Fulton, Sedalia, Lexington, Osceola, Ste. Genevieve, West Plains, Warrensburg, Jefferson City, Danville and Rolla

Myth #7: The MHPTC Program only benefits developers and commercial enterprises.

Reality: Unlike the federal credit program, the MHPTC Program can be used by homeowners. Through early 2000, 28% percent of the projects that have claimed the state credits have been owner-occupied properties.

Myth #8: The uncertainty of when tax credits will be redeemed under the current MHPTC Program can only be fixed legislatively.

Reality: Steps could be taken, through the tax credit application process, to help the state initially budget and then monitor the anticipated redemption of tax credits. Currently, a significant amount of tax credits are redeemed shortly after issuance.