

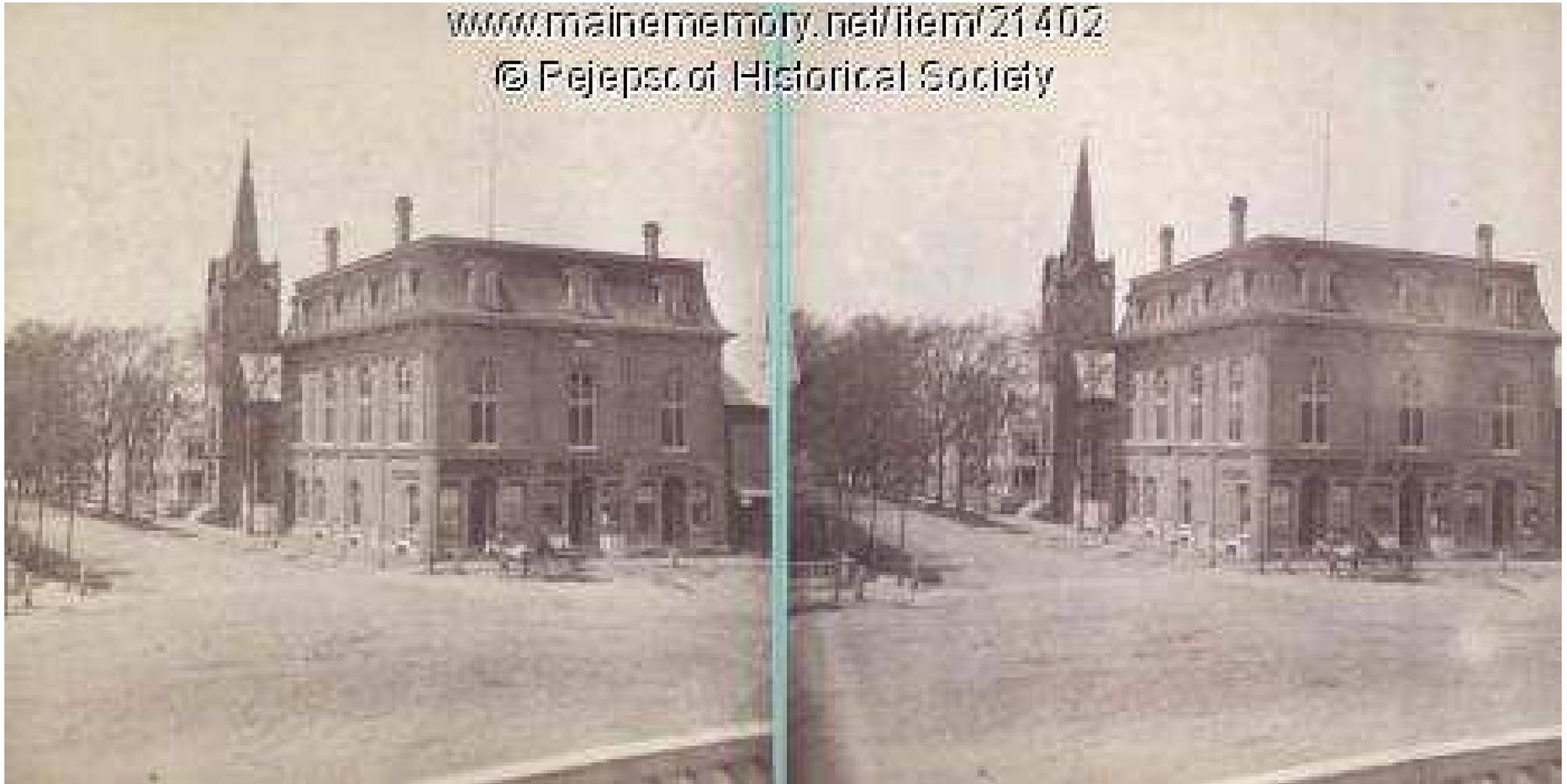
Financing Downtown Projects
Using Historic Tax Credits
and Other Sources
Downtown Institute
January 21, 2015
Greg Paxton, Maine Preservation



Lemont Block, Brunswick

www.maine-memory.net/item/21402

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Wyler's Outlet (Maine goods)



Economic Benefits of Historic Preservation

- Neighborhood Rehabilitation
- Downtown Revitalization
- Real Estate Market Enhancement
- Catalytic Tax Base Growth
- Reuse of Infrastructure
- Facade Grants
- Heritage Tourism/Retiree Attraction
- Historic Tax Credits



Historic Preservation Tax Credit

- Dollar-for-dollar reduction in tax liability
- Applies to income producing buildings
 - Commercial, industrial, rental housing
- Must be listed in National Register of Historic Places (within 24 mos. of completion)
- Federal credit (1977): 20% plus the
- Maine State credit (2008): 25%, or 30% for affordable housing = total of 45-50% credit
- Fed/State run in parallel
- Credit taken against Qualified Rehab Expenses

Historic Preservation Tax Credit

- Maine State Hist Pres Tax Credit passed in 2008
- Since then, 61 privately developed projects
- \$1/3 Billion (\$335+ Million completed or under construction)
- 700+ affordable housing units created and preserved; 800+ total housing units
- 2.3 million square feet of rehab & new construction
- \$275 million in rehab, \$63 million in new (no tc)
- Tax assessment \$37 million to \$127MM – 350%!

Approval in Three Parts

Apply to Maine Historic Preservation Commission (MHPC) – for both Fed & State credits

MHPC recommends to National Park Service (NPS)

- Part 1 – If building not individually listed in NR, must be Individ. Eligible or Contributing to NR district
- Part 2 – Approval of rehab plans – interior & exterior
 - Meet Secretary of Interior's Standards for Rehab
- Part 3 – Approval of completed work (per Part 2)

Substantial Rehabilitation Test

- Cost of rehab must exceed Adjusted Basis of Bldg
- Adjusted Basis is original value of the property – land value + improvements – depreciation
- Once met, the test disappears allowing for full amount of costs for credit (State limit \$5MM/yr)
- No Sub. Rehab test for small State credit projects: \$50,000 – \$250,000 (but no federal credit)
- Complete within either 24 or 60 months

Who Can Use Credit?

Federal Credit (paid out in 1 year)

- Real estate professionals (750 hrs/yr)
- Taxpayers with substantial passive income
 - Real estate & S corps you don't manage
 - Taxpayers selling investment real estate with gain
- Taxpayers with income below \$200,000 - \$25,000/year
- C – corporations/Banks

State Credit (paid out in 4 years)

- Any Taxpayer who files Maine tax return
- Fully refundable

Syndication

Means of allocating benefits to group of owners

- Tax benefits to corporate investors
 - Usually in return for up-front equity
- Usually most cash flow & appreciation to developer – much of it in fees
- Results:
 - Maximize tax benefits
 - Raise equity
 - Provide cash to developer
 - Minimize subsidy
 - MAKES PROJECTS FEASIBLE
- Costly legal fees - \$2.5 million project minimum
- Alternative: C Corporations/Banks



Allowable Costs

- Architectural/Engineering fees
- Permits, Builder, Contractor, Developer fees
- Property taxes & insurance during construction
- Construction loan interest, fees
- Appraisal, environmental reports, Market study
- Accounting, Attorney fees

Disallowed Costs

- Acquisition costs
- New Construction (outside the envelope)
- Site work (landscaping, parking, etc.)
- Permanent loan fees or interest
- Tax credit fees
- Organizational expense
- Syndication legal fees
- Marketing
- Project reserves (operating, vacancy, maintenance)
- Furniture , fixtures, equipment



Generating Equity

Historically investors looking for an Internal Rate of Return (IRR) of 10-12%; Now: 6-8%

(Present value [PV] of after tax benefits)

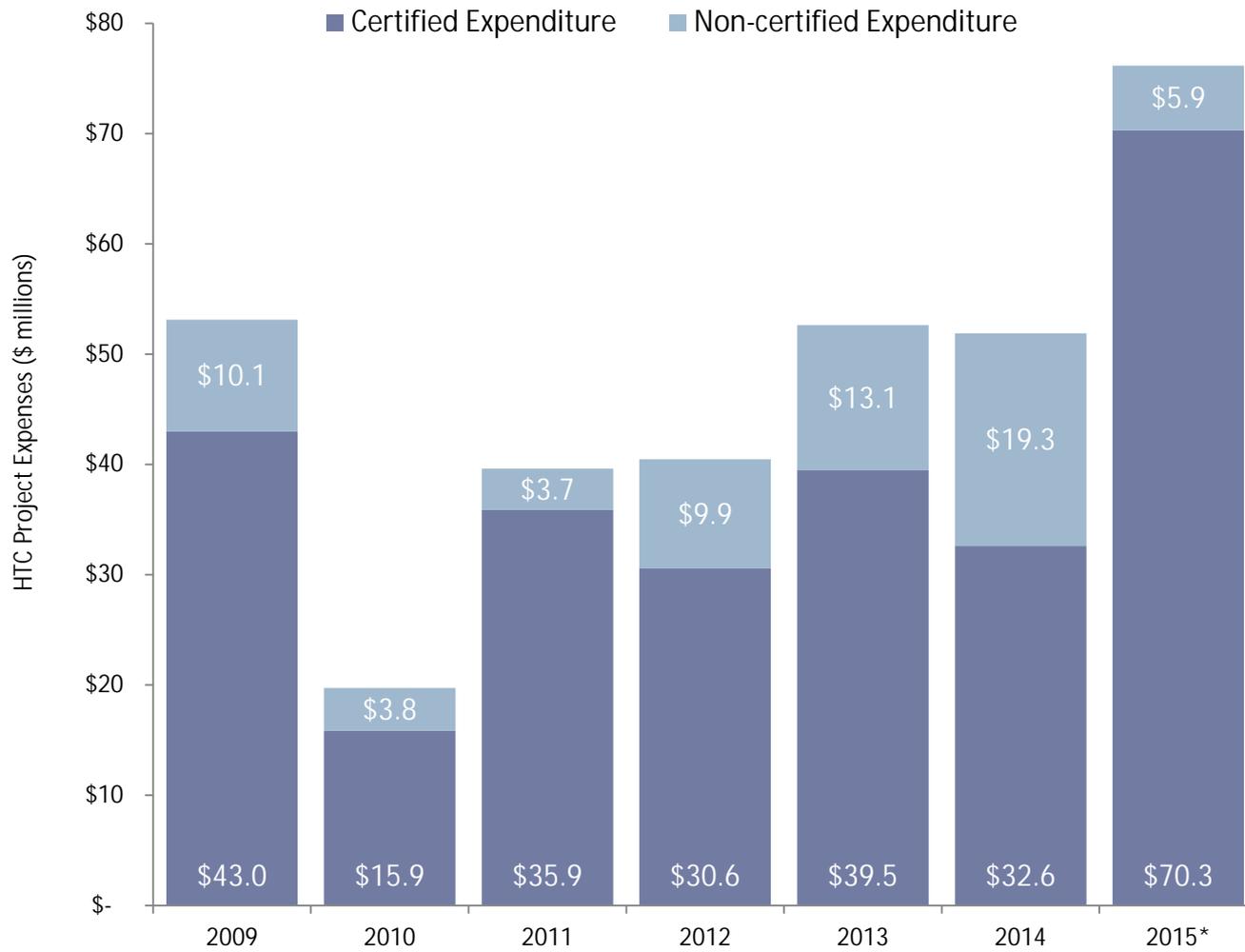
PV of federal credit: \$.90 – .95

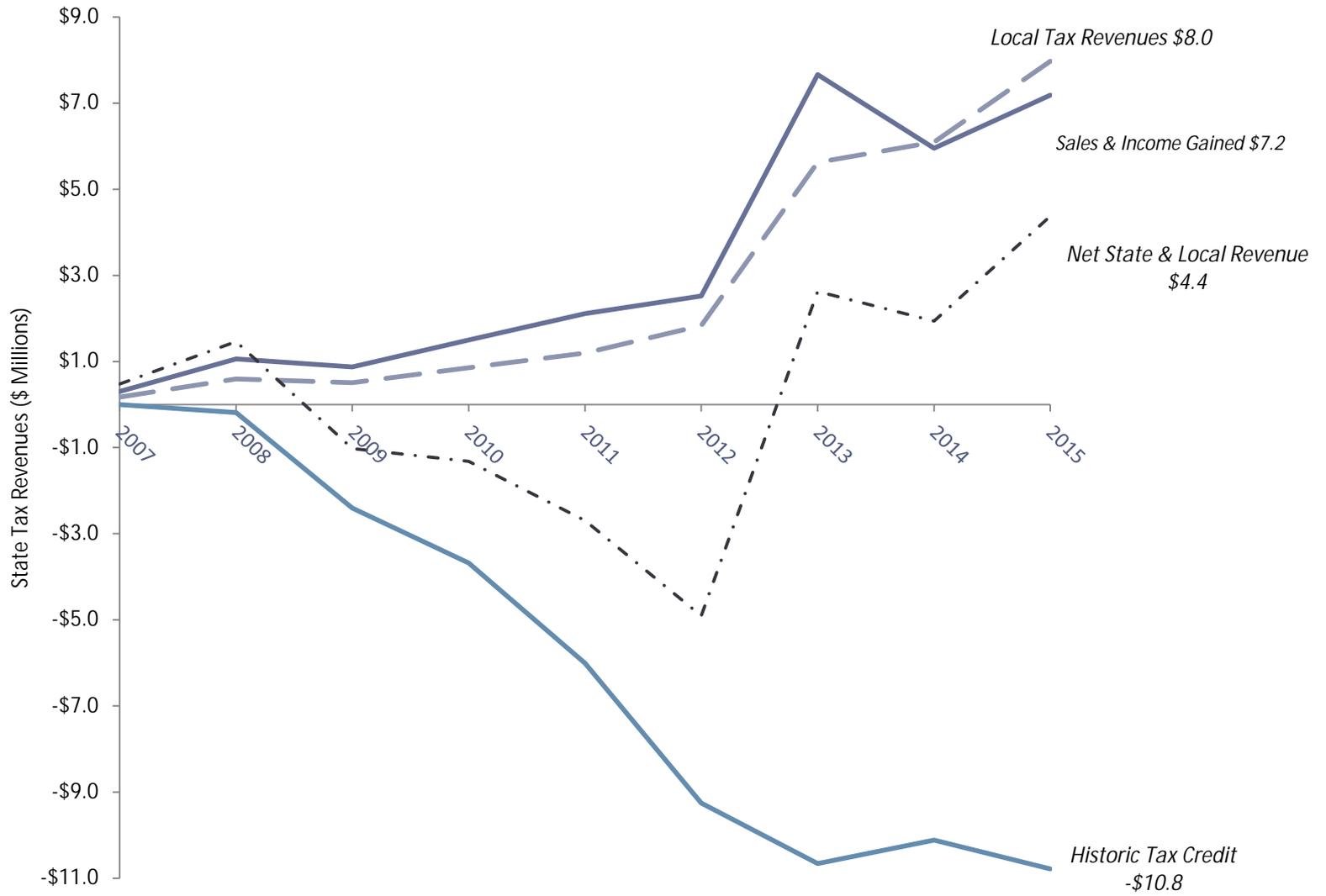
PV of Maine state credit: \$.80 – .85

Low Income Housing Tax Credit(LIHTC): \$.85 – .90

Filling the Gap

- Leveraged debt (loans) – historically 75-85%; Now 60%
- Tax credit equity: Historic, Low Income, New Markets
- Community Development Block Grants
- Tax Increment Financing(TIFs)
- EDA Title IX (job creation)
- USDA Loans
- 6320 Bonds - Nonprofit issues for public facilities
- Ground leases (public owner – no acquisition)
- Nonprofit partner



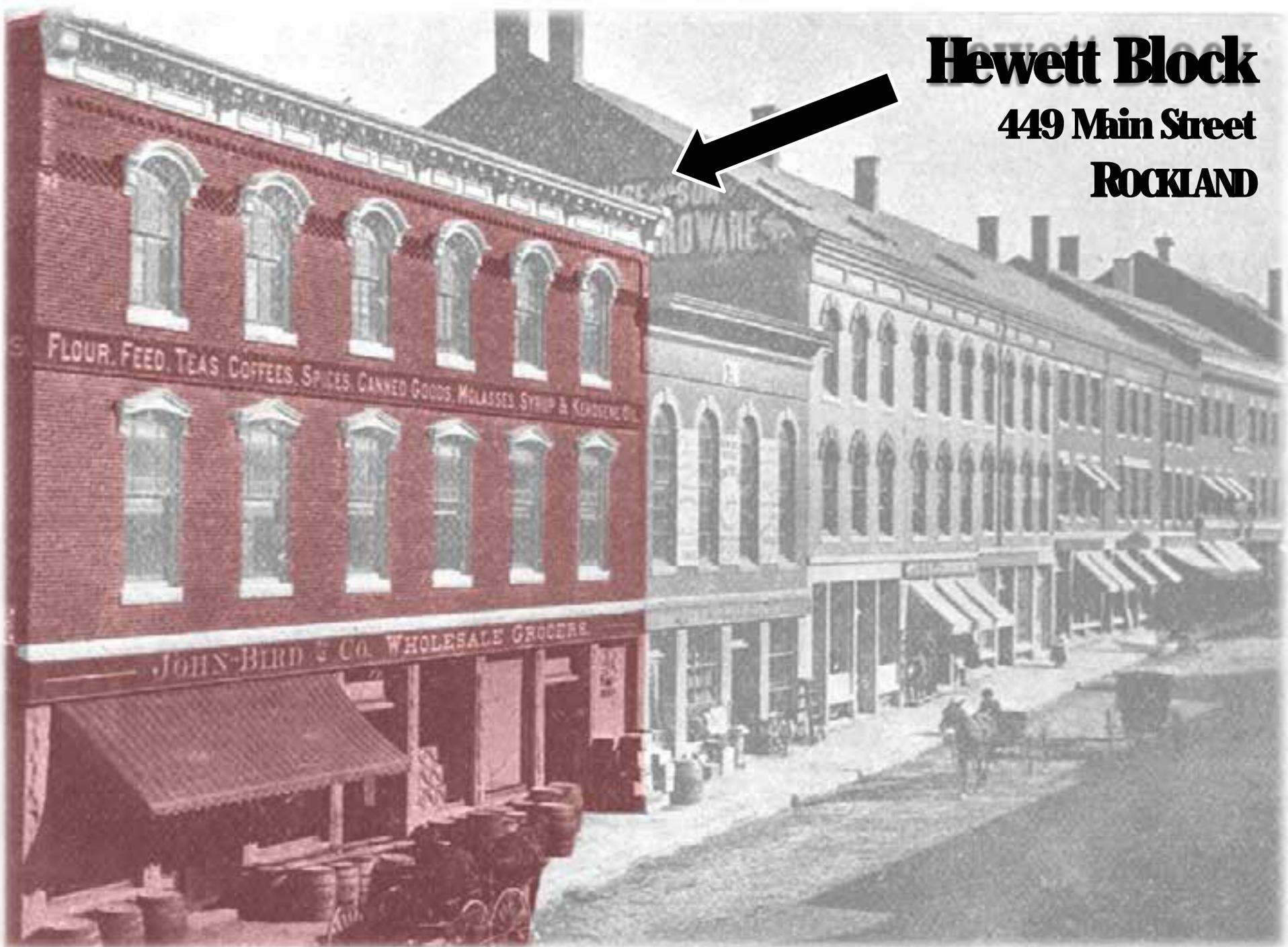


Cities/Towns with Historic Tax Credit Projects

- Auburn
- Augusta
- Bangor-2
- Berwick
- Biddeford-3
- Brewer
- Brunswick
- Damariscotta
- Dover-Foxcroft
- Fairfield
- Farmington
- Freedom
- Georgetown
- Hallowell
- Kennebunk
- Lewiston-2
- Lisbon Falls
- Livermore Falls
- North Berwick
- Norway
- Ogunquit
- Orono
- Portland-19
- Rockland
- Rockport-3
- Saco-3
- Sanford
- Scarborough
- Thomaston
- Unity
- Waterville-3
- Westbrook

Hewett Block

449 Main Street
ROCKLAND

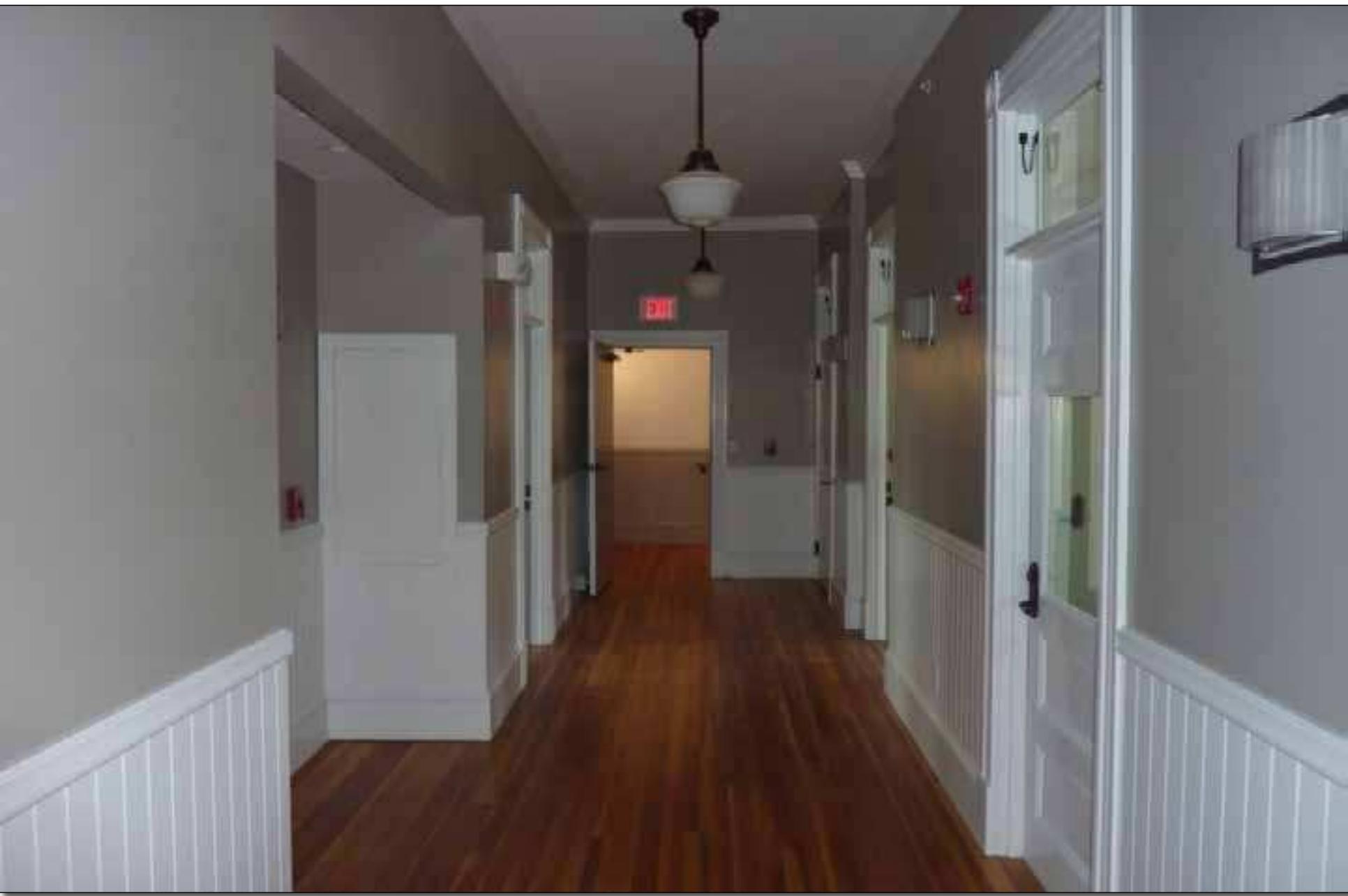


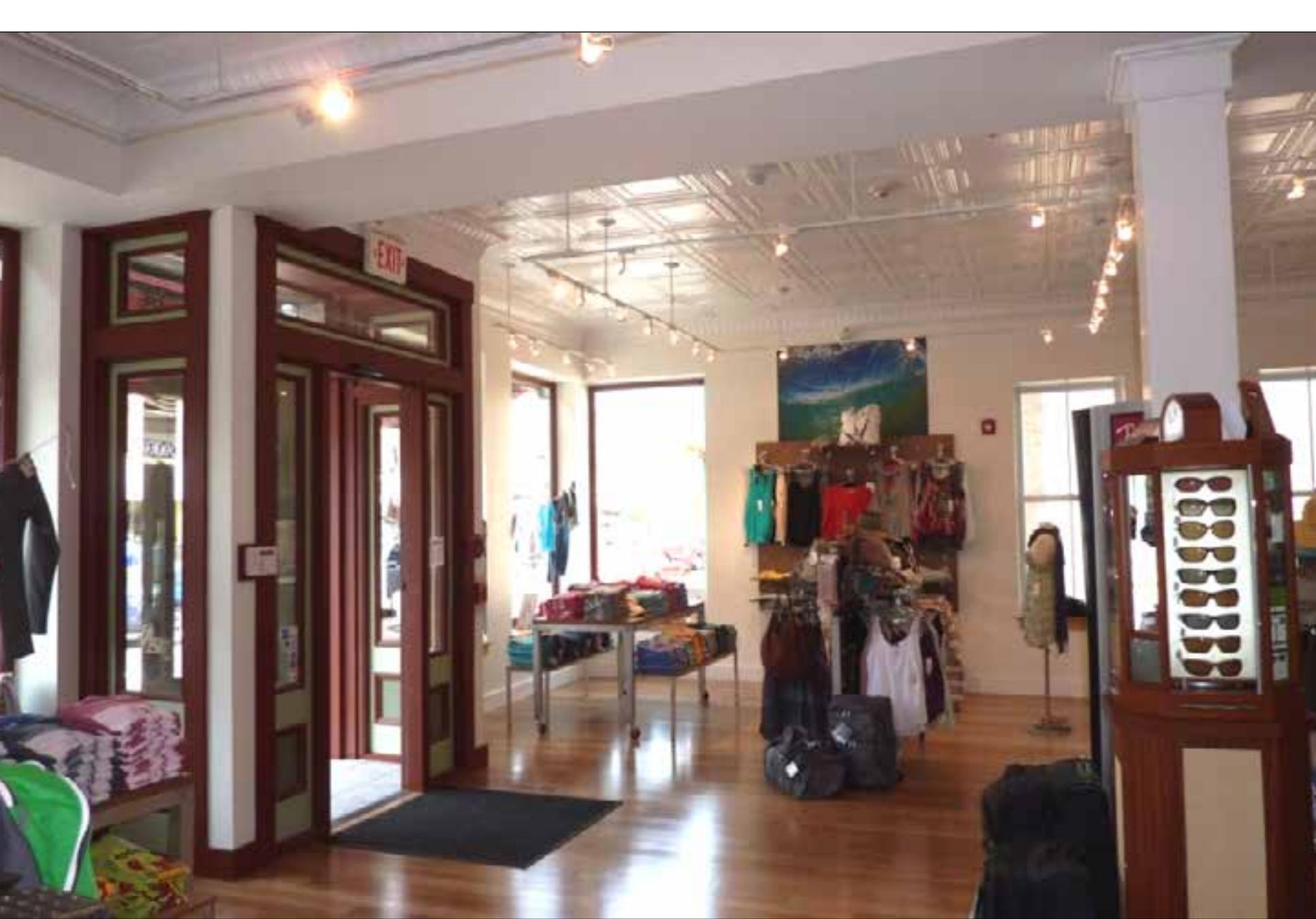
Hewett Block
449 Main Street
ROCKLAND



Hewett Block
449 Main Street
ROCKLAND







Hewett Block
449 Main Street
ROCKLAND





THE NEW KNOX HOTEL, THOMASTON, ME., E.

KNOX HOTEL
Thomaston







KNOX HOTEL
Thomaston



Celebrating 40 Years

**Maine
Preservation**

Our Heritage, Our Legacy

KNOX HOTEL
Thomaston

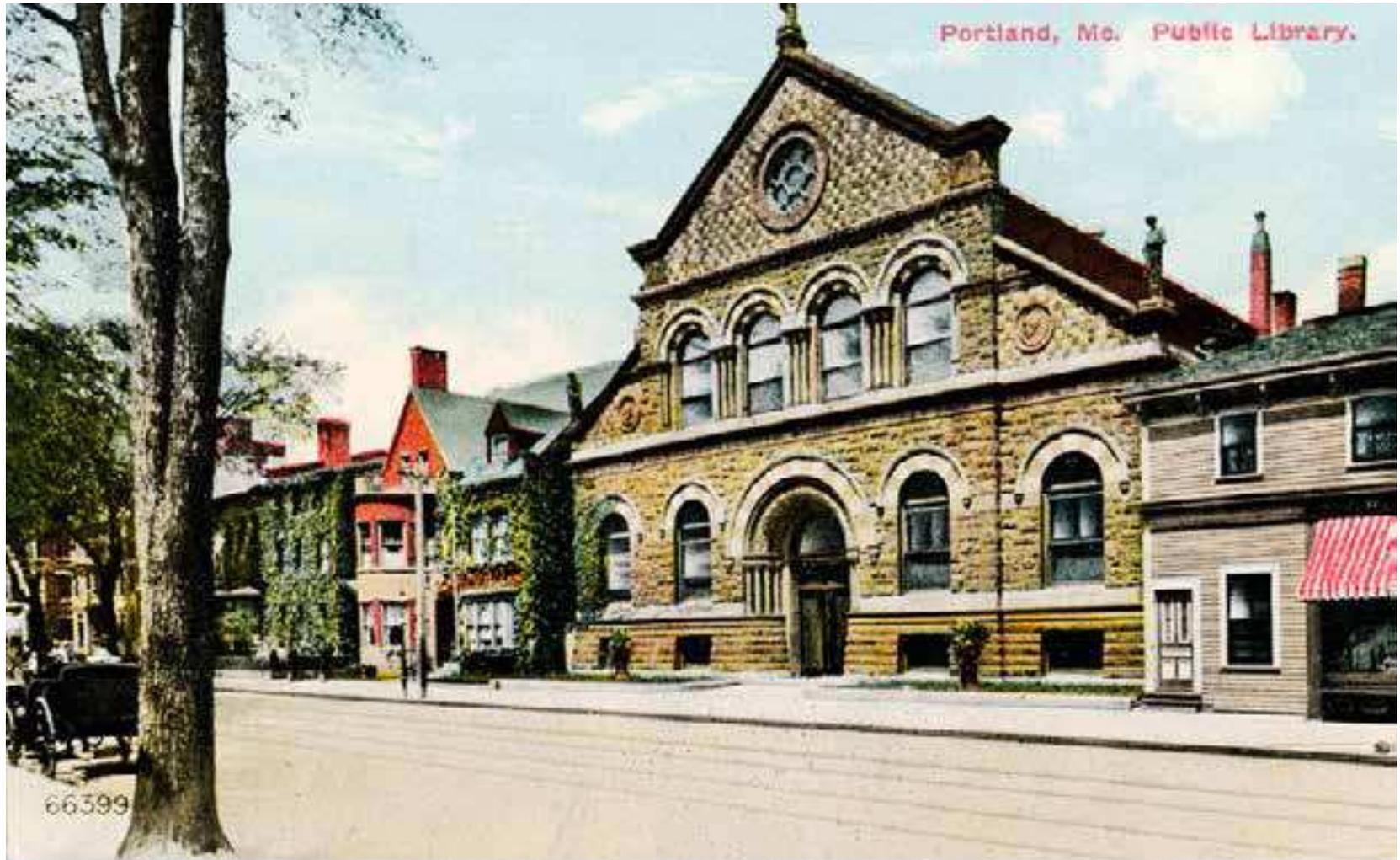
Jed Prouty Inn, Bucksport



Jed Prouty, Elderly Housing, \$500,000



Baxter Library



Baxter Library

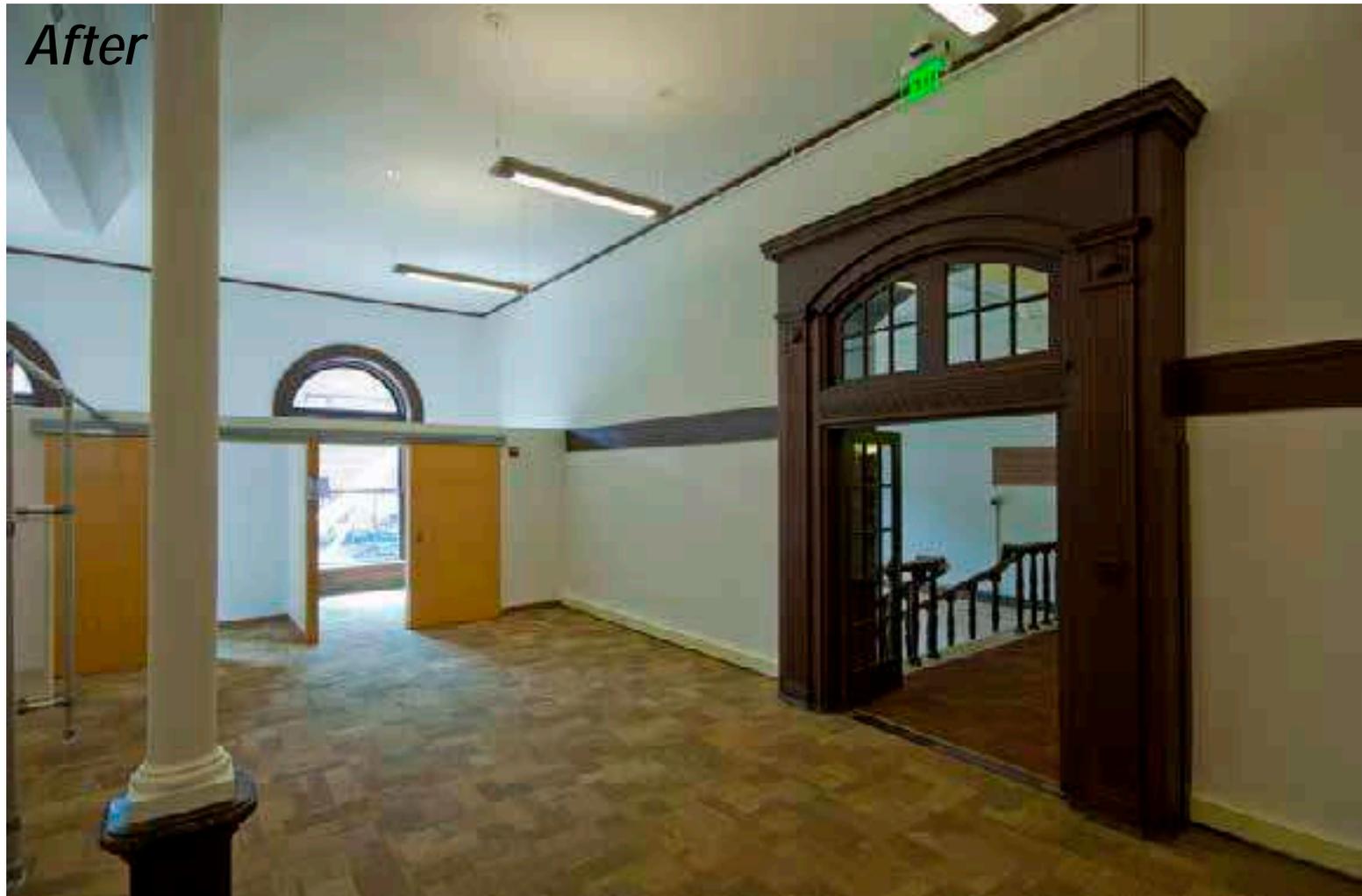
Before



Baxter Library



Baxter Library

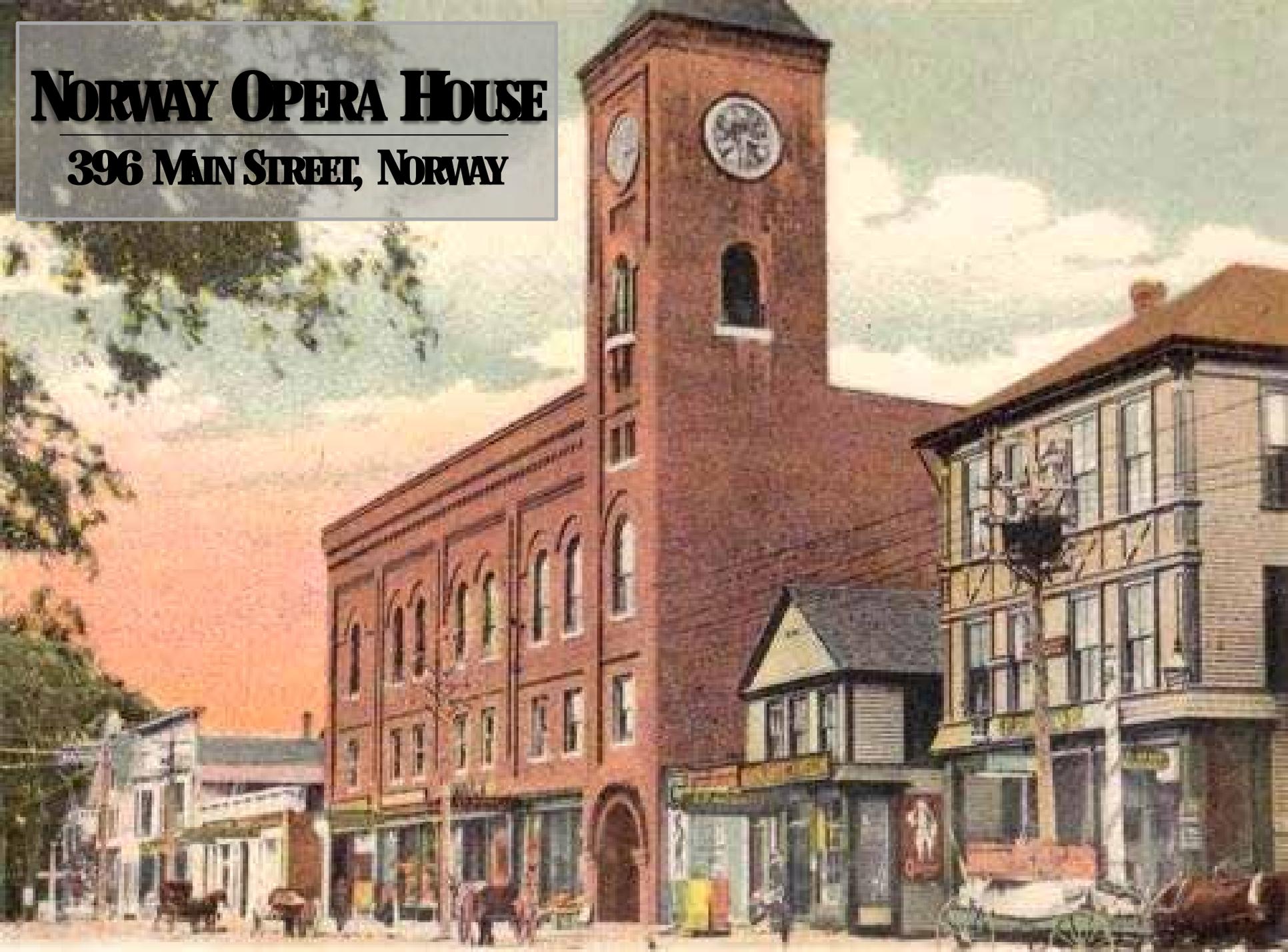


Baxter Library



NORWAY OPERA HOUSE

396 MAIN STREET, NORWAY



Norway Opera House, Norway



Endangered. The 1894 Norway Opera House with its landmark clock tower dominates the Main Street skyline. Considered to be a pivotal building in Norway's new Downtown Revitalization program, suffered from deferred maintenance with a badly leaking roof and dated wiring and heating systems. The Opera House was the center of community activity for many years, featuring famous headliners and healthy first-floor retail establishments. This building has significant rehabilitation potential and an ability to once again be the star of downtown Norway.

How to get involved:

For more information or to make a donation to the building fund, go to www.saveouroperahouse.org









Before & After



Before & After



Norway Opera House





NEW BRICKS
COMMERCIAL SPACE
FOR LEASE
CALL US

Before & After, Lamb Block, Livermore Falls



During & After



During & After



Thomas Hatch Block, Bangor



Thomas Hatch Block



Thomas Hatch Block



Thomas Hatch Block



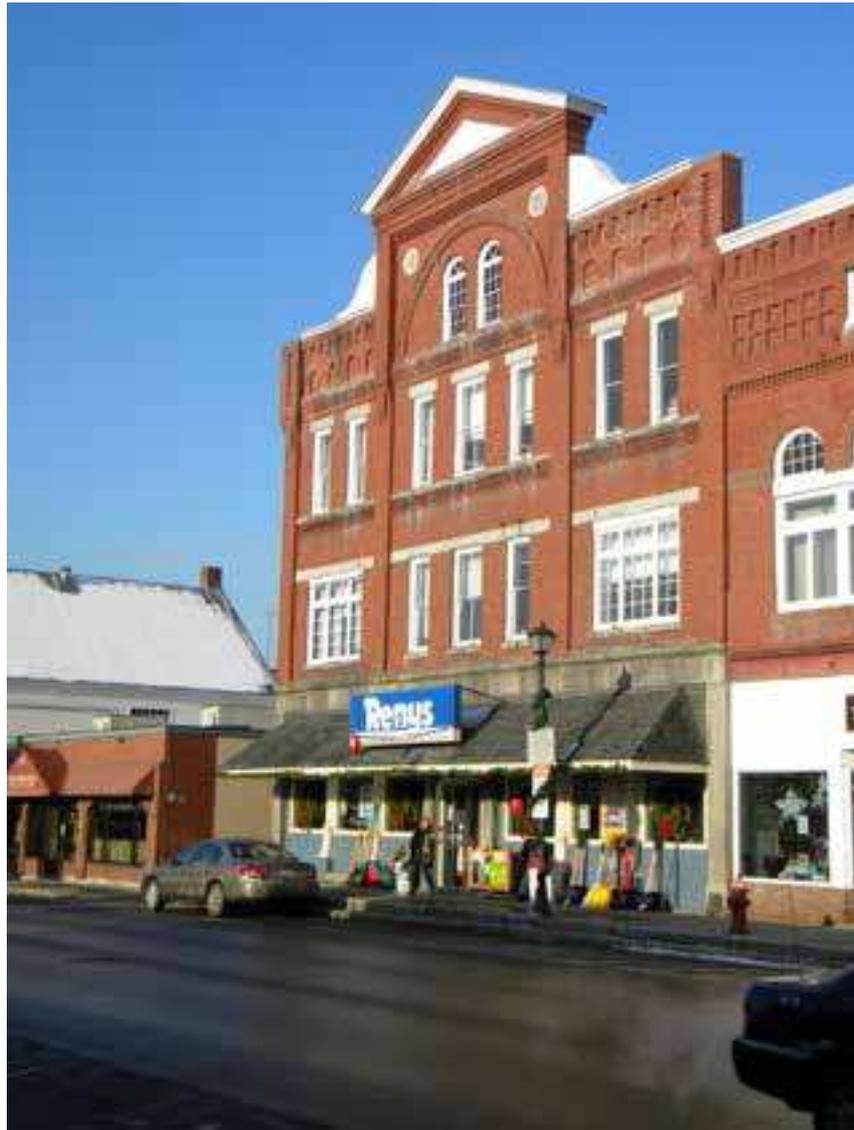
Thomas Hatch Block



Thomas Hatch Block



Reny's Farmington - \$800,000



265 Main Street, Biddeford



Pro Forma for 265 Main Street in Biddeford

SOURCES AND USES OF FUNDS

SIZE 13,248 sf

USES OF FUNDS

Acquisition	\$281,520	\$21 per sq. ft.
Rehab Hard Construction Costs	\$1,035,116	\$78 per sq. ft.
Soft & Development Costs	<u>\$527,743</u>	<u>\$40 per sq. ft.</u>
TOTAL PROJECT COST	\$1,844,379	\$139

SOURCES OF FUNDS

Equity from Federal ITC	\$250,057	\$0.80 (on 20% TC)
Equity from State ITC	\$390,715 \$	1.00 (on 25% TC)
Owner Equity	\$140,000	
Deferred Developer Fee	\$215,000	
Debt	\$927,000	50%
TOTAL PROJECT FUNDS	<u>\$1,922,772</u>	
Project Surplus	\$78,393	

American Woolen Mill/River Walk Dover-Foxcroft



River Walk

- The Moosehead Cafe, overlooking the Piscataquis River, will also serve as an art gallery, providing a social gathering spot.
- The second floor of the cafe will house an eight room boutique inn.
- The Dover-Foxcroft Green Business Center will house businesses including solar panel installers geothermal companies
Below market rents will help attract businesses from other parts of the state currently working in this area.
- Twenty Two energy efficient residences in the three-story historic structure built to accommodate the needs of seniors as well as younger people
- River Walk will produce a percentage of the buildings energy needs on site.

The building will become a model for sustainable development within the region and beyond.



USES

CONFERENCE & EVENT SPACE

GREEN TECHNOLOGY CENTER

WATERFRONT PARK

FARMERS MARKET / CO-OP

RESIDENTIAL PARKING GARAGE

AMPHITHEATER

ART SCHOOL AND STUDIO SPACE

RESTAURANT

OUTDOOR TERRACE

INN LOBBY

CAFE

Funding Sources

Historic Tax Credit Equity	\$3,812,408
TIF Bond	\$452,669
Loan (Incubator)	\$1,177,580
EDA Grant (Incubator and Data Center)	\$1,500,000
EPA Funds	\$400,000
CBDG Funds	\$200,000
Renewable Rebate	\$60,000
Corporate Sponsor	\$1,000,000

Permanent Loan Summary

Loan Amount	\$1,177,580
Interest Rate:	5.00%
Amortization (yrs)	20
Periodic Payment	(\$7,772)
Payments / Year	12
Loan Points	1.00%
Construction Loan	\$5,049,988

Bath – Great American Main Street City







BATH FREIGHT SHED ALLIANCE

Bath Freight Shed Farmer's Market





DEEP SOUTHERN





HOWARD'S REXALL DRUG

MEDICAL EQUIPMENT

PHARMACY

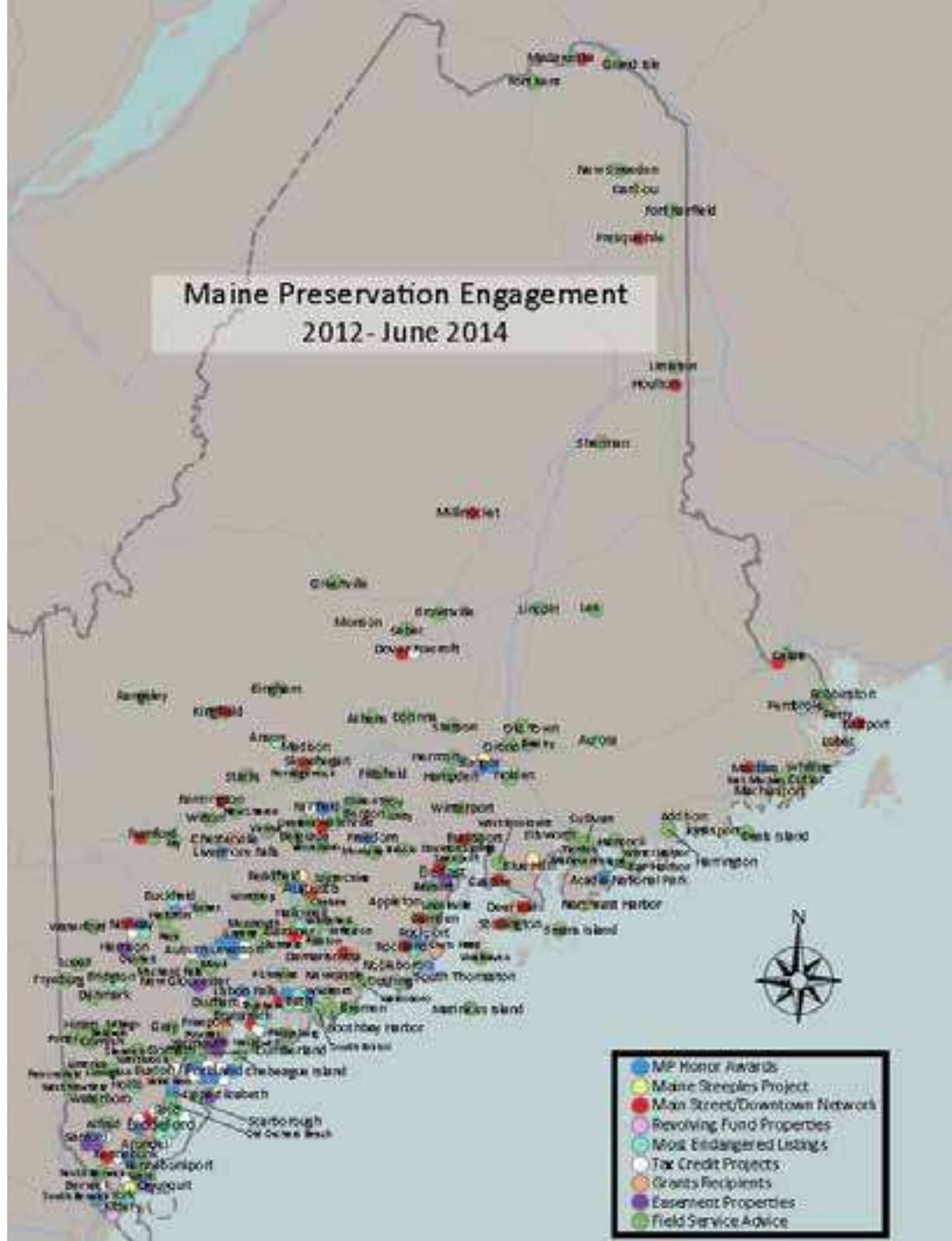
Pharm

Field Service Advisor



Christopher Closs

Maine Preservation Engagement 2012- June 2014





-  MP Honor Awards
-  Maine Steeples Project
-  Main Street/Downtown Network
-  Revolving Fund Properties
-  Most Endangered Listings
-  Tax Credit Projects
-  Grants Recipients
-  Easement Properties
-  Field Service Advice



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Summary Thoughts

- Incremental – Build Momentum
- Building Survey
 - Square Footage
 - Condition
 - Vacancy rate
 - Rental Rates
- Pool Expertise: Real Estate, Architect/Contractor, Codes, Finance, Funders, Influencers, Town
- Assess In-Town Needs – Return on Investment (ROI)
- Select 2-3 Building Projects
- Work with Building Owner(s)

Maine Preservation The Present & Future

- Field Services
- Direct Intervention
- Acquisition & Resale
- Tax Credits
- Real Estate Development

Future for Historic Preservation

- Understanding its broad, unqualified success
- Understanding its enormous economic impact
- Training of building professionals and crafts
- Understanding its sustainability in community vitality, embodied energy, and energy efficiency
- Understanding that we can *both* move forward *and* bring the past, enriching our lives
- Broader engagement in making projects happen
- Let's not "waste our own vitality."