Maine Historic Tax Credit

Economic Impacts Report

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Report prepared for:
Maine Preservation

Planning Decisions, Inc.
477 Congress Street, Suite 1005
Portland, ME 04101
www.planningdecisions.com

PLANNING DECISIONS

TABLE OF CONTENTS

PLANNING DECISIONS

I. EXECUTIVE SUMMARY

In 2007 and 2008, the Maine Legislature substantially strengthened state tax credits for the rehabilitation of historic buildings.[1] The goals of the program are to increase the current commercial use and value of historically significant properties while maintaining the essential visual, structural and cultural characteristics that make the properties significant—saving heritage buildings for future generations and revitalizing Maine's town and urban centers.

How Does the Maine Historic Tax Credit (HTC) Work?

In order to receive a historic tax credit, a building owner must receive a three-part certification from the National Park Service, or for projects of $250,000 or less that elect the Small Project Credit, from the Maine Historic Preservation Commission. The certification process is staged: Part 1, the building has to be certified of national, state or local significance; Part 2, rehabilitation plans have to be approved; and Part 3, the Park Service must certify that the completed construction complies with the approved plans. Upon completing certification, a project becomes eligible for a Maine income tax credit. The credit is set at 25% of eligible expenses (those directly related to historic rehabilitation). Projects that create affordable housing have qualified for a credit of 30%. The tax credits are offered in equal installments in each of the four years following final certification of the project. This process guarantees that credits will not be paid out until projects are approved and completed. It's also important to note, that the project partnership must remain the same for 5 years following Part 3 certification.

As an example, a building owner presents a redevelopment plan to the Park Service for approval. After receiving Part 1 and Part 2 approvals, s/he 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 owner submits a Part 3 to be certified for their work that includes the total "qualified" expenses, say $4 million. If these expenses are approved by the Maine Revenue Service as qualified rehabilitation expenditures, the owner can claim a state credit of $4 million x 25% = $1 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 historic credit 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 tandem. An exception is available for Small Project Rehabilitation—those with qualified expenses between $50,000 and $250,000—that allows owners to opt for only the state credit. Six smaller developments in Maine have made use of this exception. For all other projects, state and federal historic credits total 45%—or 50% for affordable housing projects. The federal credit increases the feasibility of potential rehabilitation projects. Unlike the Maine

[1] No one is known to have used the earlier state historic tax credit.

credit, the federal credit is made entirely available the year following project completion. Since 2008, building owners in Maine have received or will be eligible for $62 million in federal historic credits for projects completed or currently under construction.

Stimulating other investment

The HTC stimulates other investment in four key ways:

1. Most projects require spending for **"ineligible expenses"—parking, landscaping, loan fees, etc.**—thus insuring that **project spending exceeds tax credit-generating "eligible expenses."**
2. The Maine HTC is limited to $5 million per project annually. Any project spending over $20 million in any year ($20 million x 25% = $5 million credit), even if for otherwise "eligible expenses," will not receive the state credit for the amount spent above the $20 million threshold. Note: Affordable housing projects qualified for the 30% credit reach the $5 million annual tax credit limit at $16.67 million in annual expenses.
3. **Many projects include investment in new construction –** additions that are **not eligible for the HTC** but are completed in conjunction with the rehabilitation of the historic property.
4. **HTC spending often stimulates investments by other** property owners, developers and municipal governments in **neighboring properties** and local infrastructure. For all these reasons, total HTC-related investments nearly always exceed the total investment of credit-generating "eligible expense" spending.

Larger Community Impacts

The HTC drives wider community impacts in four ways:

1. Total HTC-related construction and rehabilitation expenditures (both qualified and non-qualified) set in motion **economic ripple effects throughout the regions** where they occur. Investors hire contractors and trades people, engage building supply vendors, and trigger numerous related supply chain commercial interactions that new investments generate. At the same time, employees of the vendors pay rent and mortgages, buy groceries, pay utility bills and property taxes and spend on other household expenses.
2. Some HTC projects **bring *new* businesses to the community**—hotels, restaurants, retail stores, new commercial business activities—that are not merely relocations of businesses from other areas. This results in new jobs that continue well beyond the period for which construction work is completed on the historic building.
3. These operational activities conducted by businesses and other occupants of rehabilitated buildings, **create their own vendor supply chains and employee** consumer **spending** ripple effects throughout the HTC project's region.
4. Finally, **HTC projects utilize existing community assets and infrastructure**—such as roads, sewers, and power lines—saving taxpayer money that might be spent on municipal capital projects and operating budgets.

HTC performance in Maine

Over the 9-year period that the HTC program has been operating in Maine (2007-2015), it has:

- Spawned over $275 million in "qualified rehabilitation expenditures" plus an additional $64 million in construction expenditures that were not certified as "qualified" rehabilitation but were completed in conjunction with the projects.
  This **$339 million of investment spending** has, in subsequent rounds of commercial activity, created indirect vendor-supply chain and employee-spending sales for Maine businesses totaling $255 million.
- Thus, the **total impact of the HTC in Maine amounts to more than $594 million**.
- Part of this impact derives from the fact that the HTC has helped generate ongoing operating impacts through new businesses that have been established in rehabilitated buildings. The HTC has resulted in the rehabilitation of approximately 1.2 million square feet of commercial space creating **4,392 construction jobs**. New or preserved businesses in this space account for approximately **160 FTE jobs**.

Effect on Maine's Taxpayers

The HTC creates several crosscurrents of fiscal impact.

1. Rehabilitation activity generates **sales and income taxes** from vendors and employees working on the project prior to the State allocation of the tax credit.
2. The HTC reduces state income tax receipts during the four years the credit is paid out after the completed property is "placed into service," i.e., rented and utilized.
3. **Local property tax revenues substantially increase** after the property is placed in service and continue to be collected in future years.
4. **New economic activity** taking place in the rehabilitated property (hotels, restaurants, new commercial tenants that occupy historic buildings) **generates new sales and income tax** receipts in the course of doing business.

Over the 9-year history of the HTC in Maine (2007-2015), investors/owners[2] have claimed state income tax credits of $49.1 million. Over the same time period, the construction and operational activities flowing from HTC investments and their indirect supply-chain and consumer spending impacts have generated state sales and income tax revenues of $19.4 million and local property tax payments of $16.4 million. Thus through 2015, the tax credit loss to the state has been offset by sales, income and property tax gains of $35.8 million, leaving the cumulative net fiscal cost of the program to the state as a whole over the nine-year period at only $13.3 million.

However, for the first time **in 2015 the state and local tax *revenues* stimulated by the HTC grew more than the *cost* of the tax credit**; between 2014 and 2015, state and local tax revenue increased by $3 million, while HTC credits claimed increased by only $1.6 million. As the total of property tax revenues flowing to municipalities from rehabilitated buildings, and sales and

[2] Project owners may claim all or a portion of eligible tax credit or may use tax credit potential as a way to attract additional investment for the project

income tax revenues flowing to state government from new businesses and employees located in the buildings continue to grow over time, this fiscal turnaround will continue and increase. **By 2016-17, the net benefit to the state and municipal governments turns positive and will grow steadily into the future.**

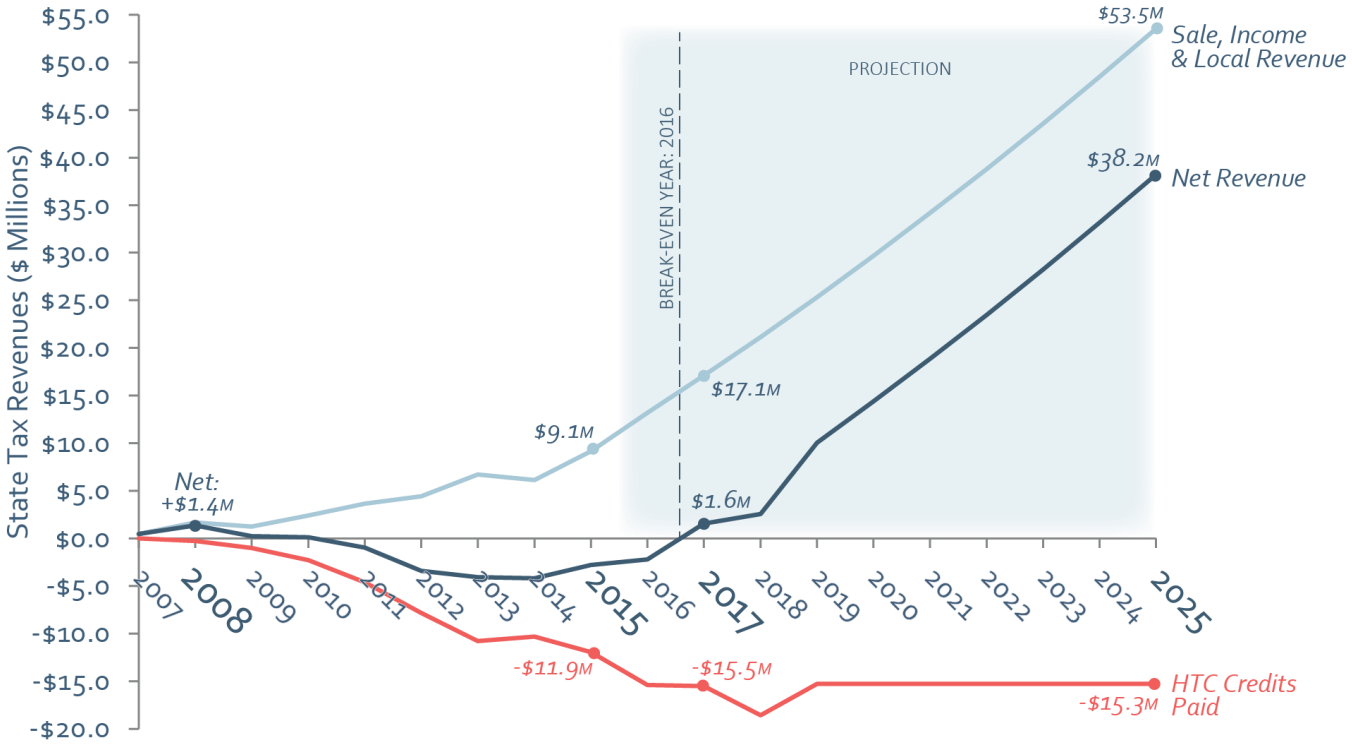


Figure 1 - Fiscal Impact of Historic Tax Credit in Maine
"Net Revenue": Total state and local tax revenues flowing from
HTC-generated economic activity in a year less state HTC credits claimed in that year.
Source: Project data provided by Maine Preservation. IMPLAN economic impact modeling conducted by PDI.

II. HTC Effects from 2007 to 2015

Over the history of Maine's HTC program (2007-2015), 61 projects have been completed or are under construction. These generated a total investment of approximately $275 million of "certified rehabilitation expenditures" and additional new construction expenditures of just over $64 million, amounting to total construction expenditures of approximately $339 million. In other words, **every dollar spent to earn an income tax credit generated approximately $0.23 in additional project spending not eligible to receive the credit** (Figure 2).

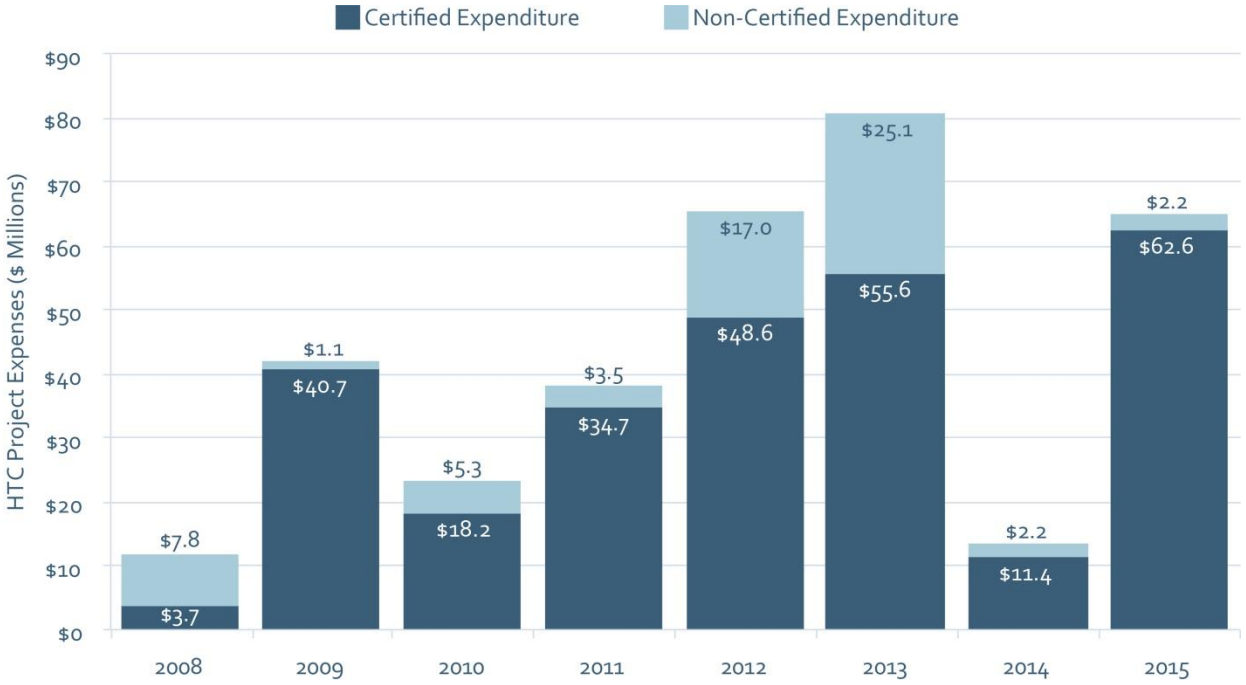


Figure 2 - HTC Projects: Qualified and Total Project Expenses.
Source: Maine Preservation and Maine Historic Preservation Commission.
* 2015 estimate is based on projects with initial certification but not yet completed

HTC-induced investments resulted in the rehabilitation of nearly 2.3 million square feet of historically significant properties and over 111,200 additional square feet of new property. Most of the investments were in Maine's traditional towns and urban centers. Historic rehabilitation investments to date have created **819 housing units, 609** of which were designated as **affordable units**. In addition, it resulted in the rehabilitation of over 1.2 million square feet of non-residential (commercial, retail, service and lodging) space, which has **created 4,392 annual construction workers jobs**. And approximately 160 additional permanent jobs are new or preserved jobs that would not exist but for the HTC.

In addition to these direct effects, HTC-related construction and rehabilitation expenditures (both qualified and non-qualified) set in motion economic ripple effects throughout the regions where they occur. Developers attract investors (including out-of-state financing) hire contractors and trades people, engage building supply vendors, and trigger a number of related supply chain commercial interactions. At the same time, employees of the developers, contractors and their vendors pay rent and mortgages, buy groceries, pay utility bills and property taxes, and spend on other household expenses. In addition, some HTC projects bring new businesses and jobs to the community—hotels, restaurants, retail stores, new commercial business activities—that are not merely relocations of businesses from other areas. These activities create new jobs that continue well beyond the construction period for the historic rehabilitation project. These new, operating businesses create their own vendor supply chains and employee consumer spending ripple effects throughout the HTC region.

To estimate these indirect ripple effects, Planning Decisions, Inc. (PDI) did two things. First PDI examined the operational impact of each HTC project based on the total rehabilitated and new square footage that resulted in residential and non-residential space. Using estimated occupancy rates obtained from Maine Preservation, case study examinations conducted by PDI, and data on the number of employees per square foot of space by function obtained from the *Planner's Estimating Guide: Projecting Land-Use and Facility Needs*[3], PDI estimated employment figures associated with each project. Using Maine Preservation estimates and case study examinations, PDI then conservatively estimated only the share of these jobs that were new or preserved rather than simply the result of existing jobs being relocated to HTC buildings. 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 generate additional operational economic impacts (the jobs and economic effects associated with them already existed).

On the other hand, Maine's largest advertising and marketing firm, VIA Agency, was looking to relocate to New York to service 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. A few blocks away, the vacant Chestnut Street Church in Portland sat empty, like many churches in Maine. New owners expended $2.5 million to transform the church into the large-scale Grace restaurant, putting the building onto the tax rolls for the first time, creating new ongoing jobs and bringing the area back to life as a community gathering spot, another unique location further strengthening the tax credit's impact.

PDI's analysis of the 61 HTC projects indicates that 160 new and preserved jobs can be attributed to HTC-induced rehabilitation investments. Like the property taxes paid on rehabilitated properties, the impact of these jobs is incremental and cumulative over time. While a construction worker will move on to other work after the historic rehabilitation project is completed, an employee (and their associated indirect economic impacts in the region) of a new or preserved business that occupies a rehabilitated building will remain after construction has been completed as long as the job exists.

Including the temporary construction impacts and the continuing (and therefore cumulative) impacts of the property tax, with the operational impacts of the 61 HTC projects in the IMPLAN analysis indicates that the $339 million in direct HTC-related investment had a total economic

[3] www.planning.org/store/product/?ProductCode=BOOK_APEG

impact on the State of Maine of over $594 million. Figure 3 illustrates this impact over the history of the program.

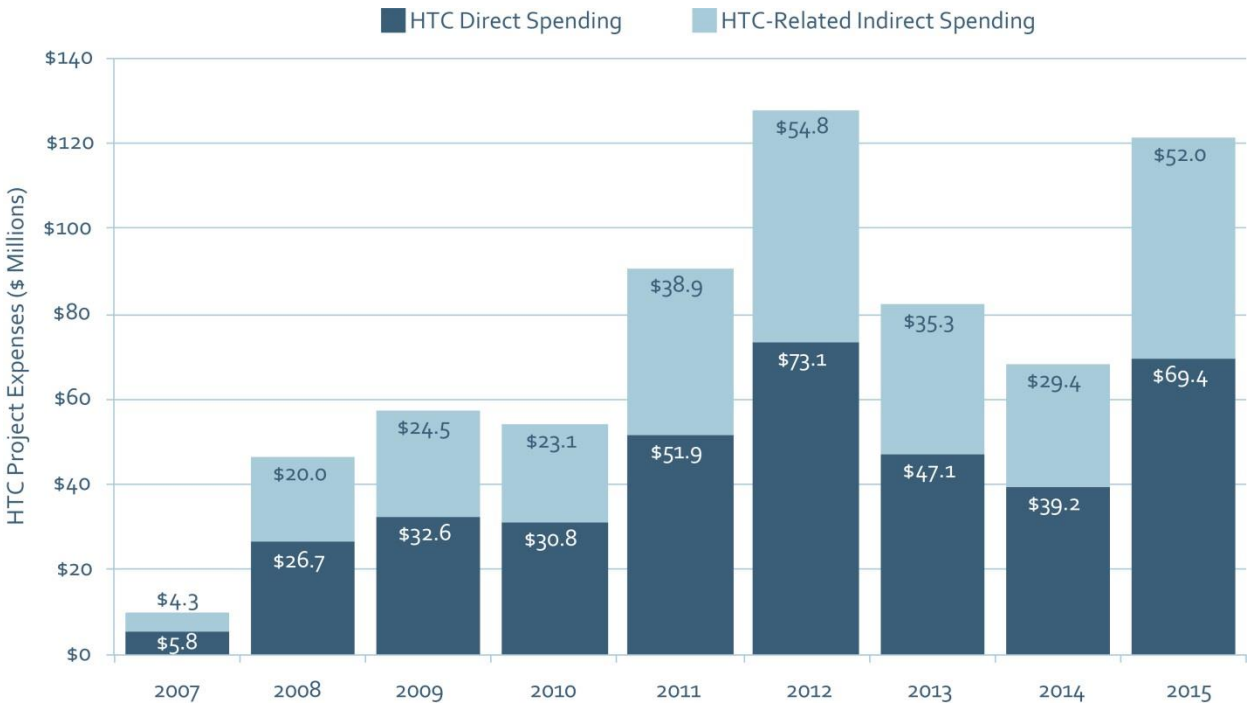


Figure 3 – Direct and indirect HTC spending.

Source: Maine Preservation and Maine Historic Preservation Commission and IMPLAN economic impact modeling conducted by PDI. PDI assumed that spending in 2007 amounted to 50% of the total spending associated with projects receiving certification in 2008 and that each subsequent year's spending amounted to one-half of the spending certified in that year and one-half of the amount certified in the following year

Once rehabilitation activity begins, the HTC creates several crosscurrents of fiscal impact.

1. Rehabilitation activity generates **new sales and income taxes** (and some **local property tax** expenses associated with the work) from vendors and employees working on the project.
2. The HTC reduces state income tax receipts for four years after the completed property is placed in service (i.e. the HTC credits are issued).
3. **Local property tax revenues increase after the rehabilitated property is placed in service and continue to be collected in future years**.
4. **New commercial activity created as the historic property is used** (i.e. as hotels, restaurants, and other new commercial tenants occupy historic buildings) **generates new sales and income tax** receipts in the course of doing business.

Over the 9-year history of the HTC in Maine (2007-2015), investors/owners have claimed state income tax credits of $49.1 million. Over the same time, the construction and operational activities flowing from HTC investments, and their indirect supply-chain and consumer spending impacts, have generated state sales and income tax revenues of $19.4 million, and local property tax payments of $16.4 million for a total of $35.8 million. Thus through 2015, the

tax credit loss to the state has been offset by sales, income and property tax gains of $35.8 million, leaving the cumulative net fiscal cost of the program to the state as a whole over the nine-year period at only $13.3 million. However, on an annual basis, the program turned a corner in 2015 as state and local tax revenues stimulated by the HTC in that year grew to exceed the revenues foregone in that year as a result of the tax credit. Figure 4 illustrates the annual effect of these four fiscal impacts between 2007 and 2015.

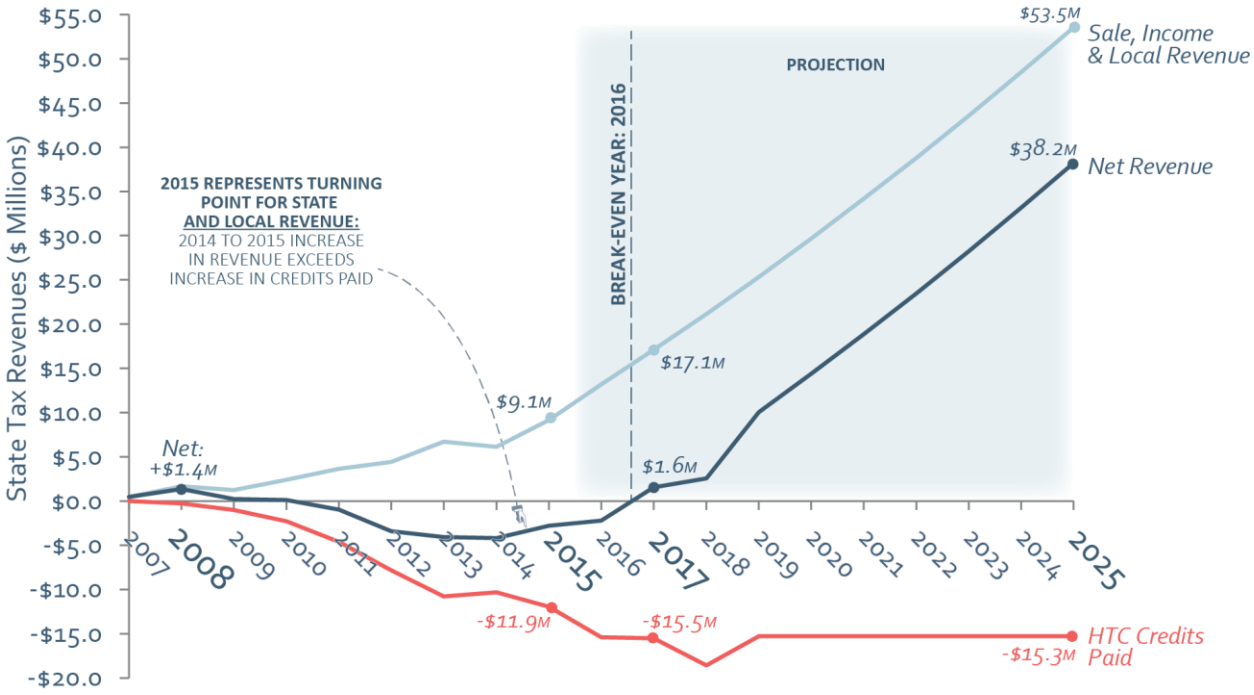


Figure 4 - Fiscal Impact of Historic Tax Credit in Maine.
"Net Revenue": Total state and local tax revenues flowing from
HTC-generated economic activity in a year less state HTC credits claimed in that year.
Source: Project data provided by Maine Preservation. IMPLAN economic impact modeling conducted by PDI.

The net fiscal impact to state and local governments was positive from 2007 to 2010 as the effects of construction activity flowed through the economy. Then, from 2011 to 2013, the impact turned negative as investors claimed the state income tax credit. As the program continues, the cumulative effects of property tax revenues flowing to municipalities from rehabilitated buildings, and sales and income tax revenues flowing to state government from the new businesses and employees located in those buildings will continue to accrue, and **the total fiscal impact of the HTC program on state and municipal governments will turn positive in 2016 and grow significantly over time, producing a net gain to taxpayers by 2020 as described below**.

Typically HTC credit payments are used to pay off bridge loans that have been made to provide equity necessary to complete the rehabilitation. The credit is, in reality, a way for the state to become an investing partner in the rehabilitation of historic properties after the project expenditures have already occurred. As soon as an under- or unused property becomes

commercially viable, Maine's state and local governments get a return on their "investment." As the cumulative impact of this "return" continues to grow over time, state and local governments will, like any investor in a successful project, begin to see initial cash outflows turn into cash inflows. Eventually, the cumulative impact of the "investment" turns positive.

In short, **the HTC has already turned the corner from increasing to decreasing the cumulative fiscal cost for Maine's state and local governments and taxpayers. Over the next two years this trend will pass the break-even point and the HTC will begin generating a net fiscal gain.** Moving forward, this gain will grow as the cumulative economic effect of the rehabilitated properties and new business creation continues to build and exceed the annual cost of the HTC program. **By 2020, the total amount of all the state tax credits issued since 2007 will be surpassed by the total amount of state income and sales tax and local property tax collected, producing a net gain to taxpayers of $10.7 million. From 2020 forward, the net gain to taxpayers will increase every year.**

Another important effect of HTC spending is that it has **helped offset the devastating effects of the Great Recession on construction spending in Maine**.

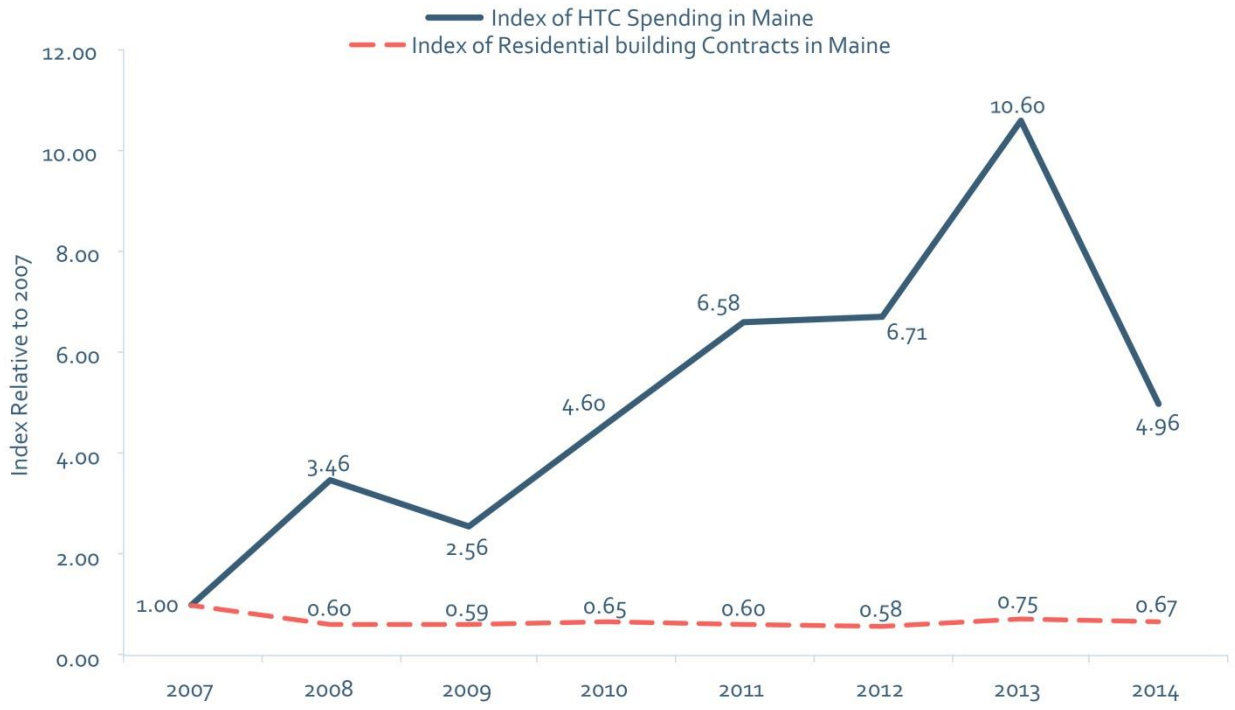


Figure 5 - Index of HTC & All Maine Residential Construction (2007 = 1.00)
Source of HTC Annual Spending: Maine Preservation
"Maine Residential Construction" refers to residential construction contracts reported by the Federal Reserve Bank of Boston, retrieved from www.economicindicators.bostonfed.org/EconIndicators/index.html
Maine Residential data for 2014 runs January through October.

Using 2007 as a baseline, the overall value of residential housing contracts in Maine dropped by 41% between 2007 and 2012, and, in 2014, has still not recovered its pre-recession peak (Figure 5). Over that same period, the value of HTC projects rose steadily, reaching nearly an 11-fold increase in 2013, and a nearly 5-fold increase in 2014. In other words, **HTC-induced spending helped buffer what would otherwise have been an even more severe recession in Maine**.

III. Other Economic Effects of the HTC: Case Studies

The previous section quantifies jobs and income generated by historic rehabilitation, as well as indirect effects of this spending. But there are many other economic benefits that are not included in these numbers.

Not least among these benefits is the **lifeline that the Historic Tax Credit offers to Maine's skilled craftsmen and other laborers that work on redevelopment projects**. Wright-Ryan, a construction and contracting company, employs over 70 Mainers and subcontracts to hundreds of other businesses across state on projects that were made possible by state historic tax credits. John Ryan, president of the company believes that HTC projects have been critical during economic downturns like those of the last recession. According to John Ryan,

Historic renovation projects employ highly skilled craftsmen in areas such as masonry, carpentry, timber framing, millwork, glass/glazing, plaster, etc. As such they are well suited for our Maine workforce which has a substantial number of skilled workers in all of these areas, most of whom work for small businesses or sole proprietorships. These are well paying jobs employing skills that are beyond those you see on a typical new construction site.

An important function of the HTC is to provide a reliable source of project capital that can be leveraged to attract other financing partners. According to Nathan Szanton, president of The Szanton Company, and responsible for the redevelopment of mill buildings in Biddeford and Lewiston, the HTC is often the deciding factor in whether or not projects go forward:

We would not have even considered doing The Mill at Saco Falls if the State Historic Tax Credit hadn't been in place. It provided just over 20% of the sources of funds for the project, so without that, there is no way… that the project would have been financially feasible.

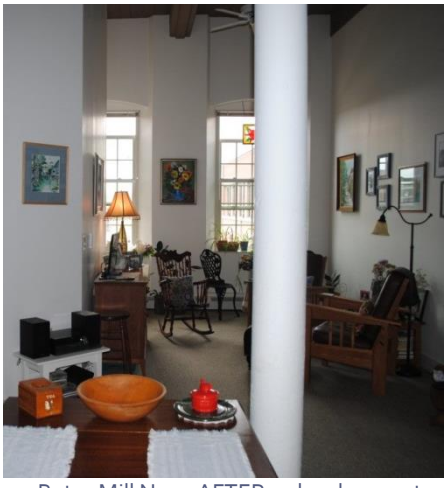
It is not just Maine's workforce that benefits. The HTC has been an important support for home-grown businesses like R.H. Reny, Inc. the parent company of Reny's department stores. The HTC provides the financial support needed for these businesses to expand and stay competitive in Maine's communities:

Reny's invested $750,000 to renovate the Farmington store. We installed a new elevator, provided sprinklers… and upgraded our emergency exists. Without the promise of a tax credit, this investment in our building and downtown Farmington would not have happened.

Bates Mill #2, Lewiston

Benjamin Bates incorporated Bates Manufacturing Co. in 1850 and completed the second mill building by 1854. New Englanders, French Canadians, and many from Europe were employed in the Mills until the 1960s when manufacturing shifted south and abroad. In 2012, after a half century of limited use, Nathan Szanton stepped in to renovate the mills and bring in 21st century uses. Many workers involved in the renovations were descendants of Bates Manufacturing employees. Early private investment by Tom Platz—one of the mill developers—as well as subsequent support from the Maine HTC have yielded very positive results: in 2000, barely 100 people worked at the Bates Mills complex—that figure climbed to nearly 2,000 by 2013. HTC credits were instrumental in supporting the effort to bring mixed-income residential units into the complex and to build momentum for undertaking redevelopment of Bates Mill No. 5. The complex, located in the heart of Lewiston's Riverfront, is helping drive investment and revitalization in other parts of the City. Early success with redevelopment in the complex have fueled further development and helped attract businesses according to Tom Platz:

Bates Mill No. 2 BEFORE redevelopment



Bates Mill No. 2 AFTER redevelopment

any business thinking about moving [into a redeveloped mill] likes to look at your past successes before they take the leap…the businesses who are now looking at Mill No. 5 are confident we have the ability to do it.

Source: J. McCarthy (November 11, 2013). *www.ainebiz.biz*

Bates Mill and other residential historic redevelopment projects contribute to community vitality by bringing people and activities into downtown areas:

With the growth of the bars and restaurants in the area...I think [Bates Mill No. 2] will only increase business at those places

Source: D. Waugh & K. DiCara. (Nov. 08, 2012) *WCSH 6 News*

Bates Mill No. 2

Project Details:

- ✓ 18 rooftop solar panels
- ✓ 15 Market-rate apartment units
- ✓ 21 "Workforce" apartment units
- ✓ 12 Income-restricted apartment units

Healy Asylum, Lewiston Healy Terraces

Designed by Jefferson Lake Coburn and completed in 1893, the Healy Asylum housed and educated hundreds of children until it closed in 1973. Within walking distance of downtown, the Lewiston Housing Authority and Developers Collaborative bought the building, which had been vacant for two decades, to convert it into affordable, elderly housing. The project revived important architectural details in the building and replaced its obsolete mechanical systems. This project not only draws on the amenities and services available in downtown Lewiston to attract tenants, Healy Asylum is helping to increase economic activity and vibrancy in the downtown.

Healy Asylum, Lewiston

Speaking to the role that historic residential redevelopment projects in downtown areas, David Bateman, who developed an HTC projects in South Berwick, notes that his **HTC projects served as a**

catalyst for the entire downtown of South Berwick… Businesses and service providers in the downtown are thriving today because of the new activity. You have 48 new families in the downtown who can just walk out their door and buy what they need. People are returning to the center of town. The town now gets $40,000 a year in revenue from the Mill building that used to be an eyesore.

Source: D. Bateman

Healy Asylum, Lewiston

Project Details:

- ✓ 32 affordable, elderly housing units

Baxter Library

The Baxter Building is a Portland landmark dating to 1883. Northland Enterprises, LLC purchased the building from the Maine College of Art and converted them into modern offices for advertising firm *The VIA Agency*. The building has helped the company build relationships with clients and employees ultimately helping to drive growth.

Historic renovation projects attract tenants, and they are economically competitive in the region and in other major centers outside of Maine. According to VIA chief executive John Coleman,

The lease on the Baxter building costs less than what it did to rent the company's former quarters, on Danforth Street. The per-square-foot cost is about one-quarter of what the company pays for space in its New York office.

Source: E. D. Murphy. (Oct. 06, 2006). *Portland Press Herald*

Baxter Library, Portland

Project Details:

- ✓ 24,000ft² of commercial space
- ✓ Tenant build out for approximately 75 employees
- ✓ LEED Silver certification

Lisbon Falls High School, Lisbon Falls

Originally opened in 1906, the Lisbon Falls high school closed operations in 2005 and remained vacant until Greater Brunswick Housing Development Corporation identified an opportunity to create affordable, elderly housing using the original classroom layout and preserving the overall facilities plan and historic corridors. The building provides a continuing contribution to the community.

Lisbon Falls HS, Lisbon

Project Details:

- ✓ 12 affordable, elderly housing units

Maine Hall, Bangor Theological Seminary

Built in 1834 as a dormitory for the Bangor Theological Seminary, Maine Hall is the second oldest building on the campus. After the Seminary relocated to Husson University, the building laid vacant until Community Housing of Maine purchased the property in 2009 to build affordable, elderly housing. Situated in downtown Bangor, the redeveloped building achieved new efficiency standards and the property was brought onto the tax rolls for the first time ever.

Project Details:

- ✓ 28 affordable, elderly housing units

One of the key strengths of HTC-funded projects is that they have the potential to ignite new investment and energy in communities. Talking about the Hathaway Creative Center, his historic mill redevelopment project in Waterville, Paul Boghossian notes that:

Over 120 new residents are now living downtown, greatly benefitting downtown businesses. The Hathaway has become a hub of civic and cultural activity. The people who live and work there love it.

Source: P. Boghossian

IV. PROJECTED EFFECTS – WITH AND WITHOUT HTC

Prior to passage of the state HTC program in 2008, the only formal "historic rehabilitation" projects in Maine were those that received only federal historic tax credits. **Over the 10 years prior to Maine's passage of its own HTC program, Maine saw an average of 4.1 such projects per year, yielding total certified expenses of $3.5 million (or about $850,000 per project). Since the Maine historic tax credit was passed in 2007, the average number of projects has nearly doubled to 7.6 per year, and average HTC-eligible expenditures per project have grown more than 5-fold to $4.5 million. Total expenditures per project averaged nearly $5.6 million over the 2007-2015 period.**[4]

Table 1 - Annual Averages of Historic Rehabilitation in 3 periods

Time Period Relative to State Maine HTC Legislation	Dates	Average Projects/YR	Average Certified Expenses/Project	Average Total (certified and non-certified) Expenses/Project
10 years before legislation*	1998-2007	4.1	**$850,000**	N/A
8 years since legislation	2008-2015	7.6	**$4,515,000**	$5,565,000

Sources: Project data provided by Maine Preservation. IMPLAN economic impact modeling conducted by PDI
**Expenditures on these projects that exceeded the amount eligible under the federal historic tax credit program are not currently available.*

[4] Total expenditures include HTC-eligible expenditures, ineligible rehabilitation expenditures, expenditures that exceed the HTC program limits, and new construction expenditures required to complete the project (see page 4).

Given the dramatic changes noted in Table 1 it is important to consider what the future may hold for the HTC program in Maine. At the moment, there are 28 projects in various stages of certification. Estimated construction costs for 11 of these projects total nearly $50 million. If all of these projects are valued at the 8-year average of $4.5 million, they would represent over $126 million of "certifiable expenditures" and nearly $156 million in total rehabilitation expenditures in the pipeline. For this reason, and because of the generally improving national economy, **PDI considers it reasonable to project annual "certified rehabilitation expenditure" of $60 million and total project-related construction expenditures of $78.3 million per year over the next ten years.**

This projection is slightly lower than the "middle range" of estimates provided by Joe Cronin[5] in 2007, prior to passage of the Maine HTC in 2008. Cronin estimated a likely annual average spending on HTC projects in Maine of $65 million bounded by a low average of $39 million per year and a high of $91 million. Significantly, however, the **Cronin estimates did not include potential mill redevelopment due to his expectation that they their inclusion would be unpredictable and would substantially increase estimates.** In fact, the 61 projects that have been undertaken in Maine **since 2008 include 6 substantial mill projects**, yet even with these mills included, Maine is in the middle range of Cronin's estimates. More importantly, the Cronin estimates were made just before the financial crisis and subsequent Great Recession, so the fact that current and likely future HTC totals are nearing the earlier Cronin estimates marks a significant sign of success for the program in Maine. Certainly HTC-related construction activity in Maine has outpaced general residential construction activity in the recession years (Figure 4 above).

Figure 6 depicts the fiscal results of PDI's projection that annual "certified rehabilitation expenditure" will be $60 million and total project-related construction expenditures will be $78.3 million per year over the next ten years.

[5] Cronin, Joseph M. Partner, Lipman, Frizzell & Mitchell, LLC, Real Estate Consultants, Columbia, Maryland, *Maine Historic Preservation Tax Credits: Impact on Development in State*, March 30, 2007.

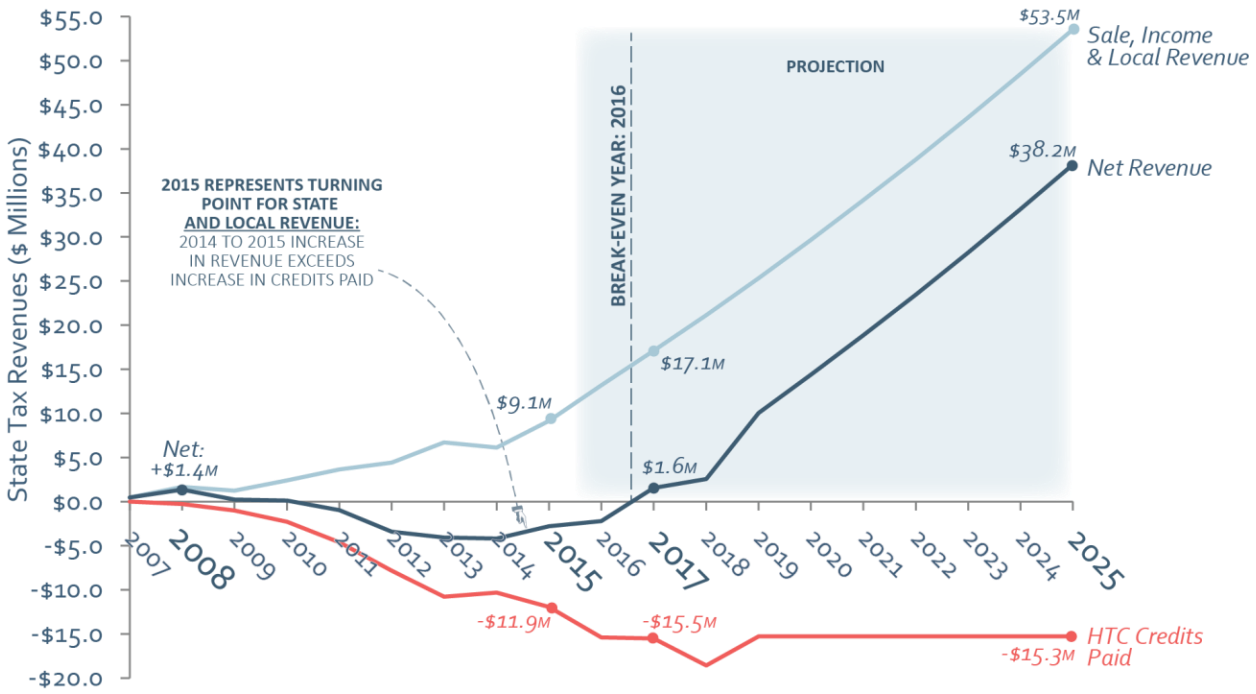


Figure 6 - HTC Fiscal Impacts, Annual

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

Under this scenario, Maine's HTC will rise to $15.4 million in 2018 and remain steady at $15.3 million throughout the remainder of the forecast period. The 2007 Cronin estimates, by comparison, indicated that the credit would average $16.3 million annually. State tax revenue (mostly sales and income taxes) will rise steadily from $4.0 million annually in 2015 to $20.7 million in 2025, reflecting continuing construction activity as well as cumulatively growing economic impacts resulting from new business and job creation in rehabilitated properties.

It is important to note that **the operational impacts from HTC projects in Maine completed after this study are likely to be greater than they have been in the past**. This is occurring for three reasons. First, **more of the HTC projects that came on line just after the study have a commercial component**. They are not strictly housing projects. Second a greater number of **large commercial projects** not included in the study were completed just after the study ended (**The Press Herald Hotel and the Inn at Diamond Cove in Portland and the American Woolen Mill Project in Dover-Foxcroft**). Third the aging of the Maine population means that the labor force is beginning to decline. Thus, **the creation of any new job has a greater probability of bringing a new job to the state, either by providing work for a young Maine resident who would otherwise leave the state or by attracting a new resident** to the state. For these reasons, PDI has projected a gradually increasing number of new operational jobs being created per HTC project than has been true in the past. The impact of this trend is to increase the positive fiscal impact of these projects on the state and speed the rate at which the program reaches the level of net positive fiscal impact (here estimated for 2016).

Local tax revenues (mostly property taxes) **will rise steadily from $5.2 million in 2015 to $32.8 million in 2025**, reflecting the value to the state's cities and towns of cumulative increases in the taxable value of historic properties. As of result of these separate impacts, **the annual net fiscal impact on state and local governments will turn positive in 2017 and continue to increase reaching +$38.2 million by 2025**. Finally, the annual net fiscal impact on state government alone will turn positive in 2023 (rising from –$0.4 million in 2022 to +$1.5 million in 2023) and grow to +$5.4 million in 2025. It is important to note that these effects do not factor in indirect effects of rising property values and property taxes on adjoining and nearby buildings, or additional businesses created as a result of development of new residential or complementary businesses in tax credit projects. **Studies in other states have shown increased permitting and other activity in areas adjoining tax credit projects**.[6]

What, then, would be the fiscal impact on Maine state and local governments if the state's historic tax credit is repealed or phased out? Presuming that the federal credit remains, some historic rehabilitation would continue in the absence of a state tax credit as was the case for years prior to enactment of the HTC enactment in 2007. But even in those construction boom years, federally-induced HTC project activity was far below the level of activity from 2008 to 2015 when the state HTC was available to investors and the real estate economy was restricted. PDI projects that, without the state HTC, the level of historic rehabilitation activity will be about three projects per year representing $2.4 million in total annual certified historic rehabilitation and about $4.2 million in total construction impact. Inserting these assumptions into the IMPLAN model shown in Figure 3 and Figure 6 leads to the fiscal impact illustrated in Figure 7.

In this scenario, the state HTC falls from $11.6 million in 2016 to $0 in 2020 and thereafter. State sales and income tax revenues fall slightly from 2015 to 2018 as construction activity declines and then rises slowly to +$5.7 million in 2025 as the cumulative impacts of continuing operations from HTC investments in 2008 to 2015 continue to generate sales and income tax revenues. In a similar fashion, local tax revenues continue to rise slowly from 2016 through 2025 (from +$5.3 million to +$8.8 million) as the cumulative property taxes paid on rehabilitated historic properties continue to mount. Annual net state and local revenues continue to drop through 2017, turn positive in 2018, and increase slowly to +$14.5 million in 2025.

In short, **the fiscal consequences of discontinuing the state HTC program would be the loss of $23.7 in net tax revenue** than if the program is continued.

[6] Place Economics *The Federal Historic Tax Credit: Transforming Communities*, June 2014, p.4 and case studies recounted.

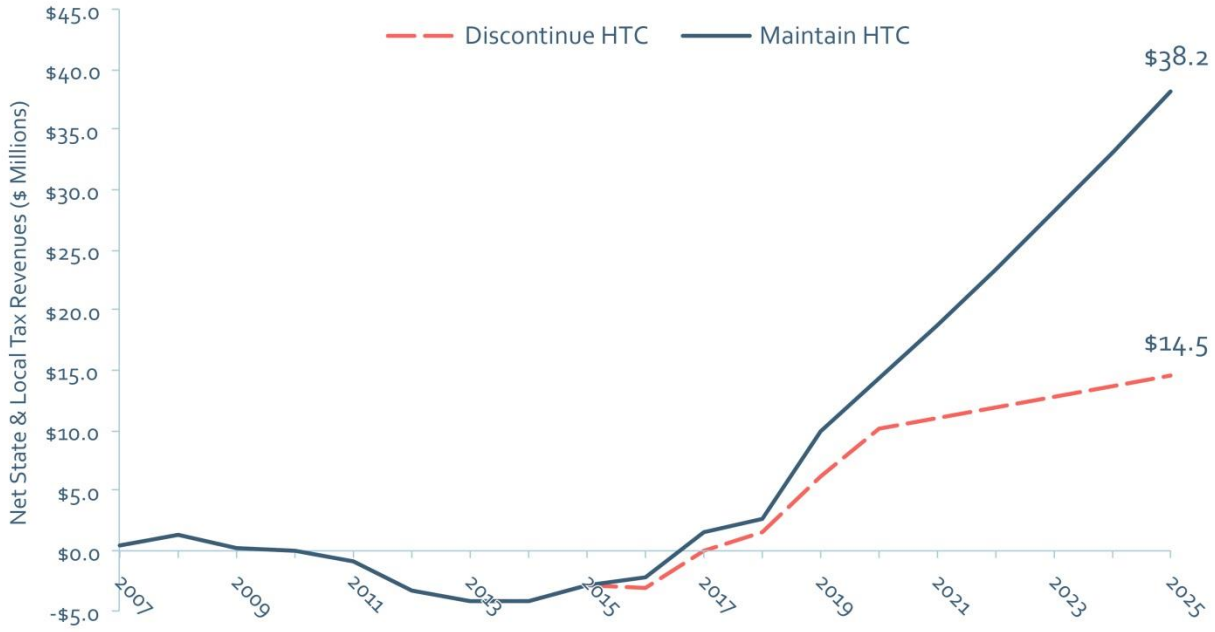


Figure 7 - Net State and Local Tax revenue
Source: Project data provided by Maine Preservation.
IMPLAN economic impact modeling conducted by PDI

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