



ECONOMIC BENEFIT OF INVESTING IN MAINE'S HISTORIC BUILDINGS

November 21, 2007

Supplement to the "Cost of Government section of

**"THE ECONOMIC BENEFITS OF AN
EXPANDED HISTORIC TAX CREDIT IN MAINE"**

April 2007, Revised January 2008

Prepared for Maine Preservation in support of
LD262: *An Act to Amend the Credit for Rehabilitation of Historic Properties*
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The following information is intended to replace the “Cost to Government” section of the April 2007 Economic Benefits Report for LD262:

The fiscal impact of LD 262 depends on the interplay of a variety of factors. Obviously, a tax credit will reduce state government tax receipts—that’s its purpose. However, LD 262 is structured in such a way as to delay the immediate fiscal impact on the state. This is because:

- A developer must apply for state certification in the year the historically rehabilitated building(s) is (are) “placed in service,” i.e., in the year the project is completed; and
- The developer (or investor to whom a credit was transferred) may claim only 25% of the credit in a single year, i.e., the credit will reduce state income tax revenue in the four years after completion of a project.

In short, Maine’s historic tax credit will “hit the state’s books” over the four year period following completion of the project.

This timing is very important because spending for historic rehabilitation (and its related jobs and income effects) occurs—quite obviously—over several years before completion of the project. The net fiscal impact of any historic rehabilitation project, therefore, depends on a comparison of:

- the taxes generated by the investment and related spending undertaken before and up to completion of the project; and
- the tax credit claimed by investors after completion of the project.

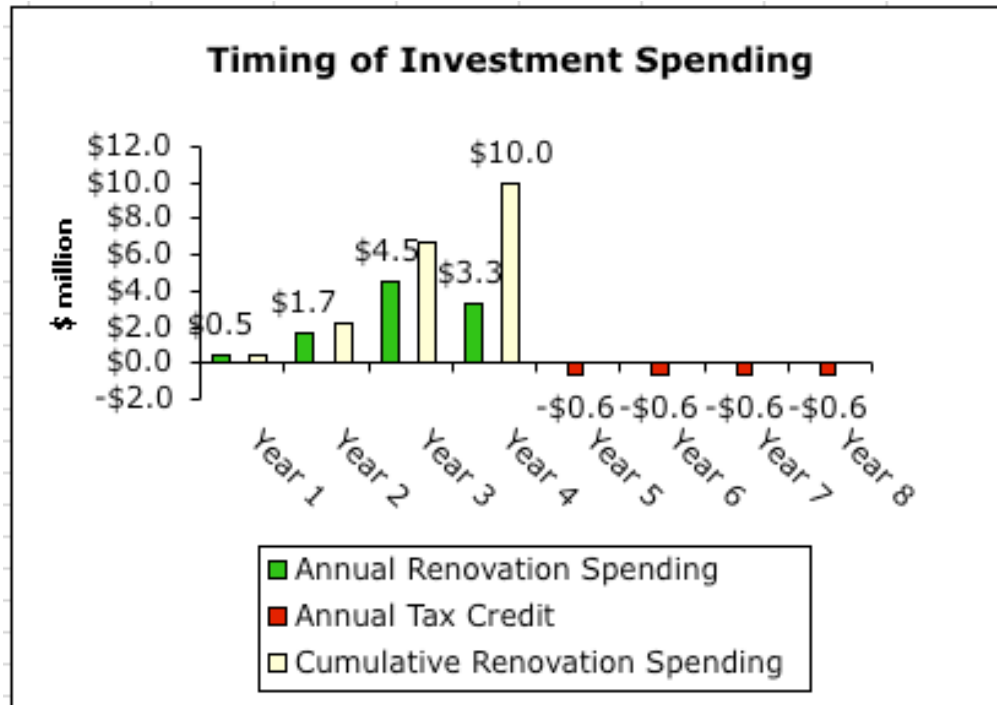
Figure 1 shows the pattern of spending for a hypothetical \$10 million historic rehabilitation project. This pattern is derived from an analysis of historic rehabilitation projects in Maine and elsewhere. It shows that project spending (and all of its associated ripple effects) begins four years before the first tax credit is claimed and eight years before all of the credit is claimed.

Any historic rehabilitation project begins with developers, architects and planners working up initial designs, conducting community and neighborhood visioning sessions, working with local regulatory bodies. After plans are more fully developed, initial site preparation begins. Often extensive demolition and careful removal of non-historic components of buildings is involved. Only after this work has been completed can major construction begin.

Figure 1 shows that a \$10 million project is, from an annual perspective, a \$500,000 project in year 1 followed by a \$1.7 million project in year 2, a \$4.5 million project in year 3 and a \$3.3 million project in year 4. The cumulative spending of the project total of \$10 million occurs over a full four-year period.

Figure 1 is not a blueprint. Every historic rehabilitation is unique. It does, nonetheless, illustrate a common pattern that is useful for calculating fiscal impact.

Figure 1



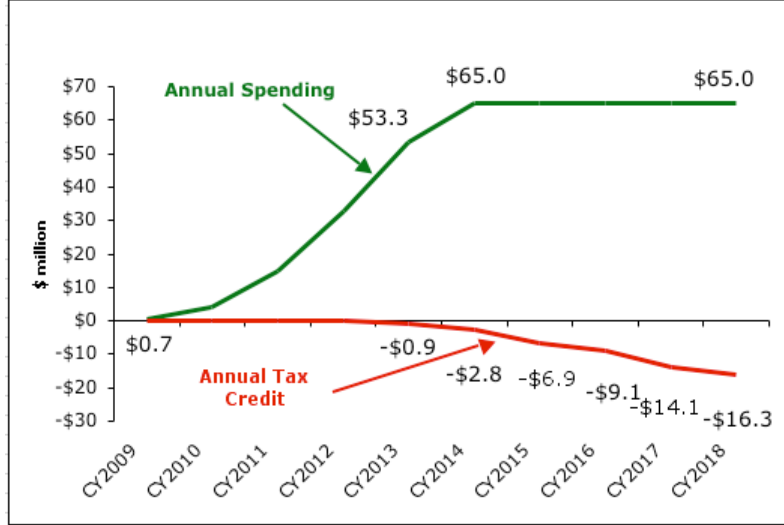
The central point demonstrated by Figure 1 is that the spending involved in an historic rehabilitation (and the sales and income tax revenues it generates for the state) occur years before the impact of the tax credit is felt in the state budget. And, even then, it is felt over a four-year period.

The Cronyn analysis noted above estimates that the changes proposed in LD 262 would lead to the initiation of 25 projects per year with a combined value of \$65 million dollars. Presuming:

- that LD 262 passed in calendar year 2008;
- that developers built up to the \$65 million annual capacity over three years (\$15 million in 2009, \$30 million in 2010 and \$65 in 2011); and
- that spending on these projects followed the pattern exhibited in Figure 1

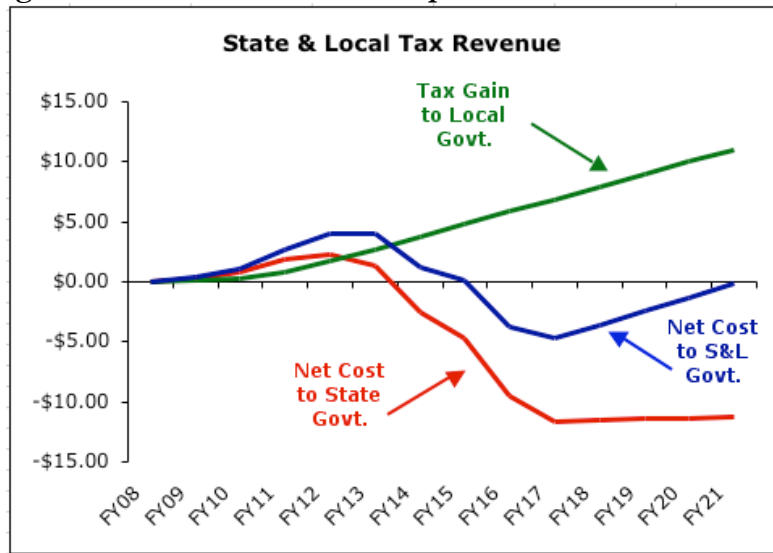
the actual cash flow from these projects and their subsequent tax credits would follow the trend line indicated in Figure 2. Investment spending would grow from \$700,000 in 2009 up to the full expectation of \$65 million in 2014. Given the four- year project completion time, the first tax credit would not “hit the state’s books” until 2013 and would not reach its full impact of \$16 million until 2018.

Figure 2 Projected Investment Spending and Tax Credits



In the meantime, however, state government would be collecting sales and income tax revenues from the investment spending of the developers and their suppliers and from the consumer spending of the people working for those developers and suppliers. In addition, as properties are rehabilitated, their values increase and municipalities collect additional property taxes. Using the estimations of the economic impact provided by the Colgan analysis noted above, and applying average state tax rates to the income and property values generated, it is possible to estimate the total fiscal impact of LD 262. Figure 3 summarizes these results.

Figure 3 State & Local Fiscal Impact of Historic Tax Credit

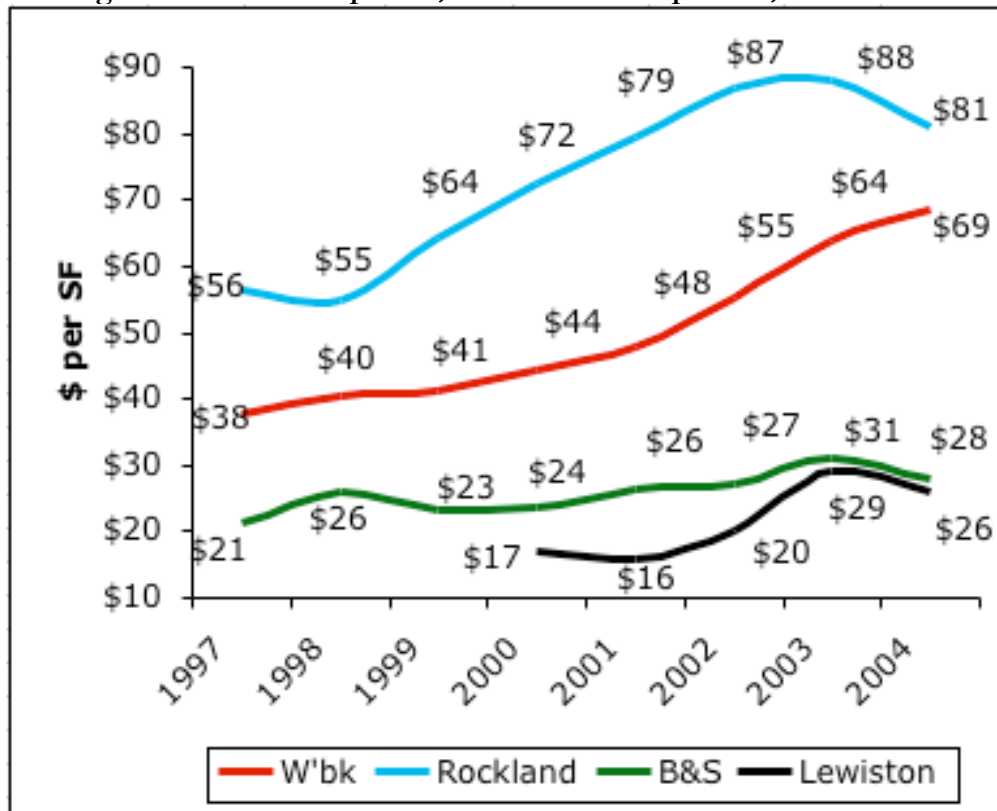


For the first six years, state revenues would increase because of sales and income tax collected on investment activity occurring prior to the first historic credits “hitting the books.” Indeed, tax credit losses would not exceed sales and income tax gains until 2014, and these losses would not offset the cumulative tax gain to the state until 2016.

Over the same period, however, property tax revenues to local governments would increase with the value of rehabilitated properties. Applying average tax rates to the flow of investments anticipated by the Cronyn report indicates that tax gains to municipalities would offset tax losses to the state by 2021, meaning that future investments after that time would generate a net fiscal gain for Maine as a whole.

And the gains to municipal government noted here refer only to the historic properties themselves. In fact, as those familiar with historic rehabilitation projects across the state will attest, the historic properties are only the tip of the iceberg. Rehabilitation of historic properties makes the properties around them more valuable and stimulates further investment and thus more property tax revenues from neighboring properties not claiming historic tax credits. Figure 4 below illustrates the change in sales values per square foot in a selection of municipalities that followed significant changes in downtown investment patterns.

Figure 4 Sales Value per SF, Selected Municipalities, 1997 to 2004



In Rockland, over the seven year following closure of fish processing plants, the average sales value of downtown properties increased from \$56 per SF to \$81 per SF. In Westbrook, following closure of the SAPPI pulp mill in the downtown, average sales values of neighboring properties increased from \$38 per SF to \$69 per SF.

The pattern for both of these cities stands in stark contrast to that of Biddeford/Saco where downtown development has, until quite recently, been hampered over controversy surrounding the Maine Energy Recovery Corporation (MERC), and increase in the per SF value of downtown property has been much more modest.

By providing a “jump-start” to downtown redevelopment, the historic tax credit will have an effect similar to the removal of fish plants and pulp mills from downtown centers—they will change the empty and abandoned buildings that once constituted obstacles to development into centers of investment that will increase property values in their own right and have a salutary impact on their neighbors. ☞

From Maine Preservation: Useful Talking Points in Support of LD262

- The purpose of LD262 is to attract funding from out of state and to keep Maine developers funding in state to finance rehabilitation of historic mills, downtown buildings and other income producing historic structures that are vacant or underused. Other states have good tax credit bills and that is where the money is flowing. Maine needs a tax credit that will put our historic buildings on an equal footing with other states.
- LD262 provides for a 25% tax credit for the total expenditures on the rehabilitation of an historic structure. The building and the rehab work are certified by the Maine Historic Preservation Commission, using the same standards as the federal historic rehabilitation tax credit.
- This 25% State credit is crucial in making projects feasible. Due to federal tax costs, the State credit is worth about 65 cents per dollar. So about two-thirds of the 25% credit, or 16%, is usable - that 16% of the rehabilitation cost is simply the difference between the project making a profit or not.
- Without the credit the building will sit, continue to be a drain on its community and be more difficult to fix later. With the credit the building will be rehabilitated and act as a catalyst for the revitalization of the community around it.
- The long-term benefits of the historic tax credit to both the State and to Maine's communities greatly exceed its costs. This tax credit bill allows the private sector to invest the funds to improve our communities.

Excerpted from www.maine Preservation.org