Maine Historic Preservation Commission
Recommendations to Taxation Committee pursuant to 27 M.R.S.A. §511.5.B
February 9, 2021

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 currently increased to 34% 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taxation matters with recommendations as to whether the credits under Title 36, section 5219-BB should be extended, repealed or amended.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 a 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 (2016-2020), there have been 48 historic rehabilitation projects certified under the federal and/or state historic tax incentive programs with a total investment of $163,899,653 in certified rehabilitation expenditures, and an additional investment of $29,259,457 in non-certified construction expenditures.

- The 48 rehabilitation projects completed between 2016 and 2020 have supported over 2,523 construction jobs, and businesses located in the rehabilitated buildings employ over 796 people. Four projects did not provide construction or business jobs data; these were given a value of zero for purposes of this report, though some jobs under both categories were likely created or supported by those projects. From 2016-2020, the average number of construction jobs supported per project was 53, and the average number of jobs located in rehabilitated buildings per project was 17.

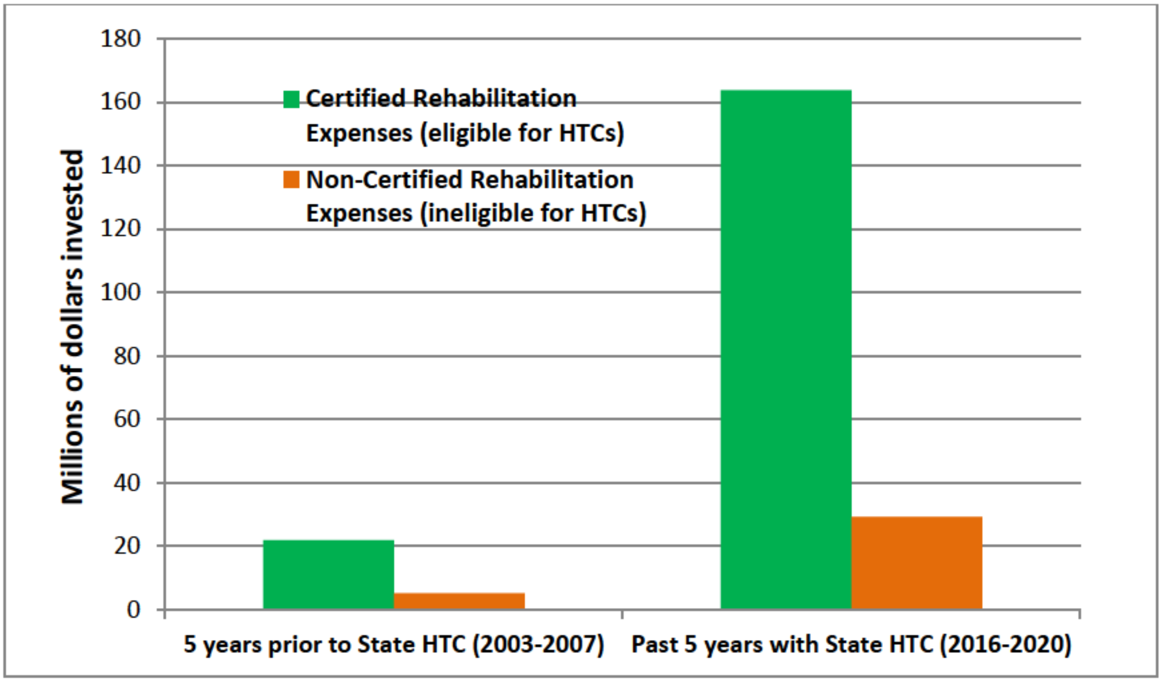
- The total pre-rehabilitation assessed tax values for 43 of the properties with projects certified from 2016 to 2020 (5 of the projects' assessed values were not available at the time of this report) was $44,923,524; the post-rehabilitation value of the same 43 properties was $93,105,174.

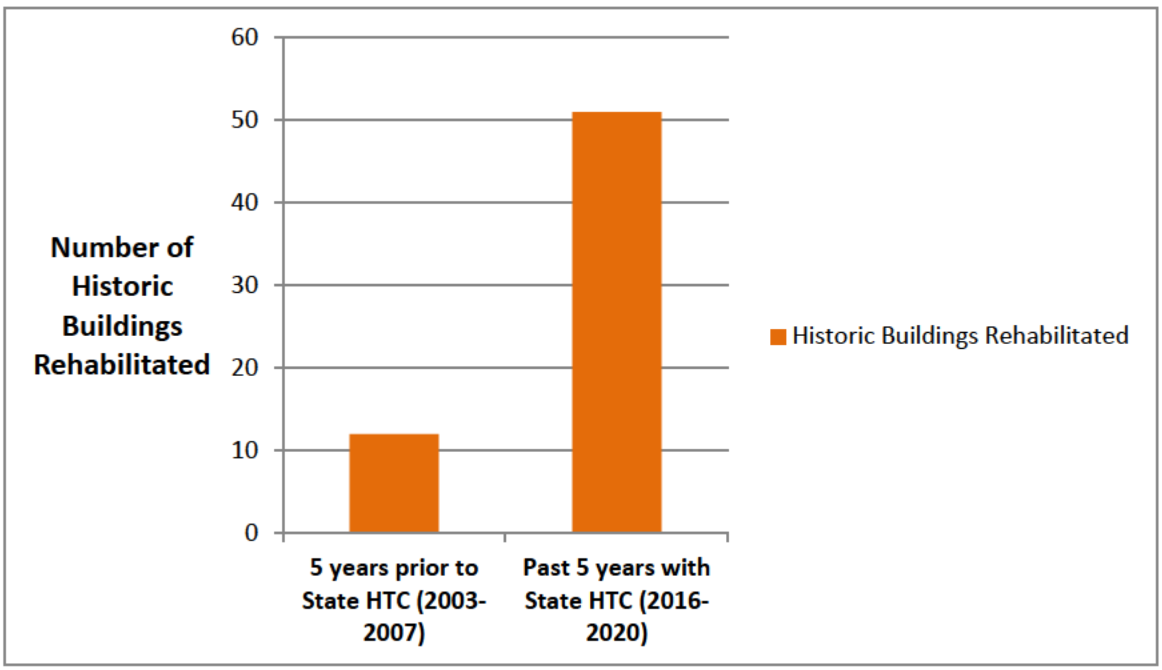
- Since the State historic tax credit was enacted in 2008, a total of 115 rehabilitation projects utilizing the program have been completed and certified in 45 towns in 14 counties across the state. These projects have resulted in the creation of affordable housing, market rate housing, retail space, offices, restaurants, hotels, inns, event spaces and workshops, as well as upgrades to established housing and business use spaces. 58 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.

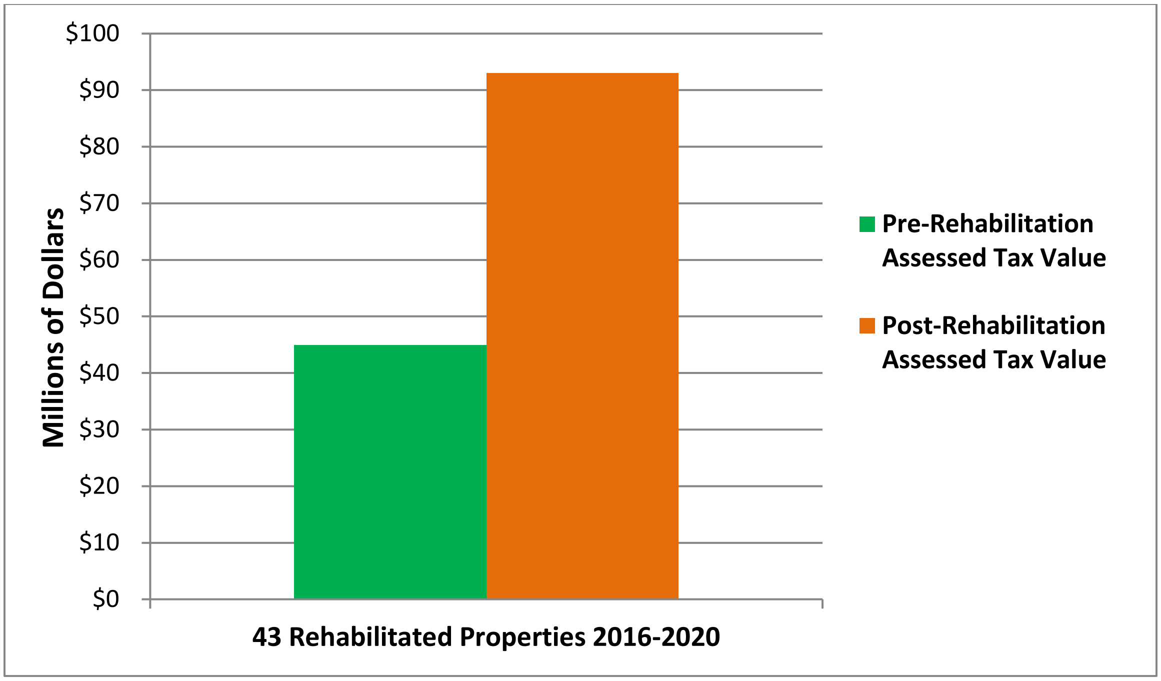
*All 2016-2020 figures are based on reporting by the building owners on Part B of the Maine State Rehabilitation Tax Credit Reporting Form and/or city and town tax assessment records.

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

The graphs on page three illustrate side-by-side comparisons of historic structure rehabilitation in Maine from the five-year period prior to the introduction of LD 262 (2003-2007) and the level of historic structure rehabilitation in the most recent five-year period (2016-2020). The graph on page four illustrates pre and post-rehabilitation tax assessed values of properties rehabilitated from 2016-2020.


180
160
140
120
100
80
60
40
20
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 (2016-2020)


60
50
40
30
20
10
0
Number of Historic Buildings Rehabilitated
Historic Buildings Rehabilitated
5 years prior to State HTC (2003-2007)
Past 5 years with State HTC (2016-2020)



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:

The Maine Historic Tax Credit Economic Impacts Report (Report) was completed by Planning Decisions for Maine Preservation in September 2020 and is appended. The Report includes an update to a previous analysis undertaken by Planning Decisions using baseline data from the Maine State Rehabilitation Tax Credit Reporting Forms and the IMPLAN impact model for Maine. The Report states that the overall fiscal impact of the HTC program was analyzed based on the following economic factors, including:

1. property taxes paid on the increase in assessed value of HTC renovated properties;
2. all state & local tax and fee payments made as a result of the direct and indirect impacts of HTC rehabilitation spending; and
3. all state & local tax and fee payments made as a result of the direct and indirect impacts of the operational activities taking place in HTC rehabilitated buildings.

The source numbers are documented from historic tax credit projects certified since establishment of the current state credit in 2008 through 2019. The graph below is an excerpt from the Report and is the most detailed analysis we have to date for determining whether revenues generated through the program exceed the costs of the credit. The graph indicates a net positive gain in revenues, even without accounting for an additional $80 million in federal tax credits that were awarded to the projects.

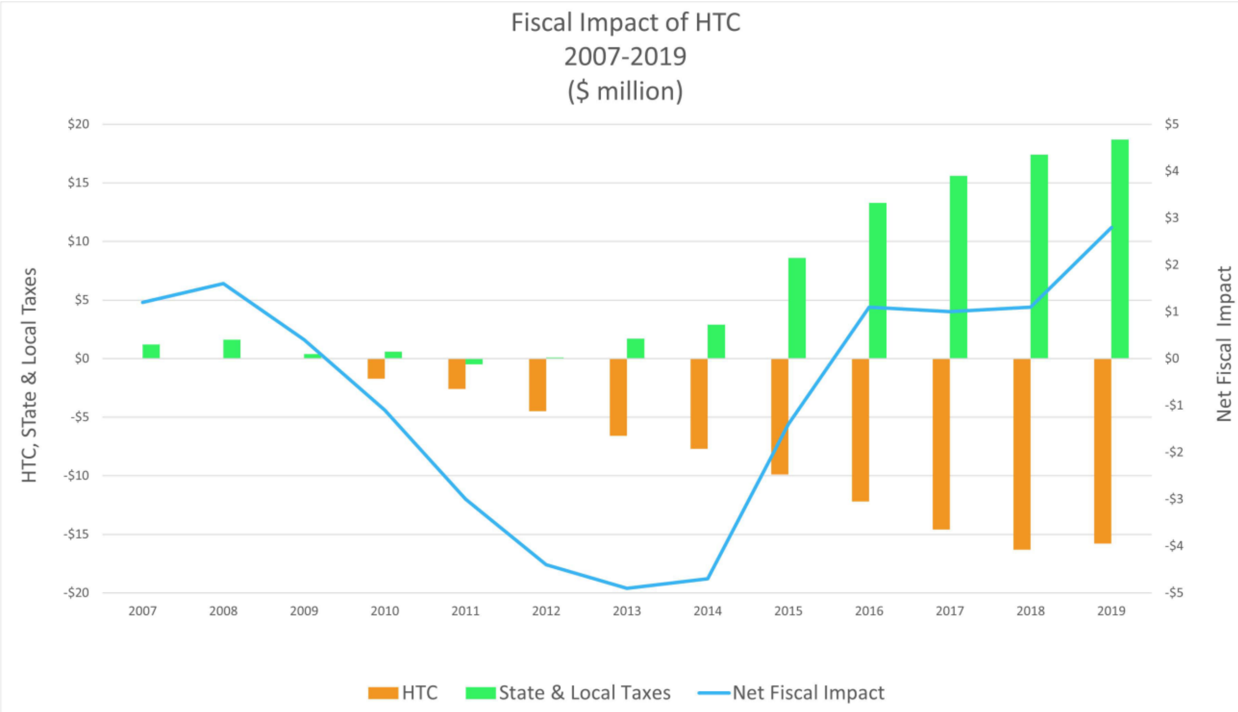


*Figure above by Planning Decisions

According to the figure above, the Report concludes that the net fiscal impact of the program crossed into positive contribution to the state's revenues in 2016 and grew to nearly $3 million in net fiscal benefits to the state in 2019. The Report further concludes that while there will be fluctuations in costs and revenues generated based on the number and sizes of projects certified under the program, the fiscal impacts are expected to remain in net positive territory.

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 2020-2021:

Based on the information presented above, the historic tax credit program is a positive incentive for the rehabilitation of historic structures and economic development. The Report states that the credit has resulted in a net return on investment of $3 million in state and local tax revenues as of 2019 and predicts that its net return will double to $6 million in state and local tax revenues in 2022. The Commission therefore 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 2020-2021, 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.