

Joint Committee on Taxation – April 8, 2007 – LD 262

Chairman Perry, Chairman Piotti and Members of the committee, My name is Paul Boghossian and I am here to testify in favor of L. D. 262. "An Act To Amend the Credit for Rehabilitation of Historic Properties."

Many of you know that for the past three years I have been working nearly full time on a plan to rehabilitate the former Hathaway Shirt Factory in Waterville. Our effort will bring a vibrant mix of apartments, office, retail and work studios for creative economy type uses to what is now a desolate complex of largely empty buildings on the edge of downtown.

To say that it is a big project is an understatement. The first phase, the Hathaway Building proper, is 230,000 square feet and will involve an investment exceeding 30 million dollars. A second phase involves two adjoining buildings and will bring the investment north of \$50 million. When complete, 1000 people will live and work in the Lockwood Mills (the original name of the complex) with many more visiting daily.

The community support has been extensive and gratifying. The city and its people have been wonderful. Local institutions and businesses have committed to blocks of space in a rehabbed Hathaway. More than half of the apartments are spoken for. We are so close to making this wonderful project happen for Central Maine that I can taste it.

Nonetheless, the Hathaway is a project that rides the very edge between financially doable and not. Given the huge cost of renovation, especially with a 30% run up in the past year and a half, mill rehabs just can't happen without strong tax incentives. This is exactly why mills continue to sit vacant throughout Maine.

In Brewer, in Sanford, in Saco in Rumford and dozens of other places. The Hathaway, in fact, saw two or three other redevelopment efforts prior to ours, all of which stumbled because the economics are so dismal.

This brings me back to L. D. 262, what I am calling “The Mill Rehab Act of 2007”. While I’d love to see the Hathaway as the test case that is highly scrutinized to prove that these incentives work in Maine like they do elsewhere (that is Act 816) I’d love even more to see Maine unshackle its historic tax credit statewide to make it competitive with what is done in nearly thirty other states. That is exactly what Act 262 does.

And these tax credits are *highly* effective in other states. A report by real estate consultants Lipman Frizzell & Mitchell done for Grow Smart Rhode Island in May 2005 on the economic and fiscal impacts of the Rhode Island Historic Preservation Investment Tax Credit shows \$5.47 in total economic output for every \$1.00 in state tax credits.

The law has had a huge economic ripple effect in Rhode Island resulting to date in over 500 million dollars in investment throughout the state, not just in the major metropolitan areas. Last year when I stood before you I quoted quote an editorial that was in the Providence Journal. The editorial is entitled “Twofer for Rhode Island” If you don’t mind, I’d like to quote it again:

“These good things are the result of just one piece of Rhode Island legislation: The Historic Preservation Tax Credit, passed in 2002. Without it, most of the mills being redeveloped in the state today would continue to molder, awaiting the wrecking ball. With it, the cities and towns ring with the sound of construction, as developers transform state tax credits into municipal tax dollars.”

The “twofer” cited in the title of the editorial means that these projects (and I’ll quote again from the Journal) “turn blight into

beauty and utility and rescue acres of countryside from the suburban maw”

Because they also bring in federal dollars, the result of the tax credits, actually, is more like a “threefer”. For example, in 2001 prior to the change in Rhode Island law, \$4 million in federal historic tax credit proceeds was realized. The following year, after the change in the law, that figure soared to \$40 million. In 2007 it looks like the federal tax credit monies brought in will be north of \$75 million.

Here’s some information from another state, Missouri on the success of their tax credit law.

A report by Rutgers University on the Economic Impacts of Historic Preservation in Missouri shows a contribution to the state’s economy of \$1 billion and nearly 28,000 jobs.

The study further demonstrates that for every \$1.00 in issued tax credits, there is a direct tax return to the state of \$1.01 plus \$3.82 in additional gross state product.

A study done for Preservation Maryland shows that each **\$1.00 of historic tax credits leverages \$6.70 of economic activity** within the state. The study explicitly articulates that the **benefit of the program to the State of Maryland is far larger than the expense associated with it with** incremental tax revenues to the State and local jurisdictions that offset the State's investment by over one-half. An interesting and important aspect is that much of the economic and fiscal activity attributable to historic rehabilitation occurs before the State pays out its tax credits. Increased jobs and resident incomes are also a direct result particularly in older urban areas in need of revitalization with projects that, but for the tax credits, would not have been undertaken.

The Maryland credit is 25% and is not capped.

A report by Preservation New Jersey earlier this year predicted over **\$3.00 in direct Treasury receipts over a 5 year period for every \$1.00 in historic tax credits issued**. New Jersey is considering its first tax credit program as are 5 other states. As we speak, ten states, including Maine, are considering enhancement of their tax credit programs.

Before I close, I wanted to address the question that, I'm certain, is lurking in many of your minds, that is "where is the money going to come from?"

I should first emphasize the timing of the credits. Historic tax credits are granted the year the project is put in service. This means that the investment, and the taxes that accrue from that investment (things like income tax on wages, sales tax on materials, permit fees etc.) mostly accrue to the state well before the credits are awarded. A sizeable portion of the taxes come in a year or more before the credits go out. This was emphasized in the Maryland report.

On our project we've already spent over a million dollars on Maine architects, lawyers, engineers, environmental consultants and surveyors. By the time we break ground we'll have spent considerably more than that. While the resultant taxes won't quite fill the budget gap, it certainly will help!

Getting back to where the money is going to come from; please be assured that in Maryland, Missouri and Rhode Island, where this has been intensively studied, there has been a *net tax gain* from their legislation.

That gain, *plus* big increases to the gross state product and the "twofer" effect; which turns hulking, empty buildings into cool

places to live and work and saves acres of countryside from sprawl in the process. And don't forget the threefer" effect which brings in federal dollars through the US historic tax credit.

This success of other states could be replicated in Maine. I urge you to support and pass L. D. 262. If this legislation can bring a \$50 million investment to Waterville, please consider the ultimate possibility to communities like Houlton, Belfast, Millinocket, Norway, Jay and Skowhegan.

In fact, with passage of this legislation as a first step in revamping Maine's historic tax credit, we are already poised to take on other mill rehabs. A strong credit would make all the difference.

Thank you.