



Meet Norwood Hills Country Club. In 2006, the state issued more than \$1.1 million in state Historic Preservation Tax Credits to the facility.

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TESTIMONY

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PUBLIC MONEY, PRIVATE MONEY

By Patrick Ishmael

Testimony Before the Missouri Tax Credit Review Commission

Introduction

As Commission members know, the track record of Missouri's economic development tax credits has been spotty at best. Billions of dollars have gone into these programs. What do we have to show for it? Although I can speak at length about several aspects of the state's tax credit troubles including their economics, I would like to focus on only one tax credit today — and one project in particular.

The Historic Preservation Tax Credit

Meet Norwood Hills Country Club. In 2006, the state issued more than \$1.1 million in state Historic Preservation Tax Credits (HPTC) to the facility.

A successful private club in north Saint Louis, it hosted the PGA Championship in 1948. In 2005, the club sought and received designation as an historic landmark, and as an historic landmark, it was eligible for HPTCs from the state.

First, whether credits for a country club are an appropriate use of state taxpayer money is a question worth seriously assessing here. The Missouri Department of Economic

Development administers the HPTC program, so tax credits in that program are **imbued with a presumption that a fundamental objective of the credit is economic growth**. But does granting historic preservation credits to a private country club that markets a \$1,000 entry-level membership package really promote economic growth? Is that what Missourians thought they were paying for by offering these credits?

The HPTC is often defended as a way of correcting market failures and increasing positive externalities — that is, giving an intangible boost to the standard of living of those who can see and enjoy the property. Is it likely that there was a market failure at Norwood Hills that the state had to step in and correct? And is it reasonable to believe that Missourians will really be able to enjoy the externalities promoted as a result of sending their tax dollars to a private club?

Moreover, the proximity in time between historic designation and tax credit issuance is troubling. In the case of Norwood Hills, did Missouri issue a tax credit **to preserve** a historic landmark, or was a historic landmark **created to access** Missouri tax credits?

We actually know the answer here.

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Rarely do you see an extensive write-up about the “whys” and “hows” of an individual tax credit project, but in July 2005, the industry publication Club & Resort Business wrote a long story about the renovations at Norwood Hills and how the club got the tax credits which helped pay for it. Specifically, the article (appropriately titled “**Norwood Hills CC: No Sweat and Plenty of Gain**”) noted that the original idea of making Norwood Hills a historic place came from a real estate developer — who apparently did not think Norwood Hills was actually that historic of a place (emphasis mine):

Another huge boost to the renovation project came after a Norwood Hills member who is a real estate developer suggested that the club, which hosted the 1948 PGA and has a long and rich connection with St. Louis-area social history, look into the possibility of applying for placement on the National Registry of Historic Places. Successfully securing that status, the developer member advised, would then qualify Norwood Hills, which operates as a for-profit corporation, for renovation tax credits. “[**The member**] **felt we could qualify not so much because of the club’s history or architecture, but because of the distinction of our members in the St. Louis community through the years,**” Wright says.

If Norwood Hills as a place was not itself historic, what exactly was the Historic Preservation Tax Credit preserving? “History” is no doubt in the eyes of the beholder, but what taxpayers — most on the outside looking in — gained in this process should be of considerable interest to policymakers.

The article also offered an indispensable insight into what the club actually received after it was designated “historic” (emphasis mine):

The two-and-a-half-year process of applying (to both state and federal agencies) was arduous and intensely

bureaucratic. . . . But in February of this year [2005], Norwood Hills was finally notified that it did indeed qualify to be included on the registry. **And with the honor came a huge financial benefit: specifically, the ability to earn tax credits for 45 cents of every dollar spent on the renovation project.**

How did the club get 45 cents on the dollar? The state HPTC offers 25 cents on the dollar for qualifying renovation expenses, but the federal version of the HPTC offers an **additional** 20 cents on the dollar for those expenses. At the Show-Me Institute, we talk a lot about state incentives because we are, after all, a state-focused think tank. However, taxpayers should understand that there oftentimes is more than just state money involved in renovation and building projects like this — so much government money, in fact, that **nearly half of the cost of a multi-million dollar renovation to a private golf club could be underwritten with government credits.**

Have Missouri taxpayers — who pay taxes both to the federal and state governments — gotten their money’s worth here?

Conclusion

State-underwritten historic preservation efforts, particularly in Saint Louis but across the state as well, have been operating with an open throttle for more than a decade now, with the state issuing more than \$1 billion in tax credits for preservation since 1999. As obvious preservation projects have dwindled, the preservation net has seemingly widened to keep the subsidies pumping.

Taxpayers have ample reason to worry about what the state has purchased with their money through tax credits. We can and must do better than this.

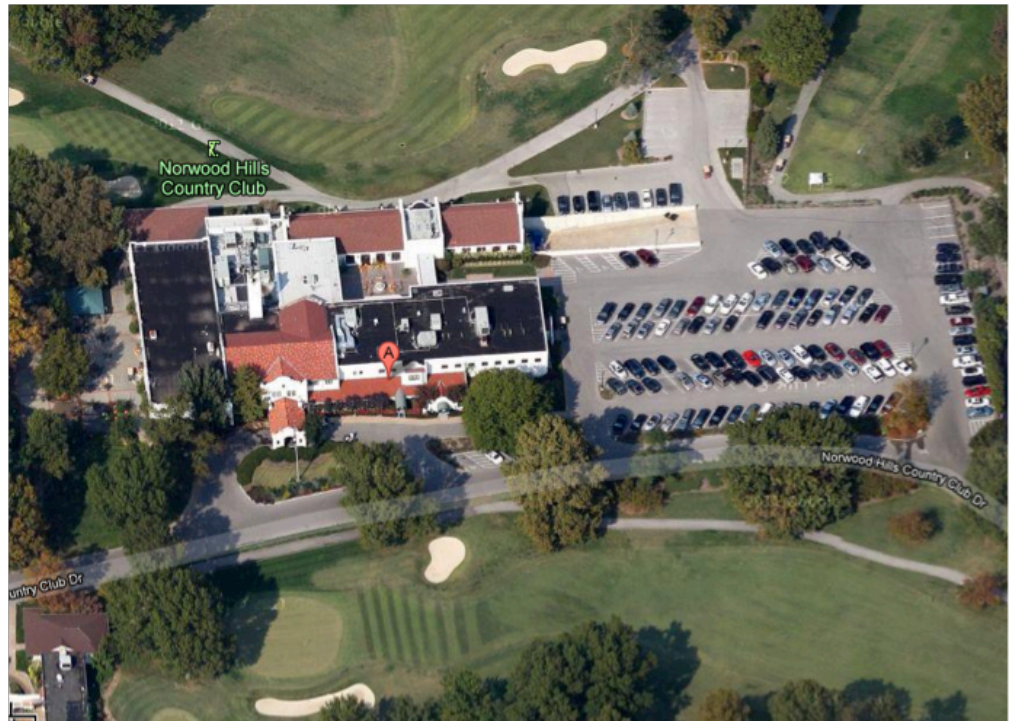
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***[D]id Missouri
issue a tax credit
to preserve
an historic
landmark, or
was an historic
landmark created
to access
Missouri tax
credits?***

*If Norwood Hills
as a place was
not itself historic,
what exactly
was the Historic
Preservation
Tax Credit
preserving?*

NORWOOD HILLS COUNTRY CLUB



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