

# MAINE STATE LEGISLATURE

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# Maine Historic Tax Credit Economic Impacts Report



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Commissioned by Maine Preservation  
in partnership with CEI,  
Greater Portland Landmarks,  
GrowSmart Maine, and Maine Real  
Estate & Development Association

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The data in this report spans 2008-2019.  
*Cover image: Lofts at Bates Mill, Lewiston*

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## Executive Summary

**The Maine Historic Tax Credit (HTC)** incentivizes business and real estate owners and developers to rehabilitate and reuse income-producing historic buildings in Maine. The tax credit encourages investment in downtown areas to spur revitalization, and to create affordable housing. The mechanism is complicated (see Section 1). The net result is that a building owner or developer can receive a state tax credit of 25%, or 34% for affordable housing, of the cost of historic improvements for the rehabilitation and reuse of a building that is a “certified historic structure.” The credit is limited to no more than \$5 million per project per year for 4 years.

The Credit was substantially expanded in 2008, and immediately, despite the Great Recession, its use took off and has continued. From 2009 to 2019, 106 projects were certified and placed in service in Maine. There are another 59 in various stages of approval.

Combined, these 106 approved projects:

- Generated **\$525 million** in construction investment;
- Rehabilitated **3.6 million square feet** of commercial and residential space;
- Created or preserved **1,911 housing units**, of which nearly 1,300 were affordable; and
- Generated **200-700 full-time-equivalent (FTE) jobs** through construction spending alone annually for the past decade.

Additionally, **nearly 700 new full-time, year-round jobs** have been generated by businesses

occupying commercial spaces and in building maintenance, **generating \$13 million per year in ongoing income** to families living in these communities.

These renovations have **added over \$166 million to local property tax rolls** in host communities, including **\$17 million in new property tax payments** since 2010. The HTC program has become a major local revenue-sharing program in its own right. Another **\$19 million in new income and sales tax revenues** are estimated to have come into state coffers since 2008. **To date, the program has generated \$3 million more in state and local tax revenues than it has cost in tax credits.** The program passed into net positive fiscal territory in 2016 and is expected to continue to provide net benefits in the future.

Currently, of the additional 59 projects that have been partially approved for the HTC, 16 are under construction. These projects are located in communities large and small, and spread widely across Maine– from Sanford to Rangeley and Dover-Foxcroft to Eastport. Based on past experience, most partially approved projects will be approved, built, and occupied within a decade. **We estimate that the net economic benefit to Maine state and local governments will double to at least \$6 million annually by 2022.**

Beyond the numbers, Maine’s Historic Tax Credit fulfills the state’s economic development goals as outlined in the Maine Economic Development Strategy 2020-2029:

- Provides needed affordable housing for Maine families and seniors;
- Creates in-town housing that is attractive to young singles and couples who are important to our workforce;
- Incentivizes development of housing located within walking distance of downtown stores and services, reducing dependence on motorized transportation and decreasing Maine’s carbon footprint;
- Promotes downtown revitalization in distressed communities; and
- Helps communities retain their identities and “quality of place” by preserving distinctive and landmark buildings in town.

Though this report focuses on economic impact, the substantial climate change benefits of repurposing embedded carbon in the building materials reused in these projects, compared with demolition and new construction, must also be acknowledged when measuring the overall value of the tax credit.

Press Hotel, Portland



# 1. What is Maine's Historic Tax Credit (HTC) and how does it work?



Hathaway Creative Center, Waterville

In 2008, the Maine Legislature substantially strengthened state tax credits to facilitate the rehabilitation of historic buildings across the state.<sup>1</sup> The goals of the historic tax credit program are to stimulate investment in and revitalize downtowns by upgrading and reusing underutilized vacant and blighted buildings and develop affordable housing for Maine residents. The program increases the commercial and residential use and value of historically significant properties while maintaining the essential visual, structural, and cultural characteristics that make eligible properties significant. By preserving these properties for future generations, the program provides a powerful tool for housing and economic development.

To receive a state historic tax credit, a building owner must receive a three-part certification reviewed by the Maine Historic Preservation Commission (MHPC) and the National Park Service (NPS) and receive a federal historic tax credit.<sup>2</sup> This ensures that the impact of credits paid out by the State of Maine is amplified by credits paid out by the federal government. Certification is a staged vetting process. In Part 1, a building must be certified as being of national, state, or local significance; in Part 2, rehabilitation plans have to be approved; and in Part 3, the Park Service must certify that the completed construction complies with the approved plans.

Projects must elect a completion timeframe of either 2 or 5 years. Upon completing certification, a project becomes eligible for a Maine income tax credit. The credit is set at 25% of qualified expenses (those directly related to historic rehabilitation). Projects that create

<sup>1</sup> In 2007 a tax incentive similar to the 2008 HTC was passed exclusively for the Hathaway Mill in Waterville.

<sup>2</sup> Projects with qualified expenditures of \$50,000 to \$250,000 may apply for a Small Project Rehabilitation Credit from the Maine Historic Preservation Commission which does not require also receiving a federal historic tax credit.

affordable housing<sup>3</sup> were originally eligible for a credit of 30%. However, the law contained a provision that, if the total square footage of new affordable housing created under the HTC program is less than 30% of the total square footage of all projects receiving an HTC credit, the credit may be increased. As a result of this provision, the affordable housing tax credit has risen to 34% in 2019. The law caps this increase at 35%. Thus, the fiscal incentive for and cost of creating more affordable housing through the HTC program has increased gradually over the years, but, short of additional changes to the law, will likely remain near or at the 35% cap over the next several years.

Regardless of the rate of the credit, the Maine HTC is now limited to \$5 million per project annually.<sup>4</sup> This provision effectively establishes a \$20 million project limit for each project receiving a 25% credit ( $\$20 \text{ million} \times 25\% = \text{a } \$5 \text{ million credit per year over four years}$ ). Projects can spend beyond this cap, even for otherwise “eligible expenses.” They simply do not receive the state credit for the amount spent above the \$20 million cap. For affordable housing projects approved in 2019 at the 34% credit, the effective tax credit cap was \$14.7 million.

The Maine HTC is offered in equal installments in each of the four years following final certification. This process guarantees that credits will not be paid until projects are approved and completed. To assure they are not only investing in the project but invested in the community, project partners must remain owners for five years after Part 3 certification. As an example, a building owner presents a redevelopment plan to MHPC and NPS for approval. After receiving Part 1 and Part 2 approvals, the owner begins spending on rehabilitation activities—buying materials, hiring contractors, etc. After the rehabilitation is completed—usually 18 to 24 months after the project begins—the ownership team submits a Part 3 application listing the total “qualified” expenses, say \$4 million, for certification. If these expenses are approved by the Maine Revenue Services (MRS) and the federal Internal Revenue Service as qualified rehabilitation expenditures, the owner can claim a state credit of  $\$4 \text{ million} \times 25\% = \$1 \text{ million}$ . This credit amount is returned to the owner or his/her designee in the form of a credit against his/her state income tax liability over each of the next four years at \$250,000 per year, and any amount above his/her tax liability is refunded.

In addition, using the same approval process outlined above, recipients of the Maine HTC also receive an additional 20% federal historic rehabilitation tax credit (applicable to federal income tax returns). Applications are filed jointly for both credits with the same reviews and approvals done in direct sequence. For Small Project Rehabilitation applications—those with qualified expenses between \$50,000 and \$250,000—owners may opt for only the state credit and are approved only by MHPC and MRS. For all other projects, state and federal historic credits total 45% (or currently 54% for affordable housing projects). The federal credit increases the feasibility of potential rehabilitation projects. Unlike the Maine credit, the federal credit is now made available in the five years following project completion.<sup>5</sup>

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3 Affordable is here defined to mean that either at least 50% of the aggregate square feet of the completed project is housing and that 50% of that housing is new affordable housing, or at least 33% of the aggregate square feet of the completed project creates new affordable housing.

4 The original cap of \$5 million per project interpreted by Maine Revenue Services to apply to entire complexes of related historic buildings was amended in 2013 to permit this limit on an annual basis for each building. Prior to 2013 one project had exceeded this limit.

5 The entire federal credit was issued in the first year following project completion until the federal tax law was amended in 2017.



## 2. How has the HTC beneficially impacted Maine's economy?



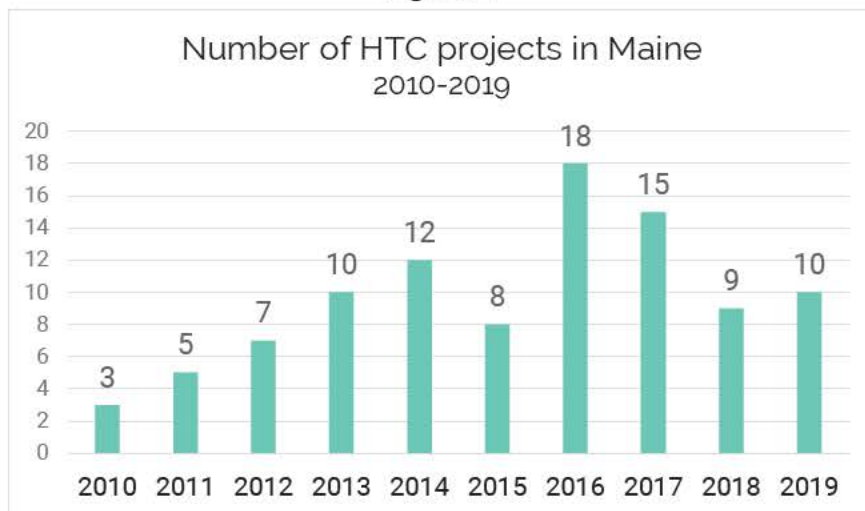
17 Alfred Street, Biddeford



Saco Island Apartments, Saco

Between 2009 and 2019, 106 projects have been certified and placed in service in 36 municipalities across Maine.

**Figure 1**



Source: Maine Preservation; projects listed by "placed in service" date.

Collectively, these projects have generated over \$445 million in certified rehabilitation spending and an additional \$79 million in associated non-certifiable work and new construction, resulting in a total of \$525 million invested to improve Maine properties since 2007. In addition, 56 of

these projects involved mixed use and commercial activities that have created the full-time equivalent of 700 new jobs in businesses located inside these renovated buildings. In addition, Maine has received an additional \$80 million in funding from federal historic tax credits allocated to these projects, which would otherwise not have come to the state.

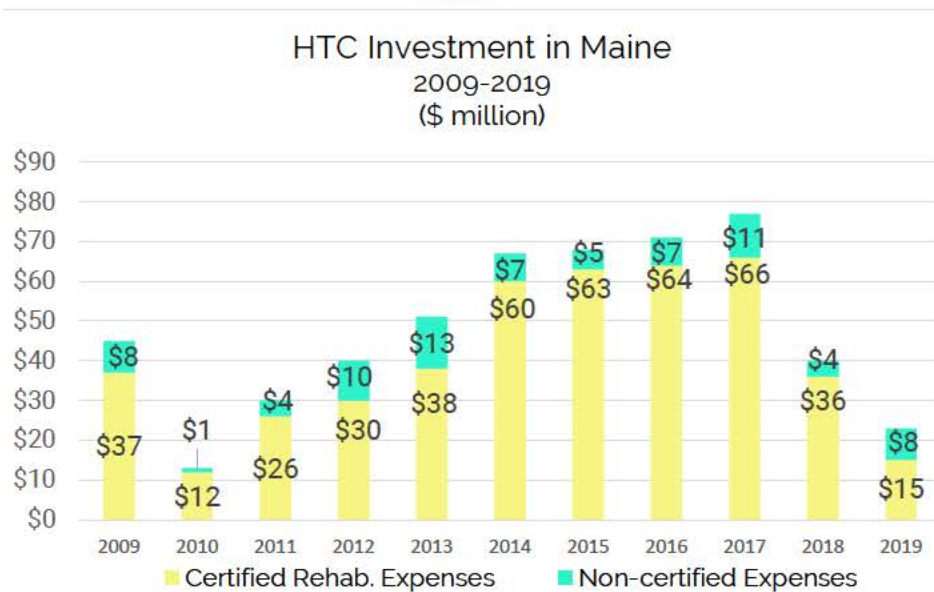
The HTC impact on Maine has three central components:

- It attracts complementary investments—amounts beyond that required by the tax credit;
- Its rehabilitation activities have indirect impacts<sup>6</sup>; and
- Its 56 commercial/mixed-use projects created operational activities (new sales for Maine businesses and new jobs for Maine workers located in the rehabilitated historic buildings), and this new economic activity has its own indirect impacts.

### Complementary Investments

The HTC program stimulates complementary investment in two ways.<sup>7</sup> First, the majority of projects include investment in new construction – additions that are not eligible for the state historic tax credit but are completed in conjunction with the rehabilitation of the historic property. Second, most projects require spending for “ineligible expenses”—parking, landscaping, loan fees, etc.—thus ensuring that project spending exceeds tax credit-generating “eligible expenses.” These benefits are illustrated in Figure 2.

**Figure 2**



Source: Maine Preservation. Totals listed were actually spent in the two years prior to the “placed in service” date.

6 Indirect impacts are the sales revenue flowing to Maine businesses in the vendor supply chain serving the construction industry and in the consumer sectors serving the employees of both the construction industry and its vendors.

7 HTC spending often stimulates investments by other property owners, developers and municipal governments in neighboring properties and local infrastructure. These neighboring properties are often vacant or underperforming. Thus, the HTC project serves as a catalyst for further investment and increases in property tax values in the neighborhood. In addition, HTC projects use existing community assets and infrastructure, such as roads, sewers, and power lines. They do not require municipal taxpayers to expand infrastructure, as often happens with new construction projects. Estimation of the impacts of these “complementary” investments requires examination of activities not listed in HTC project records and is thus beyond the scope of this report.

*For every \$100 spent on eligible historic rehabilitation expenses, another \$18 was spent on new construction or other ineligible expenses – thus magnifying the construction economic impacts of state historic tax credit projects.*

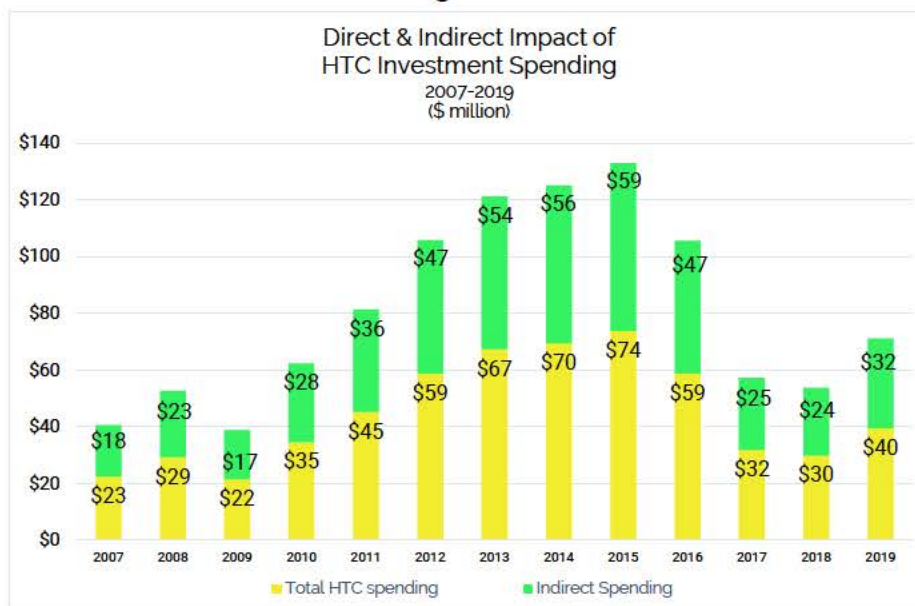
**Indirect Impacts of HTC Investment Activity**

HTC-generated construction and rehabilitation expenditures (both qualified and non-qualified) involve direct spending for planning, design and architectural services, banking and legal services, and engagement of general contractors. These direct expenditures, in turn, set in motion economic ripple effects throughout the regions where they occur. Investors and project managers hire contractors and trades people, engage building supply vendors, and trigger numerous related supply chain commercial interactions that rehabilitation investments generate. At the same time, employees of both directly involved construction businesses and their supply chain vendors pay rent and mortgages, buy groceries, pay utility bills and property taxes, and spend on other household expenses. These direct and indirect impacts generally occur over the two years prior to a project’s “placed in service” date and end when the projects are placed in service.

Figure 4 (page 9) illustrates the annual impact of HTC-generated investment spending. It assumes that a project’s total spending (certified and non-certified) occurs over the two years prior to its “placed in service” year. The value for 2007, therefore, represents one-half of the total spending for projects placed in service in 2009. The value for 2008 represents the other half of the 2009 projects plus one-half of the value of 2010 projects. The subsequent years follow the same pattern. The 2018 and 2019 figures include estimated spending of \$37 million for 2020 projects and \$42 million for 2021 projects.

Figure 3 illustrates the year-to-year pattern, of direct HTC-generated investment spending and its indirect impact on Maine.

**Figure 3**



Source: Maine Preservation, Maine Historic Preservation Commission and IMPLAN model of Maine.

Between 2007 and 2019, HTC-generated investment spending totaled \$583 million. This spending supported additional vendor supply chain and employee spending in Maine of \$466 million. Thus, the *total impact of HTC-generated investment spending in Maine has exceeded \$1 billion.*

*For every \$100 spent on historic rehabilitation expenses, another \$80 flowed to Maine vendors and employees indirectly linked to the direct HTC investment spending—thus further magnifying the economic impacts of state historic tax credit projects.*



While actual spending has varied from year to year, on an average annual basis over this time period, the HTC has supported the equivalent of 215 full-time construction workers and an equivalent number of indirect jobs.<sup>8</sup>

### **Indirect Impacts of HTC–Generated Operational Activity**

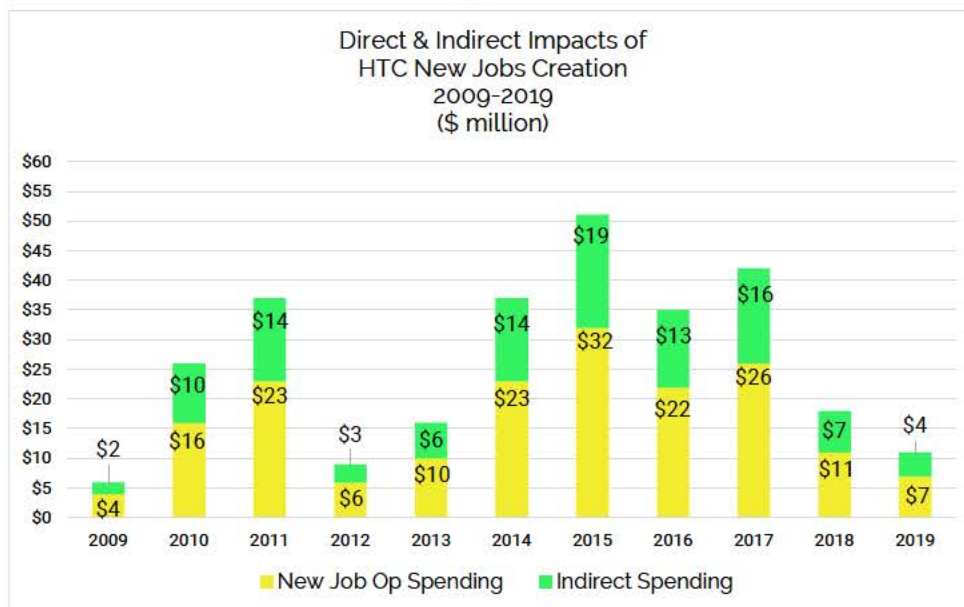
The second source of broader economic impact flowing from HTC projects derives from the operational impacts of new and growing businesses that locate in Maine because of the opportunities presented by the HTC-initiated improvement of the buildings they now occupy. Notable examples of this phenomenon are Baxter Library in Portland (VIA Agency), a variety of hotel/inn renovations (the Press Herald Building, the Eastland renovation, the Colonial Inn in Ogunquit, the Fort McKinley Barracks) as well as mixed-use projects such as York Manufacturing Mill #4 in Saco and the Jose Block in Portland.

Using data on average employment per square foot by commercial sector and the IMPLAN model for a combination of hospitality, restaurant, office and retail sectors, the authors estimated employment, sales and the indirect impact of the 56 commercial and mixed-use projects certified under the HTC program. In addition, unlike the “once and done” impact of

<sup>8</sup> These numbers should not be interpreted as specific people hired to do specific “jobs.” In fact, they represent the total number of “job equivalents” filled by thousands of people in hundreds of businesses part of whose sales derive, ultimately, from HTC-generated investment spending. Both the spending and the “job equivalents” rise as more HTC projects are undertaken and fall as they are completed.

investment spending, operating sales, employment, and expenses recur year after year as long as the “new-to-Maine” business activity continues. Thus, like the recurring property tax revenue flowing to the HTC host communities (see Section 3), these operational spending impacts have a cumulative effect as sales recur year after year. Figure 4 illustrates the important impact of this aspect of the HTC program.

**Figure 4**



Source: Maine Preservation and IMPLAN model of Maine.

*For every \$100 of sales generated by businesses in operating in HTC rehabilitated commercial buildings, another \$60 flowed to Maine vendors and employees indirectly linked to these HTC-enabled businesses—thus further magnifying the economic impacts of state historic tax credit projects.*

Mill at Freedom Falls, Freedom



### 3. What has been the fiscal impact of the HTC program?

Sullivan School Apartments, Berwick



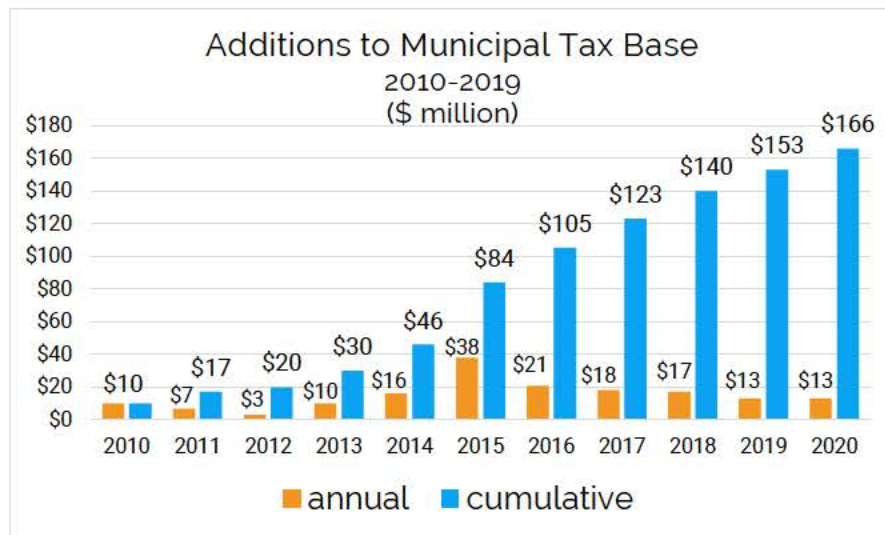
All of the economic activities noted above—the original HTC investment activities and their indirect impacts, and the new operational activities taking place in HTC rehabilitated buildings (and their indirect impacts) generate fiscal impacts across the state. The contractors, suppliers and the long list of businesses involved directly and indirectly in historic preservation all pay the income, sales, fuel, and property taxes as well as the fees to which they are subject. Similarly, all the employees of these contractors and their supply-chain of vendors pay the similar state and municipal taxes and fees to which they are subject. The same dynamic of direct and indirect sales and jobs generating fiscal impacts applies to all of the “new to Maine” operational activities taking place in the buildings rehabilitated by the HTC program.

And finally, the two most direct and obvious fiscal impacts of the HTC program are the reduction of the income tax revenues that would otherwise have flowed to the State had the tax credits not been issued; and the increase in the property tax revenues flowing to the municipalities, whose tax bases have been increased through the rehabilitation of properties with previously low values.

For this report, the fiscal impacts of the economic activities noted above were estimated by combining a careful examination of project-specific data provided by Maine Preservation and the Maine Historic Preservation Commission with the IMPLAN model of the State of Maine. The fiscal effects of tax credits shown and property values increased are estimated by analyzing project data provided by Maine Preservation and the Maine Historic Preservation Commission, as well as historic data from the Maine Revenue Services.

Figures 5 and 6 illustrate the most significant fiscal benefits of the program.

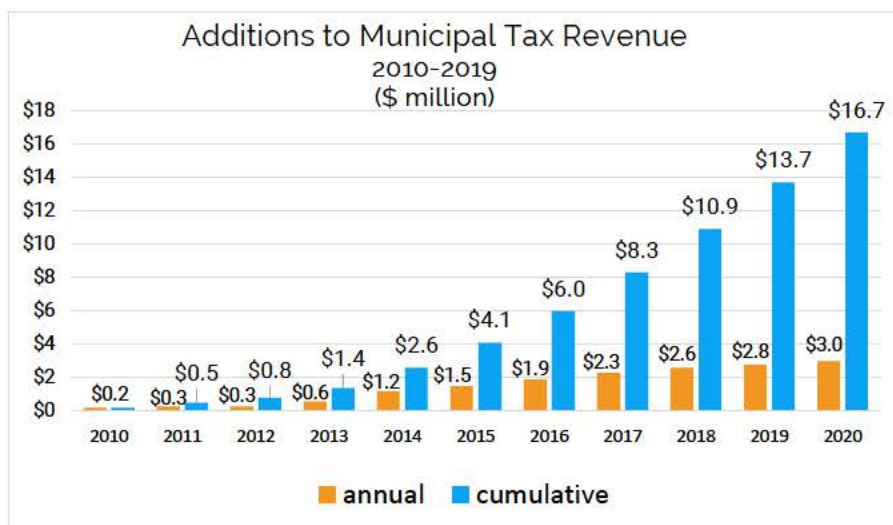
**Figure 5**



Sources: Maine Preservation and Maine Revenue Services.

Annual additions to the assessed tax bases of Maine municipalities has varied from \$3 million to \$38 million depending on the number, size, and prior tax assessments of rehabilitated properties. *Cumulatively, the tax bases of all HTC communities have increased by \$166 million.* As a result of these investments, the annual property tax collections of these communities have increased from \$200,000 in 2010 to more than \$3 million in 2020 – and a cumulative increase in property tax revenues to these communities of nearly \$17 million.

**Figure 6**

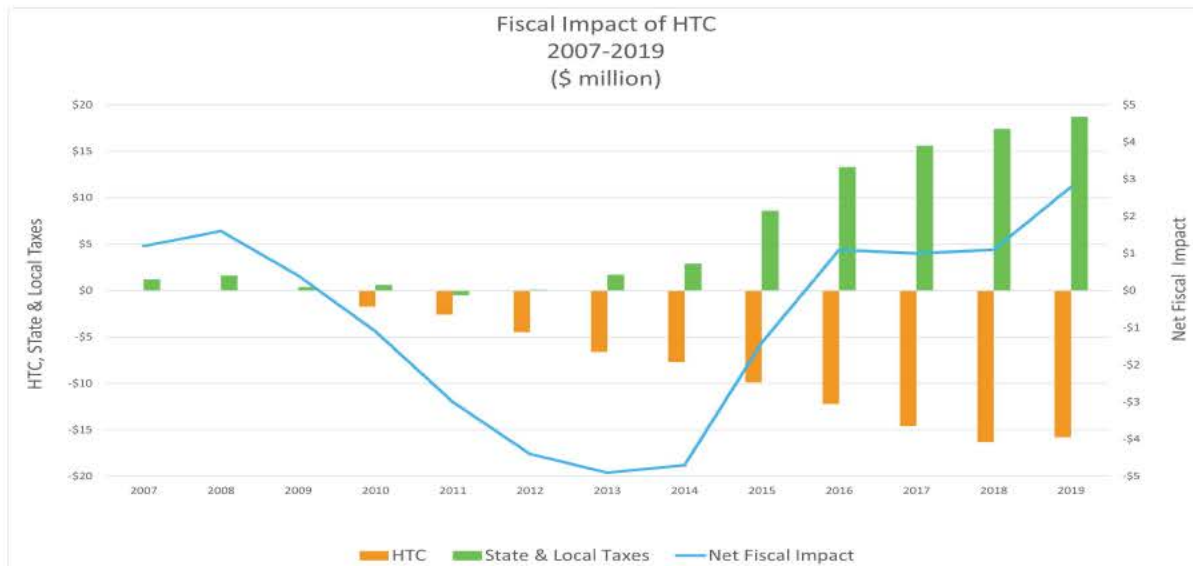


Sources: Maine Preservation and Maine Revenue Services.

To summarize the overall fiscal impact of the Maine HTC program, it is necessary to add estimates of the various state and local taxes and fees generated by the direct and indirect impacts of the HTC investment and operational activities noted in section 2 above, as well

as the estimates of the fiscal loss to the state government from the HTC itself I. Figure 7 illustrates these estimates. Note that this Figure does not include the \$80 million in federal tax credits also received in Maine in conjunction with these projects.

**Figure 7**



Sources: Maine Preservation, Maine Historic Preservation Commission, Maine Revenue Services and IMPLAN model of Maine.

“S&L other” represents the sum of: 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.

For the first three years of the program, the net fiscal impact of the program (green line- middle line) is positive as the impacts of investment spending flow to state and local governments before the first portion of HTC credits can be submitted in 2010.

As the volume of HTC projects are completed and credits are submitted, the fiscal loss representing these credits (red bars- bottom line) grows steadily larger. Over these early years, the fiscal impacts of the program grow slowly (blue bars- top line) as investment and operational activities continue. Most importantly, as years go by and more projects are completed, the rehabilitated and productively utilized buildings begin to spin off the sales, income, property tax revenues and various fees that their activities generate for their host communities and the state. Completed projects have continued to generate these revenues year after year, and, as new projects have been completed, these revenues have continued to grow—reaching nearly \$19 million in 2019.

**As a result, the net fiscal impact of the program crossed the line to a positive contribution in 2016 and grew to nearly \$3 million by 2019.**



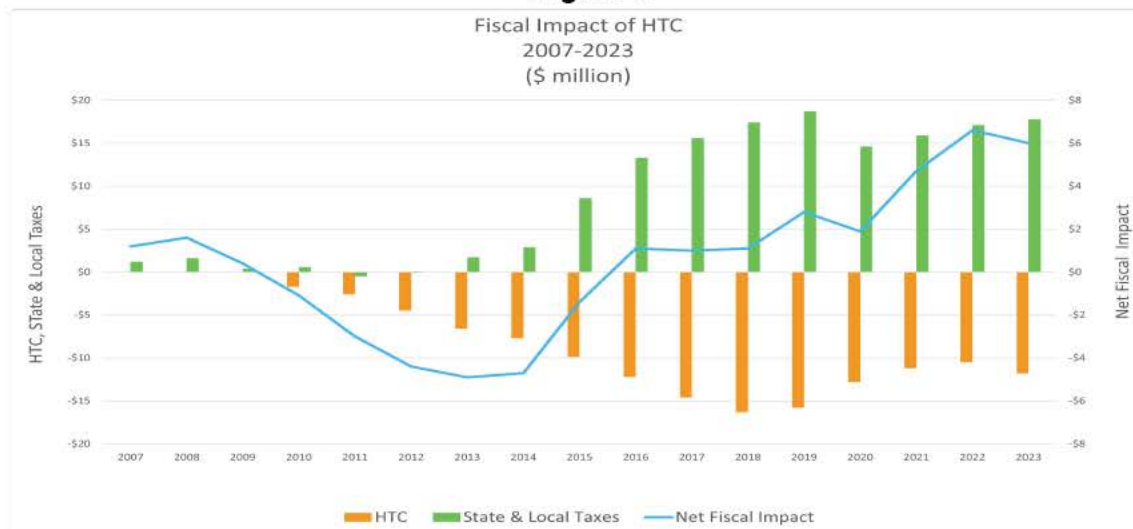
# 4. What are the likely impacts of the HTC program in the future?



Lofts at Saco Falls, Biddeford

At this time, there are 16 HTC projects certified and underway; another 10 have recently received Part 2 certification, and another 33 have been partially certified but not yet initiated. Several of these projects are continuations of previous projects undertaken in former mill buildings and have substantial estimated budgets, so the prospects are good that many will be placed in service over the next few years. As is evident in Figures 1 and 2, however, project completion varies substantially from year to year. Rather than try to predict specific patterns

**Figure 8**



Sources: Maine Preservation and IMPLAN model of Maine.

of construction timing, the authors here chose to use the annual average of project outcomes derived from the experience of the past decade to estimate a moderate growth over the next four years, knowing that actual totals in each year are likely to vary from this projection. Figure 8 illustrates this estimation.

Because of the drop in the number and size of projects placed in service in 2018 and 2019, the cost of the HTC is projected to drop in in the next several years as the four-year use of credits unfolds. As a result, the associated fiscal impacts on state and local government are likely to drop slightly but remain in net positive territory.

Since 2008, the Maine Historic Tax Credit has sustained the construction industry through the Great Recession and remained steady since. It has delivered substantial social impacts fostering affordable and market-rate housing and catalyzed significant business development and job creation. While also bringing considerable federal dollars to Maine, it has repurposed an assortment of significant but vacant and underused, deteriorated buildings. Working in small and large communities around the state, projects are concentrated in and around downtown areas, revitalizing communities, enhancing their “quality of place.” Finally, the precipitous rise in property taxes, combined with income and sales taxes, has resulted in a net positive gain for Maine taxpayers.



Somerset Place, Brewer



Unity Food Hub, Unity

# Appendix A: Measuring “New Jobs”

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To say that every commercial operation that locates in a newly rehabilitated historic building creates “new” jobs in Maine would clearly overstate the HTC’s economic impact. For instance, the major tenant in the Hathaway Mill is a local hospital. Most of the jobs in the mill development are not “new” jobs created by the rehabilitation and therefore do not necessarily generate additional operational economic impacts. The jobs and economic effects associated with them already existed. The same can be said about the Fair Point Communications Building in Portland.

On the other hand, one of Maine’s largest advertising and marketing firms, the VIA Agency, was looking to relocate to New York to serve its national clients. When the CEO learned of the space created in the Baxter Library—an HTC project in Portland—the agency decided to rent the entire rehabilitated building because, according to CEO John Coleman, VIA’s clients love the historic building. Coleman attributes part of the company’s growth directly to the unique office space in the Baxter Library. The operational impact of VIA’s jobs therefore add to the positive impact of rehabilitation construction spending because the jobs would have ceased to exist in Maine had it not been for the historic rehabilitation. The same can be said for at least some of the jobs that now exist in such major HTC projects as The Eastland Park Hotel and the former Portland Press Herald Building (now the Press Hotel).

619 Congress Street, Portland



In order to estimate the truly “new” jobs created as a result of HTC investments, the authors carefully examined the stated square footage devoted to commercial use and estimated occupancy rates provided by Maine Preservation for each of the non-residential and mixed use projects, reviewed case studies of HTC projects prepared by Planning Decisions, Inc. in 2015<sup>9</sup>, and gathered data on the number of employees per square foot of space by function obtained from Planner’s Estimating Guide: Projecting Land-Use and Facility Needs.<sup>10</sup> With this information, we estimated that the total for “new” jobs associated with these projects amounted to approximately 680 and occurred in 52 of the 100 projects.

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9 Planning Decisions, Inc. Maine Historic Tax Credit Economic Impacts Report, July 31, 2015.  
10 [www.planning.org/store/product/?ProductCode=BOOK\\_APEG](http://www.planning.org/store/product/?ProductCode=BOOK_APEG).

# Appendix B: Case Studies

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## **Sisters of Mercy Motherhouse, Portland**

**\$15.57M Project | \$0 to \$4.5M in assessed tax value**

Developers Kevin Bunker and John Wasileski leveraged historic tax credits to create 66 affordable and 22 market rate apartments for seniors in Portland. Because of the credits, the unique character the property was restored during the redevelopment process. "Some historic building types, like former mills and schools, lend themselves for conversion to housing. But without the historic tax credits, I doubt [we] would pursue renovations like the one at the Motherhouse," said Bunker.

## **American Woolen Co. Foxcroft Mill, Dover Foxcroft**

**\$10.66M Project | \$270K to \$3.37M in assessed tax value**

The Mill at Dover-Foxcroft project was the largest private investment in Piscataquis County in decades and Maine historic tax credits were critical to the project's viability. Arnold Development led the project, which resulted in a total renovation of the 110,000 SF former mill complex into a mixed-use development that includes 22 market rate apartments, a restaurant and boutique hotel, space for retail shops and offices, studio space for artisans, and a broadband data center.



## **Cony Flatiron Building - Augusta**

**\$10M Project | \$0 to \$2.75M in assessed tax value**

Cynthia Taylor of Housing Initiatives of New England Corporation led the transformation of the vacant former Cony High School in Augusta into the Cony Flatiron Senior Residences, creating 48 units of affordable housing and returning the building to useful community service. Deployment of historic tax credits were critical to the project, which, in addition to the housing units, retained the grand auditorium, including its decorative plaster and stenciling, and the restoration of Palladian windows that had been hidden.



*"These properties are some of the most challenging, and at the same time the most rewarding. A revitalized historic structure in a struggling downtown can turn around that whole community. We do try to work with developers to create these properties. The federal Historic Preservation Tax Credit program brings more resources to these developments, and in Maine and Vermont there are state historic credits that further encourage the redevelopment and rehabilitation of these properties. And for what it is worth, people really like living in these historic structures."*

Bill Shanahan, co-president of housing capital firm Evernorth

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Drummond Woodsum

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Bobby Monks

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