Walker's historic tax credit cap furrows brows in development community

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Developers and the historic preservation community are concerned about Gov. Scott Walker’s proposed $10 million annual cap on tax credits that help pay for building restoration projects.

The state doubled the tax credit program in the previous budget and wound up awarding more credits than anticipated. Although it dented the state budget, the program spurred a boom of historic building rehabs, especially in downtown Milwaukee, with projects including the Posner building on West Wisconsin Avenue.

Walker's budget, unveiled this week, proposes limits to the tax credit program. Starting in 2016, the state will limit the tax credit awards to $10 million and make projects compete to win them based on job creation and other economic benefits. That change would create a revenue increase of $7.8 million for the state in fiscal year 2017.

"I am hearing quite a bit of concern, especially that the recommendations create uncertainty for developers when calculating financing for projects," said Dawn McCarthy, president of the Milwaukee Preservation Alliance.

"From developers doing smaller projects, I heard that it will be nearly impossible to be competitive with large developers," she added.

Joshua Jeffers, president of J. Jeffers & Co., Milwaukee, also had concerns. Jeffers recently applied for about $2 million in historic tax credits to renovate the downtown Milwaukee Mackie Building, which houses the Grain Exchange room, into apartments. That application would not be affected by Walker's proposal.

Jeffers questioned the decision to set a cap before the state can study the economic benefits of the tax credit program. Other states have done studies showing that historic tax credit projects
create a net budgetary gain by generating more income and other taxes. Wisconsin officials called for such a study last year.

"I don't know if it necessarily makes sense to make any of these changes before you do an economic impact analysis," he said.

Jeffers said the tax credit applications cost $50,000 to $100,000 to prepare. If they are awarded competitively, companies may not want to risk that kind of money on the hope of being selected to receive credits, he said.

"A $10 million annual distribution of historic tax credits, it just wouldn't be worth the transaction cost," he said.

McCarthy said, compared with other states that also cap tax credit awards, $10 million may be too low. Iowa is at $45 million and Ohio $60 million, she said.

Instead of the annual cap, McCarthy said it may be better to set a limit on the value of credits each project can receive.

"That opens the tax credits to smaller projects in addition to larger projects," she said.

Reporter Sean Ryan covers commercial and residential real estate for the Milwaukee Business Journal and through the Real Estate Roundup blog on the website. He also covers construction, highways and public transit.