

Evaluation of the Historic Rehabilitation Tax Credit

November 10, 2021

Report to the Government Oversight Committee by the
Office of Program Evaluation and Government Accountability

Key Takeaways

- ME HRTC benefits from being built on the federal HRTC scaffolding and has robust data reporting requirements
- Program data is reliable, though improvements should be made to data handling going forward
- The program design effectively targets program goals and substantially aligns with HRTC best practices
- Data demonstrates positive progress towards program goals, though there may be opportunities for improvement depending on legislative priorities

Road Map

- **Program background**

- What is the HRTC?
- Program history

- **Evaluation results**

- 4 key areas: administration, best practices, available data, and performance relative to goals

- **Recommendations**

What is Maine's Historic Rehabilitation Tax Credit?

- **25% tax credit** of certified qualified rehabilitation expenditures
 - Refundable credit spread out over 4 years of claims, 25% per year
 - \$5 million cap per eligible building
- **Credit options:**
 - Small Project Credit
 - Substantial Rehabilitation Credit
 - Affordable Housing Booster

Credit History

- **Current HRTC enacted in 2008 (36 MRSA 5219-BB)**
- **PL 2013, c. 550** changed \$5m cap from per certified rehabilitation project to per portion of a building or per building in a complex
- **130th 1st session bill to extend sunset (LD 201)**-carried over

Program Use and State Costs

- **115 projects certified** between 2009 and early 2021
- **14 out of 16 counties** had projects
- **\$84 million** in HRTC credit claims between 2011 and 2019 according to MRS

Program Context

- Maine is one of 35 states with HRTCs
- Roughly half of state HRTCs have a credit of 25% of qualified rehabilitation expenses
- Some states have credits for specific buildings (mills or barns), circumstances (disasters or high poverty) or region of the state

Evaluation Results

We addressed 4 key areas:

1. Program structure and administration
2. Comparison to best practices
3. Program data available for oversight
4. Program alignment and performance relative to goals

1. Program Structure and Administration

- Maine Historic Preservation Commission (MHPC) administers the HRTC in consultation with Maine Revenue Services (MRS)
- We found:
 - MHPC is administering the program effectively
 - Federal scaffolding provides both efficiency for the State and applicants & increased oversight and quality control

2. Comparison to Best Practices

- Maine's credit largely follows the best practices laid out for HRTCs by the National Trust for Historic Preservation
 - Exception - limitation to income-producing properties
- Maine's credit is also aligned with many general tax expenditure best practices

3. Program Data Available for Oversight

- HRTC program requires robust data reporting
- MHPC data & economic impact analyses contracted by program stakeholders provide adequate data for legislative oversight
- Improvements in MHPC's data management would increase the reliability of the reported data, but much of the existing data is reasonable

4. Alignment & Performance Relative to Goals

Goals:

- Historic Preservation
- Affordable Housing
- Community Revitalization
- Economic Impacts and Jobs

See Table 6 on page 18

Table 6. Alignment of HRTC design with goals

Goal	Alignment
Historic Preservation	<ul style="list-style-type: none"> • Provides incentive for rehabilitation of certain historic buildings • Buildings must be National Register of Historic Places eligible or listed or in-certified local districts (36 MRSA §5219-BB(2)(B) & 27 MRSA §511). • Buildings must meet preservation standards to ensure historic character is retained (under 36 MRSA §5219-BB, the IRC 47(c)(2) defines eligible expenditures. Projects must meet Secretary of the Interior’s Standards for Rehabilitation (36 MRSA §5219-BB(2)(A)). • Small project credit is available for Maine projects that do not take the federal credit.
Affordable Housing	<ul style="list-style-type: none"> • Provides increased (amplified) credit for new affordable housing projects (36 MRSA §5219-BB(3)). • Amplified credit increases annually if certain targets are not met (30-A MRSA §4722(1)(DD)(4)). • Building must remain affordable housing for 30 years or amplified credit can be recaptured. The affordability requirements are captured in a restrictive covenant between MaineHousing and the owner of the building (36 MRSA §5219-BB(3) & 30-A MRSA §4722(1)(DD)). • Federal rehabilitation credit can be used in conjunction with the low-income housing tax credit. • Even when HTC’s are not specifically designed to increase affordable housing (like Maine’s credit is), there are potential links to the development of affordable housing because of spillover effects and ties to other affordable housing programs.
Community Revitalization	<ul style="list-style-type: none"> • The credit is not directly designed to foster community revitalization, but advocates argue that historic preservation indirectly catalyzes further development in its vicinity and increases property values.
Jobs & Economic Impacts	<ul style="list-style-type: none"> • The credit is not directly designed to foster job creation or economic impacts, but the rehabilitation of buildings requires construction/artisan jobs and for-profit building use. • Projects often require work that isn’t credit eligible, meaning construction is generated which does not require State financial support. • Limitation to income-producing properties may be more likely to foster jobs (for non-rental property uses). • Requirement that the property must remain in use for 5 years may be more likely to foster jobs by requiring continuing income-producing functions (for non-rental property uses).

4. Program Performance: Historic Preservation

- Historic rehabilitation is required before the State pays out funds
- HRTC projects have led to historic rehabilitation in the State
 - 115 properties certified (2008 to early 2021)
 - \$490m total construction expenditures, \$398m qualify for State credits
 - Housing (39%), commercial (31%), and mixed-use (30%)
 - Top 4 counties: Cumberland (44), York (19), Kennebec (14), Androscoggin (13)
 - Towns with 5+: Portland (39), Lewiston (9), Augusta (8), Biddeford (8), Saco (6)

4. Program Performance: Community Revitalization

- Community revitalization is difficult to measure, but program data does show communities in the State being impacted in positive ways
- Outcomes:
 - \$49m in increased assessment value (for 43 projects, 2016 to 2020)
 - \$0.2million to \$3m in increased annual property tax (2010- 2020)
 - \$17m in cumulative increase in property tax revenues
 - 58 of the certified projects were either formerly vacant or partially vacant

4. Program Performance: Affordable Housing

- Maine's HRTC has design elements aligned with supporting the creation and preservation of affordable housing
- Outcomes (Jan 2008-Feb 2021):
 - Affordable Housing Units Created: 924
 - Total Housing Units Created: 1,444
 - Affordable Housing Units Preserved: 362
 - Total Aggregate Square Footage of Housing Developed: 1,758,117
 - Total Aggregate Square Footage of Affordable Housing: 1,057,088

4. Program Performance: Job Creation and Economic Growth

- Economic impacts are limited in measuring the overall success of the HRTC, but the credit has produced positive outcomes
- Outcomes:
 - Federal tax credits leveraged: \$86m
 - New construction generated: \$93m
 - Rehabilitation expenses qualifying for State credit: \$398m
 - Nearly 700 new FTE jobs in businesses (total 2009-2019)
 - Annually, 200-700 FTE construction jobs supported

Table 9. Report Recommendations		
A. Data Management	Recommendation A.1	OPEGA recommends that MHPC improve data management, including internal guidance on data processing and documentation to ensure traceable reporting.
	Recommendation A.2	OPEGA recommends that MHPC improve guidance to reporting entities and consider streamlining the reporting process.
	Recommendation A.3	OPEGA recommends that State policymakers consider centralizing data management for tax expenditure programs as a possible avenue to address a growing interest in using data for oversight of tax expenditures.
B. Data on Jobs Outcomes	Recommendation B.1	OPEGA recommends that policymakers decide the degree to which jobs information is important to their oversight of the HRTC and whether it is worth pursuing new methods for what is collected and reported given the lack of centrality to the program and potential cost.
C. Legislative Reporting Requirements	Recommendation C.1	OPEGA recommends that policymakers consider whether biennial reporting for the HRTC is meeting the Legislature's needs and is efficient.
	Recommendation C.2	OPEGA suggests the Legislature clearly specify one or more legislative committees to which reports must be submitted and consider whether this should include the policy committees with jurisdiction over relevant areas.
D. Small Project Credit	Recommendation D.1	OPEGA recommends that policymakers work with MHPC and stakeholders to clarify the small project credit's purpose so that its effectiveness can be measured in the future.
E. Property Types Eligible for the Credit	Recommendation E.1	OPEGA suggests that policymakers consider whether expanding eligibility for the HRTC aligns with State policy priorities while weighing the costs and benefits of expanding eligibility.

Recommendations A.1 and A.2

- **A.1 - MHPC improve data management, including internal guidance on data processing and documentation to ensure traceable reporting**
- **A.2 - MHPC improve guidance to reporting entities and consider streamlining the reporting process**

Recommendation A.3

- **Policymakers consider centralizing data management for tax expenditures to address growing interest in using data for oversight**

Consider:

- Cost and benefits of the current model of decentralized data collection and management for tax incentives performed by individual program staff across administering agencies and consider alternatives

Recommendation B.1

- **Policymakers decide whether jobs outcomes are central to evaluating program success. If so, better jobs data is needed.**
- **Consider:**
 - Whether jobs is a core measure of program success and worth administrative resources that may be needed to improve data
 - Alternate ways that jobs could be estimated

Recommendation C.1

- **Policymakers consider the requirements and role of the biennial reporting**
- **Consider:**
 - Whether biennial reporting for the HRTC is meeting the Legislature's needs and is efficient

Recommendation C.2

- **Policymakers specify one or more legislative committees to which reports must be submitted**
- **Consider**
 - Whether policy committees with relevant jurisdiction should receive the reports

Recommendation D.1

- **Policymakers work with MHPC and stakeholders to clarify the small project credit's purpose to ensure it is meeting its policy aims**
- **Consider:**
 - What is the goal of this version of the credit?
 - Does the current design match what policymakers intend?

Recommendation E.1

- **Policymakers consider whether expanding eligibility for the HRTC aligns with State policy priorities**

Consider:

- What is the goal of the credit?
- Does the current design match what policymakers intend?
- The costs and benefits of any possible expansion
- Administrative burden from any possible expansion

Acknowledgements and Next Steps

Acknowledgements

- OPEGA would like to thank the Maine Historic Preservation Commission for their insights and cooperation throughout the review
- MRS and MaineHousing
- Program stakeholders
- Charles Lawton and Frank O'Hara, the authors of the Economic Impact Reports commissioned by stakeholders

Next steps

- Public comment
- Work session and vote