Maine Historic Preservation Commission
Recommendations to Taxation Committee pursuant to 27 M.R.S.A. §511.5.B
January 14, 2019

The provisions of LD 262, An Act to Amend the Credit for Rehabilitation of Historic Properties, were incorporated into the supplemental state budget and signed into law on March 31, 2008. The law, 27 M.R.S.A. §511, went into effect on July 1, 2008. 27 M.R.S.A. §511 instructs the Director of the Maine Historic Preservation Commission to administer, in consultation with the Department of Administrative and Financial Services, Bureau of Revenue Services, a program in support of state rehabilitation tax credits for income-producing historic structures pursuant to 36 M.R.S.A. §5219-BB.

36 M.R.S.A. §5219-BB.2.A establishes a 25% State tax credit for rehabilitations that also qualify for a 20% Federal tax credit. Such rehabilitations must meet all the requirements of the Federal Tax Incentive Program, including certification by the National Park Service. 36 M.R.S.A. §5219-BB.2.B establishes a 25% State tax credit for rehabilitations in which qualified rehabilitation expenditures of between $50,000 and $250,000 are incurred, and which cannot utilize the Federal credit (the Small Project Rehabilitation Credit). These rehabilitations are reviewed and certified by the Director of the Commission. The 25% State tax credits allowed pursuant to 36 M.R.S.A. §5219-BB.2.A and B are increased to 33% pursuant to 36 M.R.S.A. §5219-BB.3 if the project meets certain affordable housing requirements.

This report is issued by the Maine Historic Preservation Commission pursuant to 27 M.R.S.A. §511.5.B which states, in part, that:

"By January 15, 2015 and every 2 years thereafter, the Maine Historic Preservation Commission shall analyze the use of tax credits provided under Title 36, section 5219-BB as an incentive for rehabilitation of historic structures and economic development, analyze tax and other revenues generated by the rehabilitation to determine in relation to the cost of the credit if they exceed the costs of the credit and report the results of its analysis to the joint standing committee of the Legislature having jurisdiction over taxation matters with recommendations as to whether the credits under Title 36, section 5219-BB should be extended, repealed or amended. The recommendations must include specific proposals for funding the credit after fiscal year 2014-2015 and appropriate transition provisions in order that projects in development or planning stages are not adversely affected. The joint standing committee may submit legislation related to the report."

Incentive for rehabilitation of historic structures and economic development:

- In the five years (2003-2007) prior to the state historic tax credits provided under Title 36, section 5219-BB, there were a total of 12 historic rehabilitation projects certified using the federal and state historic tax incentive programs with a total investment of $21,985,593 in certified rehabilitation expenditures (expenses related directly to the rehabilitation of the historic building that are eligible for the State historic tax credit), and an additional investment of $5,155,778 in non-certified construction expenditures (expenses related to site work, new construction, furnishings and other expenses that are not eligible for the State historic tax credit).

- In the past five calendar years (2014-2018), there have been 52 historic rehabilitation projects certified under the federal and/or state historic tax incentive programs with a total investment of $213,542,258 in certified rehabilitation expenditures, and an additional investment of $46,968,273 in non-certified construction expenditures.

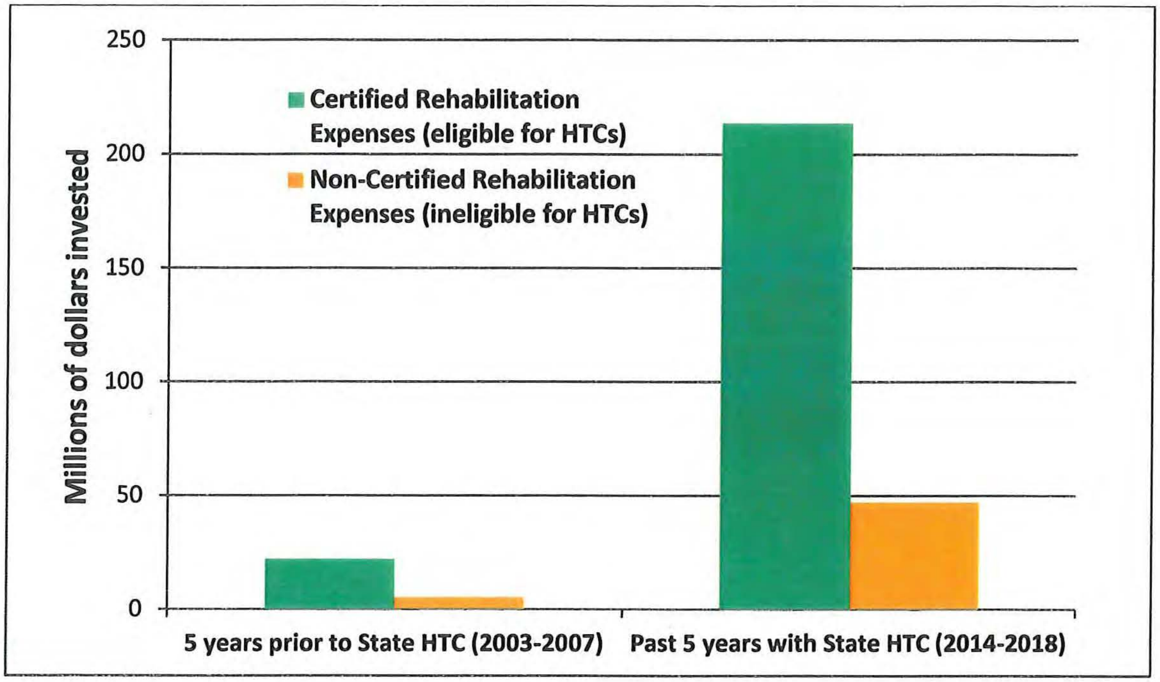
- The 52 rehabilitation projects completed between 2014 and 2018 have supported over 2,711 construction jobs, and businesses located in the rehabilitated buildings employ over 715 people. Five projects did not provide construction jobs data and three projects did not provide business jobs data; these were given a value of zero. From 2014-2018, the average number of construction jobs supported per project was 58, and the average number of jobs located in rehabilitated buildings per project was 15.

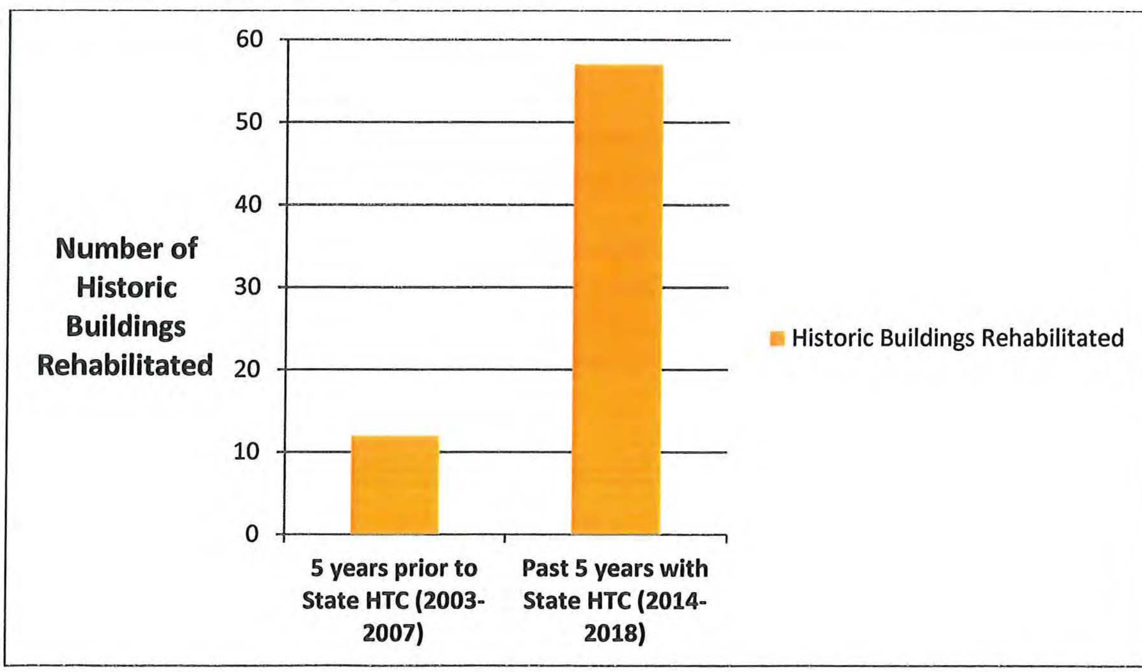
- The total pre-rehabilitation assessed tax values for 46 of the properties with projects certified from 2014 to 2018 (6 of the completed projects' re-assessed values were not available at the time of this report) was $57,957,470; the post-rehabilitation value of the same 46 properties was $135,377,999.

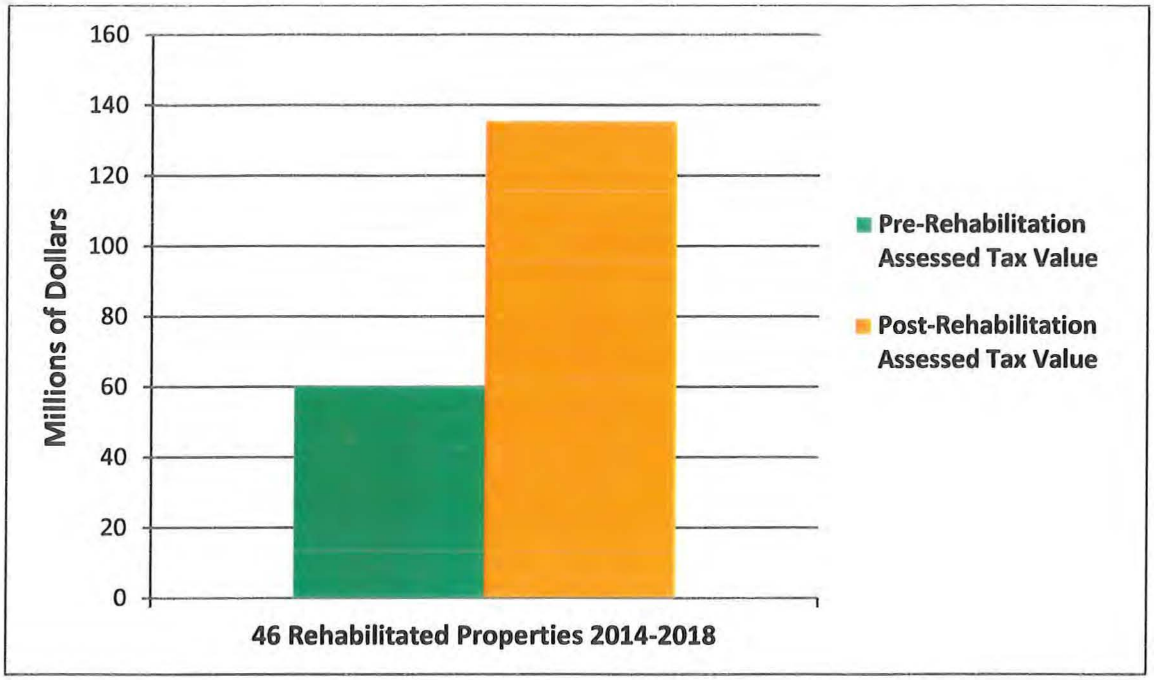
- Since the State historic tax credit was enacted in 2008, a total of 92 rehabilitation projects utilizing the program have been completed and certified in 35 towns in 14 counties across the state. These projects have resulted in the creation of affordable housing, market rate housing, retail space, offices, restaurants, hotels, inns, event spaces and workshops, as well as upgrades to established housing and business spaces. 40 of the projects returned previously vacant or partially vacant buildings to use. Rehabilitated buildings are typically in or near established historic downtowns and neighborhoods, and the projects commonly address maintenance, energy upgrades, life safety, ADA, and other code-related issues.

*All 2014-2018 figures are based on reporting by the building owners on Part B of the Maine State Rehabilitation Tax Credit Reporting Form and/or city and town tax assessment records.

*2003-2007 figures are based on Part 3 forms of the Federal Historic Preservation Certification Application.


250
200
150
100
50
0
Millions of dollars invested
Certified Rehabilitation Expenses (eligible for HTCs)
Non-Certified Rehabilitation Expenses (ineligible for HTCs)
5 years prior to State HTC (2003-2007)
Past 5 years with State HTC (2014-2018)


Number of Historic Buildings Rehabilitated
60
50
40
30
20
10
0
5 years prior to State HTC (2003-2007)
Past 5 years with State HTC (2014-2018)
Historic Buildings Rehabilitated



The Commission considers the reported numbers to show clear evidence that the tax credits provided under Title 36, section 5219-BB continue to have a significant positive effect on the number of historic buildings rehabilitated in Maine, investment generated, and the assessed tax value of rehabilitated historic properties. It is also evident that the tax credits have incentivized economic development.

Analysis of tax and other revenues generated by rehabilitations utilizing the Historic Tax Credit program to determine whether revenues generated exceed the costs of the credit:

An analysis of tax and other revenues has been undertaken by Planning Decisions using baseline data from the Maine State Rehabilitation Tax Credit Reporting Forms and the IMPLAN impact model for Maine. The overall fiscal impact of the HTC program was analyzed based on the following economic factors and documented numbers from historic tax credit projects between 2007 and 2015:

- Rehabilitation/construction-related sales and income taxes from vendors and employees working on projects;
- Reduction in state income tax receipts for four years after completed properties are placed into service;
- Local property tax revenue increases after properties are placed into service;
- New commercial activity that is created after the historic properties are put into use generates sales and income tax receipts in the course of doing business.

The figure below illustrates the analysis of the four economic factors:

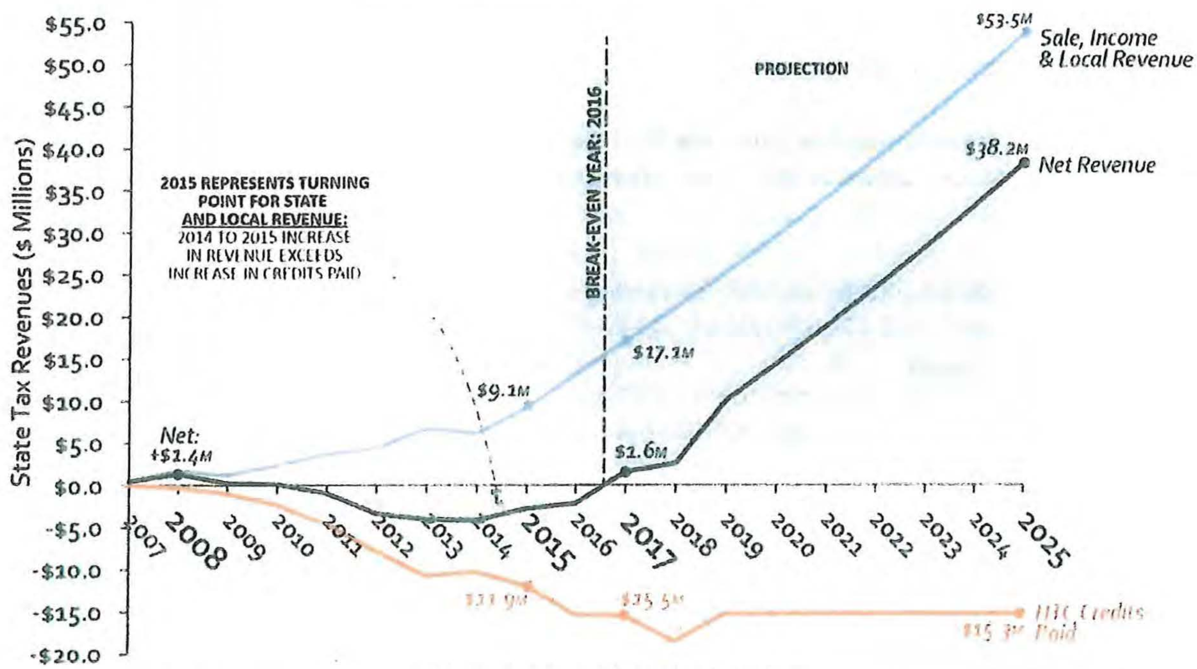


Figure 6 - HTC Fiscal Impacts, Annual

Sources: Project data provided by Maine Preservation. IMPLAN economic impact modeling conducted by PDI

As illustrated in the figure above and in the attached report, Planning Decisions reached the following conclusions:

1) The cost of the credit to the State in 2013 after accounting for tax revenues was $3.8 million, but as was predicted by prior fiscal modelling undertaken in 2007, the program turned the corner from a net annual loss to a net annual gain for the State economy between 2016 and 2017;

2) Based on projects certified and placed in service prior to 2015, as well as projects that were under construction and expected to be completed and placed in service at some point in the 2015 State fiscal year, it was estimated that the cost of the State historic tax credit would be $11.9 million dollars, which would be offset by increases in sales and income tax revenues of $7.3 million and local tax revenues of $5.6 million generated by the projects;

3) The State and local revenue derived from the benefits of the historic tax credit began decreasing the cumulative fiscal cost of the program for Maine's state and local governments and taxpayers in 2014/2015; passed the break-even point and began off-setting the cumulative cost of the program in 2016/2017; and is expected to exceed the cumulative cost of the program in 2020, producing an estimated net gain to taxpayers of $10.7 million. Going forward, the net gain to taxpayers is predicted to increase annually.

* Sales and income revenues were assumed to be zero for all affordable housing projects.

* Fiscal impact analysis is by Planning Decisions, Inc. and based on the IMPLAN model of Maine and the Maine State Rehabilitation Tax Credit Reporting Forms. "Figure 6" above was created by Planning Decisions.

Recommendations as to whether the credits under Title 36, section 5219-BB should be extended, repealed, or amended with specific proposal for funding after fiscal year 2018-2019:

Based on the information presented above demonstrating that the historic tax credit program is a positive incentive for the rehabilitation of historic structures and economic development, that it has begun to result in annual net gains in revenue, and is likely to result in a cumulative return on investment to Maine taxpayers beginning in 2020, and increased return on investment annually thereafter, the Commission recommends that the credits under Title 36, section 5219-BB be continued.

The Commission is unaware of any alternative sources of funding for the tax credit provided under Title 36, section 5219-BB, and therefore recommends that it continue to be funded by the general fund beyond fiscal year 2018-2019, as it has been since the initial legislation was passed in 2008. Transition provisions to avoid adversely affecting projects in development or planning stages will not be necessary if these recommendations are followed.