

Historic district tax credit could transform many downtowns

It respects Maine's 'sense of place' by transforming empty structures while preserving open space.

Speaker Glenn Cummings and Robert Monks
Maine Sunday Telegram

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ABOUT THE AUTHORS

Speaker Glenn Cummings, D-Portland, is a professor of economics and entrepreneurship at Southern Maine Community College. Robert Monks of Cape Elizabeth is a real estate developer and entrepreneur.

— Maine is a unique and special place. Our seascapes, landscapes and historic villages are second to none.

Those of us living in Maine know this, and it has been supported strongly by reports like the one written by the Brookings Institution that focused on what Maine needs to do to make this century Maine's greatest.

-- Building prosperity on Maine's strengths: In a world that is shrinking every day and becoming more homogenous, having something as unique as our historic downtowns gives us a competitive advantage that cannot be replicated by others.

This competitive advantage is something that Maine can leverage in a global economy. But those decaying historic buildings are in peril, and the need to bring prosperity to more of Maine is paramount.

One of the best methods for building that prosperity and saving Maine's historic structures is to strengthen the Maine historic preservation tax credit.

That's why a broad coalition of Democrats and Republicans, environmentalists and businessmen have all joined together to call for this change in Maine tax policy.

Voters in Maine have seen the wisdom in preserving Maine's unique character and natural wonders through the Land for Maine's Future program.

In addition to preserving our environment, we also must preserve the historic character of Maine. The historic preservation tax credit will do that and create jobs.

-- Spurring economic activity: Right now many communities are losing their historic downtowns as development spreads out and away from these traditional centers of commerce and old buildings fall into disrepair.

This is simply because when investors consider building residential or commercial space, their bottom line is always the bottom line.

There is far more financial risk involved in rehabbing an old, decaying building than in developing new properties in our once-open spaces.

The historic preservation tax credit is a way for the state to provide a financial incentive for historic preservation. A strong, targeted tax credit for historic preservation projects will make those rehab projects more attractive and less risky -- and slow the sprawl that eats up Maine's countryside.

There are a number of Maine developers already going to states like Missouri, a state with a very thoughtful historic preservation credit, to do the kind of rehabilitation projects that could be done in Maine.

Given the high number of potential projects in Maine, hundreds of contractors and laborers could be put to work for many years to come.

In fact, an economic analysis by Planning Decisions, Inc., estimates that up to 800 jobs could be created through the work spurred by the historic preservation tax credit in Maine.

-- Helping all of Maine: Strengthening the historic preservation tax credit will help all of Maine. Every county in the state has properties that qualify for the historic preservation tax credit, but many of them vary in size and scale.

The credit needs to be changed to allow smaller-scale projects, the kind found in many rural downtowns, so that many more towns in Maine can see the benefit from this initiative.

-- Lowering property taxes: There is also a cost associated with doing nothing with these old buildings. You can see plainly some of this in the form of graffiti and other vandalism.

As buildings lay dormant, they become breeding grounds for criminality and they will require greater municipal services like police and fire protection. They also lower the values of adjacent properties.

In many cases, the demolition costs fall to municipalities. Blighted buildings add to the local property tax burden.

We need to strengthen the historic preservation tax credit so that we can capitalize on Maine's greatest strengths and allow the muscle of a new economy to grow into the skeletons of the buildings from our 19th Century economic heritage.

It makes sense to encourage this through a public-private partnership, and the historic preservation tax credit is an excellent way to go.

Tax credits may spur projects in old buildings

Kevin Mattson of Hallowell
Kennebec Journal/Morning Sentinel
January 9, 2008

Absence makes the heart grow fonder. That saying applies to many things in life. We have found for many people, leaving Maine makes you realize just how special this state is. Our forests, rocky coast, lakes and streams are world class. Our downtown districts, full of historic buildings, are truly one of a kind.

But what happens when these things are gone? When pastures give way to development and historic buildings are torn down or fall into disrepair?

The people of Maine have shown great foresight by preserving Maine's natural heritage through the Land for Maine's Future program, which sets aside land for preservation. To complement this, we need to pursue a new effort to preserve Maine's downtowns and historic business districts through a revamped state historic preservation tax credit. Several recent studies have highlighted the efforts of many businesses such as ours to redevelop historical properties in Maine. Studies such as the Brookings Report focus on the unique character of Maine that is embodied by our downtown districts and our historic mill buildings. They rightly praise these as one of Maine's greatest strengths and greatest underutilized assets.

As developers, we recognize the first three rules of real estate: location, location, location. Maine's downtown districts and historic mill buildings have great locations that make them desirable.

There is a fourth rule when redeveloping a property, however: Watch out for hidden costs. The reality is that there is a lot of risk when taking on the redevelopment of a historic building because you never know what you will find when you start peeling back layers. This risk makes many investors hesitant to undertake projects on old buildings.

There is a way to address this risk, however.

By using tax credits to offset the added costs associated with rehabilitating old properties, Maine can help convince more developers to undertake these projects.

Maine currently has a tightly defined tax credit, limited to \$100,000 per project, which does not provide enough of an incentive to take on risk. Because of this, Maine ranks 42nd in the number of projects that take advantage of the federal historic preservation tax credit, despite having a high proportion of historic buildings.

The credit should be expanded to allow qualified rehabilitation projects to receive a tax credit equal to 25 percent of the qualified historic rehabilitation costs that would provide a maximum benefit of \$5 million. A tax credit like this would provide a dollar for dollar

reduction in the participating developer's income tax liability. This is a powerful incentive to undertake these otherwise financially risky projects.

The tax credit would allow projects both large and small to proceed and would create new jobs, preserve Maine's environment, save a piece of history and maintain our high quality of life. The new credit could benefit many things: buildings in our downtowns, large historic mill buildings and working farms.

Every county in Maine has properties that could benefit from an expanded historic preservation tax credit. And, given Maine's large inventory of potentially eligible properties, people could be put to work for a long time.

An economic analysis conducted by Planning Decisions Inc. concluded that, if the historic preservation tax credit were amended, as many as 25 projects worth a combined \$65 million could be undertaken in Maine within the first year and create as many as 800 jobs. In fact, many Maine companies are doing business in other states that have better historic preservation tax credits. If Maine makes this change, the odds are that Maine-owned businesses, their employees and, ultimately, the state will benefit substantially.

Revamping the historic preservation tax credit in Maine makes sense for Maine developers, for those seeking ways to preserve our unique landscape and those concerned with the erosion of our history. That is why such a broad coalition and members of all political stripes have backed the change. We urge the Legislature to adopt and fund LD 262 this session.

Kevin Mattson of Hallowell is president of Mattson Development and specializes in the redevelopment of historic properties. Tom Niemann is president of Niemann Capital of Durham, N.C., and has undertaken the redevelopment of the historic Augusta Arsenal property. Roger Pomerleau of Augusta is an entrepreneur and a commercial property developer.

Sun Journal

Historic renovations target of refund effort

By Carol Coultas, Business Writer
Thursday, December 13, 2007

LEWISTON - When the owners of the Continental Mill were faced with a decision whether to refurbish or dismantle the historic cupola that sat atop its distinct tower, it came down to dollars and cents.

Estimates were \$100,000 to refurbish it and \$30,000 to tear it down. They went with the cheaper option.

"That building was once to the city of Lewiston what Portland Head Light was to

Portland," said Phil Isaacson, a member of the Maine Cultural Affairs Council and Lewiston native. "Now that building looks awful."

Isaacson would hate to see similar fates befall any of Lewiston and Auburn's historic commercial buildings, 32 of which appear on the National Register of Historic Places. So he's lending his voice to a bill that would refund a portion of the costs of historic renovations to developers willing to undertake the pricey projects.

L.D. 262, An Act to Amend the Credit of Historic Properties, would refund 25 percent of the cost of renovating a certified historic structure and removes the \$100,000 cap on an existing historic renovation credit program.

The refunds would come from a dedicated fund, financed through a change in the real estate transfer tax. The proposal raises the real estate transfer tax on properties above \$800,000 and lowers it for sales of \$600,000 or under.

If the Legislature approves the bill and \$100,000 in seed money, it's projected to raise \$13 million for historic renovation refunds in four years.

"This grows the size of the pie long-term and helps us build on our strengths," said House Speaker Glenn Cummings, D-Portland, who appeared with Isaacson and several other proponents at an editorial board meeting at the Sun Journal on Wednesday. He said the bill specifically enhances two of Maine's greatest assets: its historic architectural "bones" and quality of place.

"Maine has the potential to reinvigorate ... these historic buildings; that is truly an asset," he said. "Our goal is to get political support around the use of these historic tax credits."

According to a forecast report from economists Charles Colgan and Chuck Lawton, a \$13 million to \$16 million pool for refunds would generate about \$65 million in sustained private investment and 800 jobs per year.

The impact locally could be substantial, said Lincoln Jeffers, economic development chief for the city. Because of the existing \$100,000 cap, the historic renovation of the downtown Business Service Center was a financial wash; there was no real incentive to the developer.

But a refund of 25 percent could be enough to entice a developer to consider breathing new life into the likes of the Avon Mill, the Grand Trunk Railroad Station or The Bleachery.

"The Southern Gateway is a model of what happens if we don't make that kind of investment," he said, referencing its rundown condition before revitalization. "(Historic renovation) does have that transformative effect."

Michael Carey, a newly elected Lewiston representative and partner in several downtown

developments, said projects such as a second restaurant by the owners of Fuel become more feasible with this kind of incentive.

"A program like this could be enough to push a second restaurant," said Carey. "(Owner) Eric Agren draws that link directly."

Ted Koffman, D-Bar Harbor, co-sponsored the bill, which was carried over from last session. He hopes it passes this spring, as well as, soon thereafter, a companion bill introduced in 2000 that would allow a building subcode for historic renovations.

"I never thought it could take so long," he said, noting Massachusetts and New Jersey adopted similar subcodes very quickly to promote historic preservation. "But we're getting there ... I'm very encouraged."

Bangor Daily News

Making historic affordable

By [BDN Staff](#)

Thursday, December 27, 2007 - Bangor Daily News

As several recent reports have noted, redeveloping old buildings is important for preserving Maine's character and its ability to draw new people. Such rehabilitation work is expensive and Maine's tax credits have not changed with the times. A bill that was unanimously supported by the Legislature's Taxation Committee earlier this year would improve the situation.

The difficulty, especially when there is a large shortfall in the state budget and spending on many programs has been frozen, is that it requires state financial support. The challenge for the measure's supporters is to find a way to fund the tax credit without taking money out of the state coffers. Restructuring the state's real estate transfer tax, with funds dedicated to the historic tax credit, may be an option.

Although Maine has a wealth of historic buildings, particularly homes, it ranks 42nd in the country for the number of projects completed using the federal historic tax credits between 2000 and 2005.

States that have used their own tax credits to supplement the federal program have seen large gains in the number of projects completed. In 2001, four years after Missouri reformed its historic tax credit rules and offered \$25 million in tax credits, it saw nearly \$350 million in project investments, which generated \$660 million in historic tourism, according to the National Park Service.

The result of that investment, in addition to new living, work and commercial spaces, is to boost local property tax valuations.

In 1991, the taxable value of property in downtown Bangor was more than \$90 million. By 2000, when many buildings stood vacant and in disrepair, the value dropped to \$77 million. It has since risen to more than \$96 million. There has been no new construction in downtown Bangor, notes the city's Economic Development Director Rod McKay. The increased value came primarily from investments in older buildings.

Past projects that have benefited from federal and state historic tax credits include the renovation of the Seven Islands Land Co. offices on Broadway, Merrill Merchants' rehabilitation of the Penobscot Theatre on Main Street and the remaking of the Dole Block on Hammond Street into a business and restaurant complex with an indoor courtyard.

Revamping old buildings is usually more expensive than new construction. Tax credits could bring the costs more in line, while preserving historic districts and properties. Redeveloping historic buildings, rather than constructing new ones, can also lower environmental impacts and help stem sprawl.

LD 263 would help at both ends by raising the tax credit cap to cover more of the costs of large projects while also offering credits to small projects that wouldn't qualify for federal support.

Finding the small amount of money needed to boost Maine's historic tax credit will pay dividends for years to come by making towns more attractive for businesses, residents and visitors.

Portland Press Herald

*Editorials Maine's economic future needs help from its past
A historical preservation tax credit could help save both downtowns and open space.*

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December 29, 2007



[enlarge](#) 2006 Press Herald File

Old industrial buildings, like these under renovation in Saco, could be the key to Maine's future as housing, stores and offices instead of mills.

— Maine's coast, lakes, mountains and forests are well-known assets, and their preservation through Land for Maine's Future has been among the least controversial and most supported spending program in state government.

Almost as important as the open spaces, however, are Maine's downtowns, which add to the state's character and quality of life.

A new tax program before the Legislature in 2008- offers a way to spur the state's downtown economy and, indirectly, take development pressure off our remaining open spaces.

The historical preservation tax credit would make the rehabilitation of worn-out industrial and commercial buildings as attractive to investors as building new strip malls or offices.

Despite the gaping budget shortfall facing the Legislature when it returns to work next week, lawmakers should try to find the relatively modest seed money needed to get this program started, and agree on a funding mechanism that would keep it going reliably in the future.

NEW REALITY

One ironic twist of the new economy could be that tired old mill buildings may end up being as much of an engine of growth now as they were when they were producing textiles and shoes.

While Maine may not be able to compete with the Sun Belt for weather, it offers a quality of life that cannot be matched. Maine is known for beautiful scenery, recreational opportunities and livable communities with good schools and thriving arts institutions.

In an era in which jobs can move around the country with the people who hold them, Maine has a chance to compete with any region.

Unfortunately, much of what makes Maine attractive is under attack from sprawl-style development. The lack of affordable housing is forcing people out of established downtowns, and retail and other services follow them, filling the open space and creating a sameness that fails to distinguish Maine from its competitors.

Maine has millions of square feet of unused mill space, much of it in handsome 19th-century brick buildings sitting empty in the center of communities. They could be renovated and turned into affordable housing, shops, restaurants and offices, but they sit for the most part unused.

The historical preservation tax credit would try to reverse that trend.

The owner of a certified historic building who wants to renovate it for use as an income-producing property would be eligible for a tax credit equal to 25 percent of construction costs, spread over four years. The credit would be paid even if it exceeds the taxes owed that year.

Developers would not receive any money from the state until after they made their investment in the property. And if the program is set up to capture income and sales taxes generated in the newly renovated buildings, it would be self-funding into the future.

Programs like this have a proven track record in other states. With the tax credit in place, Maine would stand to benefit from the investment of national real estate companies that specialize in historic redevelopment.

SOMETHING SPECIAL

They would come here because Maine has something special to offer: While many states have historical industrial buildings overlooking rail yards on the outskirts of cities, many of Maine's mill buildings are in downtowns, often beside a river.

With the proper investment, the old spaces can be turned into places where people live, work, eat out and shop. In addition to generating property tax revenues for municipalities, these rebuilt mills would provide economic growth without expanding the area served by police, fire and schools.

The hardest part of the equation is how it will be financed by the state, especially at the beginning.

According to lawmakers, it would cost about \$90,000 this year to begin the program, increasing to \$13.5 million in its fifth year. Given the \$95 million shortfall in the current two-year budget, even the seed money will be difficult...

to find, let alone making the commitment in an uncertain future.

Developers need to know that the money will be there three to five years down the road if they decide to take on an expensive rehabilitation project. That's why it makes sense for this program to be self-funded. One way to do that would be to capture payroll and sales tax collections that result from a completed project to create a fund that would pay for future projects.

As long as the total cost of tax credit projects is not allowed to exceed the money in the fund, the program would not become a burden on the state budget and so could get a long-term commitment.

The startup money may be harder to come by. Legislators are tempted to find it by raising the real estate transfer tax, but they should resist the temptation. The seed money should be found through cuts to other programs.

HISTORY'S FUTURE

A century ago, Maine's industrial buildings and downtowns were a vital part of the state's economy. They have a chance to play an even bigger role now. In an economy where people can work wherever they want, it makes sense to consider where and how the state should grow.

Anonymous suburbs are plentiful everywhere. Just as Will Rogers said about land, they're not making any more historic buildings. Every state has as many as they are going to get, and Maine has at least its fair share.

How we use these resources could be as important to the state's future as preserving the natural beauty for which Maine is known.

Kennebec Journal

Historic sites bill is investment in Maine's future

01/03/2008

The sight of empty brick mills and other old industrial buildings -- windows broken, pigeons perched on the roof -- is all too commonplace in Maine. Across the state, these symbols of our state's vibrant past have been abandoned and deemed too expensive for developers to rehabilitate. And when they lie unused and deteriorating, they can suck the life from their towns and cities.

The cost of renovating historic buildings runs about 25 percent more than new construction -- so instead of bringing them back to life, developers for the most part pass them by.

Understandably, developers tend to locate where new construction is easier. No wonder the green fields lying outside our city centers get eaten up -- it's cheaper to build on them than to fix up already existing, but deteriorated, space downtown.

BRIDGING THE GAP

Now, though, lawmakers are set to consider a plan to bridge that cost gap and make rehabilitation of Maine's hundreds of historic commercial properties almost, if not equally, as attractive as building new structures.

It's called An Act to Amend the Credit of Historic Properties. The proposed legislation would refund 25 percent of the costs of renovating a certified historic structure. The refund would be granted as a credit on the developer's corporate taxes; if the developer's taxes are less than the credit, the refund will be paid outright.

House Speaker Glenn Cummings is a strong proponent of the bill, which is supported by a group of developers, national and state historic preservation advocates, contractors, architects, planners and GrowSmart Maine.

GrowSmart's landmark "Brookings Report," recommended such legislation, saying that, "Historic preservation in a state such as Maine that has such a large inventory of historic buildings, is an important tool for revitalization ... Yet these programs are underutilized in Maine."

NOT ENOUGH INCENTIVE

Developers say Maine's current redevelopment tax credit is underutilized because, even when combined with a federal historic tax credit, it just doesn't offer enough of an incentive.

Faced with a similar situation in 2002, the state of Rhode Island enacted more generous redevelopment tax credit laws and saw the number of preservation projects jump from 5 projects to 32 in the course of one year. Similarly, Iowa passed a more generous incentive

for historic redevelopment in 2001 and annual activity there has gone from \$7 million of historic investment annually to \$25 million.

Maine, by contrast, ranks 42nd among all 50 states in the number of federal historic tax credit projects that were completed between 2000 and 2005. Currently, only \$5 million worth of historic preservation projects are undertaken annually in the state.

JOBS, TAX REVENUE

Economists say that such investment in downtowns yields benefits in several ways. There's the reuse of old buildings in the center of communities, which helps bring life back to downtowns. There's the construction activity, the tax revenues from more valuable real estate, the growth in jobs.

One projection, by Maryland developer and historic preservation expert Joe Cronyn, pegs the proposed tax credit's potential at \$65 million of investment per year. Economist Charles Colgan says net employment gain from that investment could be 800 jobs per year.

One additional feature of this legislation is particularly attractive to central Maine's communities: The preservation credit will be extended to projects as small as \$50,000 -- the kinds of small-town, small-scale projects that can mean a lot to folks in communities outside Maine's urban centers.

HOW TO PAY FOR IT

Yet you don't get money for nothing. The credit will cost money -- almost \$100,000 in its first year and up to \$13.5 million annually when it gets going. In the state's current financial straits -- a \$100 million budget shortfall -- any proposed new spending needs to be seriously debated.

Bill proponents have suggested raising the funding for an expanded historic preservation credit through adjustments to the real estate transfer tax -- raising fees on the top end of transactions (sales greater than about \$800,000) and cutting fees on transactions less than \$750,000. That's a difficult revenue stream to fiddle with, and any changes will face opposition from the real estate lobby, which has a strong political foothold in the Statehouse.

It makes sense to link the cost of historic real estate's rehabilitation to the cost of real estate acquisition in general.

We have long held that while the state needs to cut spending -- especially in the areas of administration -- there likewise needs to be a strong and targeted effort at investment in areas that hold economic development potential.

Historic rehabilitation is one of those areas. It discourages sprawl -- one of the driving forces behind increased costs to small towns that must provide services further and further away from their centers. It also attracts capital, creates jobs, revitalizes our downtowns and restores crucial architectural elements of the "Maine brand."

As with our state's new outlays for higher education, this is an area where investment and sacrifice offers promise in return.