Tax credit will soon be history

01:00 AM EDT on Friday, April 4, 2008

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Journal State House Bureau

Edward Sanderson, executive director of the Rhode Island Historic Preservation and Heritage Commission, attends a hearing on the bill dealing with historic tax credits.

The Providence Journal / Connie Grosch

PROVIDENCE — Government officials are turning to the bond market to help save Rhode Island’s popular historic tax credit program, which is largely credited with revitalizing dilapidated mills and depressed neighborhoods across the state.

But the program won’t be alive for long.

The House Finance Committee voted yesterday to block new projects from qualifying for the program, while creating a trust fund of up to $280 million in borrowed funds to help cover future obligations to developments already in the pipeline.

While the plan relies on selling bonds, state officials say the cost of borrowing won’t add to the state’s deficit. The legislation approved yesterday slightly reduces the program’s reimbursement rate to make up for the expected interest payments.

“The state already had these obligations. What we’re doing is restructuring those obligations,” said Gary Sasse, director of the state Department of Revenue, which helped craft the measure with General Assembly leaders and even some developers.

The compromise legislation replaces Governor Carcieri’s initial plan to implement an annual cap on the credits, which many feared would kill the program altogether. And it represents the result of weeks of back-room negotiations as officials struggled to save a program that enjoyed the backing of top legislative leaders, but was placing an increasing burden on taxpayers.

The existing program will cost taxpayers an estimated $66.1 million this year.

“Ultimately, it’s a balance of what we can live with in terms of the fiscal condition of this state, and the commitment that this state made to these individuals, these corporations to do business in the state of Rhode Island,” said House Majority Leader Gordon D. Fox, D-Providence.

Rhode Island is facing a current-year deficit of at least $151 million; less than three months remain in the fiscal year. Next year’s deficit, now projected at $384 million, is expected to grow substantially in the coming months.

Yesterday’s move was among the first significant votes by the committee largely responsible for resolving the state’s fiscal dilemma.

The finance committee has repeatedly delayed votes on a comprehensive deficit-avoidance plan, known as the supplemental budget, submitted by the governor in January. The sweeping plan calls for reducing state aid to cities and towns, cutting health care for immigrant children, reducing welfare rolls and cutting more than $15 million in staffing costs.

The tax credit plan was largely thought to be among the more contentious proposals and was addressed separately by the committee yesterday. The committee is scheduled to vote on the full supplemental budget next week.

“It’s going to be a year of balancing and balancing and balancing, and trying to do the least harm as possible while we make very difficult decisions,” Fox said.

Meanwhile, the bill approved yesterday won’t cost the state any more than the governor’s initial plan, according to House Fiscal Advisor Michael O’Keefe. The debt service associated with borrowing up to $280 million will be made up by reducing the size of tax credits issued to companies.

The legislation blocks any projects from qualifying for the historic tax credits that submitted its application after Dec. 31, 2007. And the state will reduce the reimbursement rate for projects that are already under way from a net of 27.75 percent (taking into account a 2.25-percent application fee) to 22 percent (taking into account a new fee structure).

That means that large developers, such as Struever Brothers, Eccles & Rouse, stand to lose millions of dollars if the plan is ultimately approved by the House and Senate, as expected.

“We’ll have to come up with some additional funding,” said John Sinnott, managing director of Rhode Island operations for Struever. “But it’s a fair compromise.”

Sinnott was among those who worked with lawmakers to craft the plan. Fox said legislators discussed the proposal with various developers, but declined to name them.

Sinnott acknowledged that the legislation approved yesterday essentially ends the historic tax credit program as it's currently known. Despite lawmakers' pledges last night to resurrect the program in the coming session, Sinnott said that his company, which was drawn to Rhode Island in recent years specifically because of the tax credits, would need to change its business model.

"Now we're going to be looking for non-historic work," he said. "We'll be in Rhode Island as long as we can."

The tax credit works this way: Developers receive a credit for up to 30 percent of their qualifying historical rehabilitation construction costs. But developers usually don't have much need for the credits because they typically don't have large state tax liabilities. Instead, they sell their credits at a discount — currently at about 78 cents on the dollar — to wealthy individuals who use them to reduce their state income taxes.

Meanwhile, the state won't know exactly how much it has to borrow to finance the program until May 15, when developers for ongoing projects must submit a 2.25-percent processing fee to retain the tax credit.

Head of the business-backed Rhode Island Public Expenditure Council, John Simmons, said he had yet to study the new legislation, but that it appeared to cover Rhode Island's responsibilities to developers.

"It does many things," he said. "The question is, is the right answer to borrow?"

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