

# THE BOND BUYER

## Survival of historic tax credits breathes new life into Texas projects

By

**Richard Williamson**

Published

March 26, 2018, 1:55pm EDT

DALLAS -- Three months after historic tax credits survived Congressional tax reform, Texas cities are moving back to the future with preservation of landmark buildings financed by private developers.

In San Antonio, the National Park Service approved creation of a historic district that includes most of downtown, the city's famous River Walk and nearly 200 buildings that will qualify for state and federal tax credits covering 45% of renovation costs. The designation comes as the city celebrates its 300<sup>th</sup> anniversary this year.

With the historical designation of the downtown area, San Antonio now has 29 historic districts, including the old Spanish missions that earned a place on UNESCO's list of World Heritage Sites.

In Houston, Harris County Commissioners have approved a \$105 million renovation to the vacant Astrodome designed to save the world's first domed stadium. Completion of the low-key project – which envisions the landmark as a parking lot -- is expected in 2020.

In El Paso, the long vacant "Blue Flame" tower will undergo a \$40 million renovation using \$7.5 million in tax credits. Formerly a headquarters for the El Paso gas utility, the building recently landed on the National Register of Historic Places, qualifying the site for tax credits. The Housing Authority of the City of El Paso will use the federal credits to convert the Blue Flame into apartments, along with commercial and retail space.

In Corpus Christi, Nueces County Commissioners have approved the sale of the 104-year-old Nueces County Courthouse to a developer planning to turn the grand but derelict structure into a boutique hotel. The imposing building has stood vacant since 1977.

The projects might not have proven feasible if Congress had adopted the House version of tax reform that eliminated the 20% historic tax credit for saving historic structures and enacted during the Reagan era.

“The tax credits are very important to San Antonio,” said Shannon Shea Miller, director of the city’s Office of Historic Preservation. “A number of rehabilitation projects would not have happened without the state and federal tax credits.”

The version of the tax bill signed into law Dec. 22 by President Trump eliminates the 10% non-historic credit for buildings built before 1936 and requires that the historic tax credit be spread over five years rather than when the building opens.

“While these changes diminish incentives to rehabilitate older and historic buildings, survival of the 20% credit in the most significant rewrite of the tax code in 30 years confirms that incentivizing investment in our historic properties remains a widely accepted and supported federal policy,” according to a statement from the National Center for Historic Preservation.

Since its enactment in 1981, the credit has been used to renovate more than 40,000 structures using \$117 billion in private investment, according to the National Trust for Historic Preservation.

One of the more controversial examples of the credit’s application was the \$40 million provided to Donald Trump for redevelopment of the Old Post Office Building in Washington, D.C., as a Trump hotel. Trump opened the hotel before election day in 2016, and his privately held corporation continues to operate the building as Trump occupies the nearby White House as president.

A year before Trump’s election, Sen. James Lankford, R-Okla., listed the project on his ["Federal Fumbles"](#) report about what he called government waste.

"While the lucky guests of this palatial hotel will be awestruck by its glitz and glamour, taxpayers are unlikely to be amused that they helped foot the bill through a \$40 million tax credit thanks to the National Historic Tax Credit," the report said.

In Texas, 126 real estate projects have used the federal historic tax credit since 2002, according to National Trust for Historic Preservation.

Dallas claimed the most credits with 23 developments valued at more than \$370 million, the study said. Most of the downtown projects involved conversion of office towers into apartments and condos.

Houston had the second-most historic credit projects with 13 while Fort Worth and San Antonio had 12 each.

The Texas Historical Commission is involved in the process of recommending projects based on U.S. Department of Interior criteria. About \$85 million is reinvested in the Texas economy annually from participation in this program, according to state officials.

The state's tax credit is worth 25% of the eligible rehabilitation costs for the project, which must be at least \$5,000 in value. In the absence of a state income tax, the credit is applied against a business's franchise tax liability.

San Antonio's latest historic district was added to the National Register of Historic Places in February, nearly 18 months after the Texas Historical Commission approved an application prepared by the city's Office of Historic Preservation.

The historical preservation push coincides with a bond-funded project to redevelop downtown's Hemisfair Park, site of the 1968 World's Fair. The \$21 million of bonds for the project were included in San Antonio's record \$850 million bond program approved by voters last May.

A public-private partnership between the city's nonprofit Hemisfair Park Area Redevelopment Corp. and Zachry Hospitality will bring an estimated \$200 million in private investment and nearly one million square feet of mixed-use development to Hemisfair Park. The mixed-use development includes multi-family housing, underground parking, retail, restaurants and shops, along with a hotel and related projects.

Over in Houston, redevelopment of the Astrodome in Houston is far less ambitious.

County Commissioners had to come up with a 'Plan B' to save the dome after voters in 2013 rejected a \$217 million bond proposal to redevelop the stadium, which is near the new NRG Stadium, home of the Houston Texans National Football League team.

The Texas Historical Commission voted unanimously in January 2017 to designate the Astrodome, which hosted its last major league sports event in 1999, as a state antiquities landmark, providing it with important legal protections.

Harris County Commissioners voted on Feb. 13 to move forward with the \$105 million renovation that calls for two levels of underground parking and a higher floor for exhibitions such as auto and boat shows. Construction is expected to begin in October and end in February 2020.

To celebrate the Astrodome's preservation, the Astrodome Conservancy is hosting a "Domecoming" on April 9 to allow the public to see the stadium before its transformation. The event will include food and entertainment, with Harris County Judge Ed Emmett presenting plans for the revived facility.

On the Gulf Coast in Corpus Christi, plans to redevelop the Old County Courthouse coincide with replacement of the Harbor Bridge by the Texas Department of Transportation. The new bridge, which looms over the Old Courthouse, will give way to a higher bridge that will allow super-sized cargo vessels to traverse the ship channel en route to the port.

"I think this is a huge deal for development in that area," said County Judge Lloyd Neal.

After 40 years of vacancy the Old Courthouse was considered Corpus Christi's most endangered historic property, according to the Texas Historical Commission. A master plan to redevelop the property began in 2000.

Between 2001 and 2004, the county was awarded \$2.2 million from the state to replace the roof, stabilize the exterior masonry, and protect the exterior door and window openings. The entire façade of the south wing was restored to its original condition as a demonstration project in 2006.

Nueces County Commissioner Mike Pusley said developers of the project contacted him shortly after the House Republicans' version of the tax bill was introduced in November. The House bill's elimination of the historic tax credits from the proposed legislation threatened to shelve the project, Pusley said.