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- [Upcoming events](#)
- [Wichita and Kansas political groups](#)

Voice For Liberty in Wichita

Individual liberty, limited government, and free markets in Wichita and Kansas

Wichita makes case for tax credits

by Bob Weeks on [January 8, 2010](#)

in [Wichita city government](#)

At yesterday's meeting of the South-central Kansas legislative delegation with government officials, the [City of Wichita](#) spent most of its time presenting the case that cuts made to a program of tax credits for historic buildings should be restored.

Initially [Mayor Carl Brewer](#) asked legislators for continued funding for the affordable airfares effort, for the National Institute for Aviation Research, and the aquifer recharge project.

But the primary focus of the city's requests became clear when Jeff Fluhr of the [Wichita Downtown Development Corporation](#) introduced Christy Davis, a historical preservation consultant who [operates a company that assists property owners and governments in obtaining funding for historic preservation projects](#).

She said that there is public policy in Kansas that supports historic preservation, and that the tax credit program has been a great success. In particular, she said the tax credits leverage the financing necessary for historic preservation projects.

She said that every dollar in tax credits supports an additional three dollars of private investments. Rehabilitation of existing structures is 50 percent more labor intensive than new construction, so more jobs are created. Since 2002, \$66.4 million in Kansas tax credits have been issued, and Davis said this has leveraged over \$260 million in private investment, also creating jobs and income.

Returning to the podium, Fluhr said that tax credit program needs to be predictable, so that the private sector knows they can depend on it. Also the transferability of the credits is important, so that developers can sell them to raise capital.

Fluhr presented examples of several buildings in Wichita that have been rehabilitated, including the Wichita High Apartments, which he said will rent for \$1,000 to \$2,000. He mentioned condos in the Grant Telegraph building, which he said range in price from \$300,000 to \$950,000. Davis presented examples of rehabbed buildings whose property owners said the projects would not have been possible without the tax credits.

In 2009, the legislature placed a cap or lid on the amount of tax credits. Davis said that it was intended to be a 10 percent cut, but it turned out to be a 70 percent cut.

Both Fluhr and Davis presented the case of the Broadview Hotel in downtown Wichita. That project, already receiving various forms of subsidy from the City of Wichita, requires historic tax credits for its financial viability, according to the developers and the city. ([Uncertainty over Broadview's future doesn't bother](#)

Wichita)

Analysis

The city's quest for more tax credits is likely to face a rough road in the statehouse.

Spending advocates, especially schools, want the legislature to close tax exemptions. Generally, these are sales tax exemptions, so that organizations such as the Girl Scouts (expect them to make several field trips to the statehouse soon) don't have to pay sales tax.

Kansas Secretary of Revenue Joan Wagnon says that repealing these sales tax breaks could generate \$200 million per year in revenue. She also wants a three-year moratorium on new tax breaks.

These sales tax exemptions are "passive" from the standpoint of the legislature, in that the legislature created them, and then people have to initiate economic activity in order to benefit. The only involvement of the state in the transaction is that it doesn't collect tax that it would have. For believers in limited government, that's good.

But tax credits are active. When an applicant qualifies, the state, in essence, pays money to the applicant. While some may disagree that tax credits are in fact a payment by the state, Fluhr mentioned the *transferability* of the tax credits and the ability to sell them as important to developers. Recently some have started to use the word "tax appropriations" to describe tax credits. These expenditures don't go through the normal legislative process that most appropriation do.

Indeed, if the state issued checks to real estate developers, citizens would look at things differently. They'd wonder why they're subsidizing the construction of apartments that rent for up to \$2,000 monthly, or condos worth nearly a million dollars. These aren't low-income housing tax credits, after all.

By characterizing subsidies to developers as tax credits, it seems much less benign, although the economic effect is the same.

For believers in the collective wisdom of free people trading voluntarily in markets — instead of government intervention — tax credits are one of the most harmful things that government can do. In the case of historic building credits, it represents the desires of a relatively small band of enthusiasts. As John W. Sommer wrote in *The Cato Journal*:

With few exceptions, historic or landmark preservation illustrates the powerful force of cultural elites who impose their tastes on the landscape at the expense of the general public. City after city has been confronted by small groups of architectural aesthetes who are as highly organized as they are both righteous and wealthy. In city after city these groups have succeeded in stalling, or permanently freezing, the pace of physical and functional change. In the name of "heritage" or "culture" or "a livable city," and invariably "in the public interest," preservationists seek to legislate "charm" for others.

We'd be better off with requiring that preservationists rely on the market for the financing and success of their projects.

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