

# Historic Tax Credits 101

## The Basics for Towns, Building Owners, and Investors

April 22, 2020

### Presenters

Greg Paxton, *Executive Director*, Maine Preservation

John Egan, *Chief Investment Officer*, CEI

### Moderator

Anne Ball, *Program Director*, Maine Development Foundation



*This program is made possible through the generous support of*

Elsie & William Viles Foundation

Augusta, Maine

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# QUICK POLL

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It would be great to get to know our audience.

What sector do you represent?

# MAINE PRESERVATION

Maine Preservation promotes and preserves historic places, buildings, downtowns and neighborhoods, strengthening the cultural and economic vitality of Maine communities.

- Field Service Program
- Statewide & National Advocacy
- Historic Tax Credit Program
- Protect & Sell Program
- Summer Fellows Program
- Annual Most Endangered Historic Places List
- Maine Preservation Honor Awards (late Fall)
- Member & Education Events
  - **Virtual Old House Forum & Annual Meeting – May 20<sup>th</sup>!**
  - Annual Gala



# MAINE DEVELOPMENT FOUNDATION

- MDF is a non-partisan, statewide public-private organization with individual, corporate, non-profit and government agency members from across the state.
- The Maine Downtown Center, a program of MDF, serves as the statewide coordinator for the National Main Street Center Program and serves as a statewide resource for downtown revitalization.
- Trusted research on key Maine economic indices
  - Leadership development
  - Creative Partnerships
    - Maine Downtown Center
  - FOR/Maine Forest Opportunity Roadmap
  - Maine Spark



# CEI

CEI integrates financing, business and industry expertise, and policy solutions to help grow good jobs, environmentally sustainable enterprises, and shared prosperity in Maine and other rural regions. CEI envisions a world in which communities are economically and environmentally healthy, enabling all people, especially those with low incomes, to reach their full potential.

- Financing

- Small business Loans
- Venture capital
- New markets tax credits
- Renewable energy project financing
- Community facility financing

- Investments

- Investment and venture capital
- Solar investments
- Maine Historic Rehab tax credits



Coastal Enterprises

# ECONOMIC BENEFITS OF HISTORIC PRESERVATION

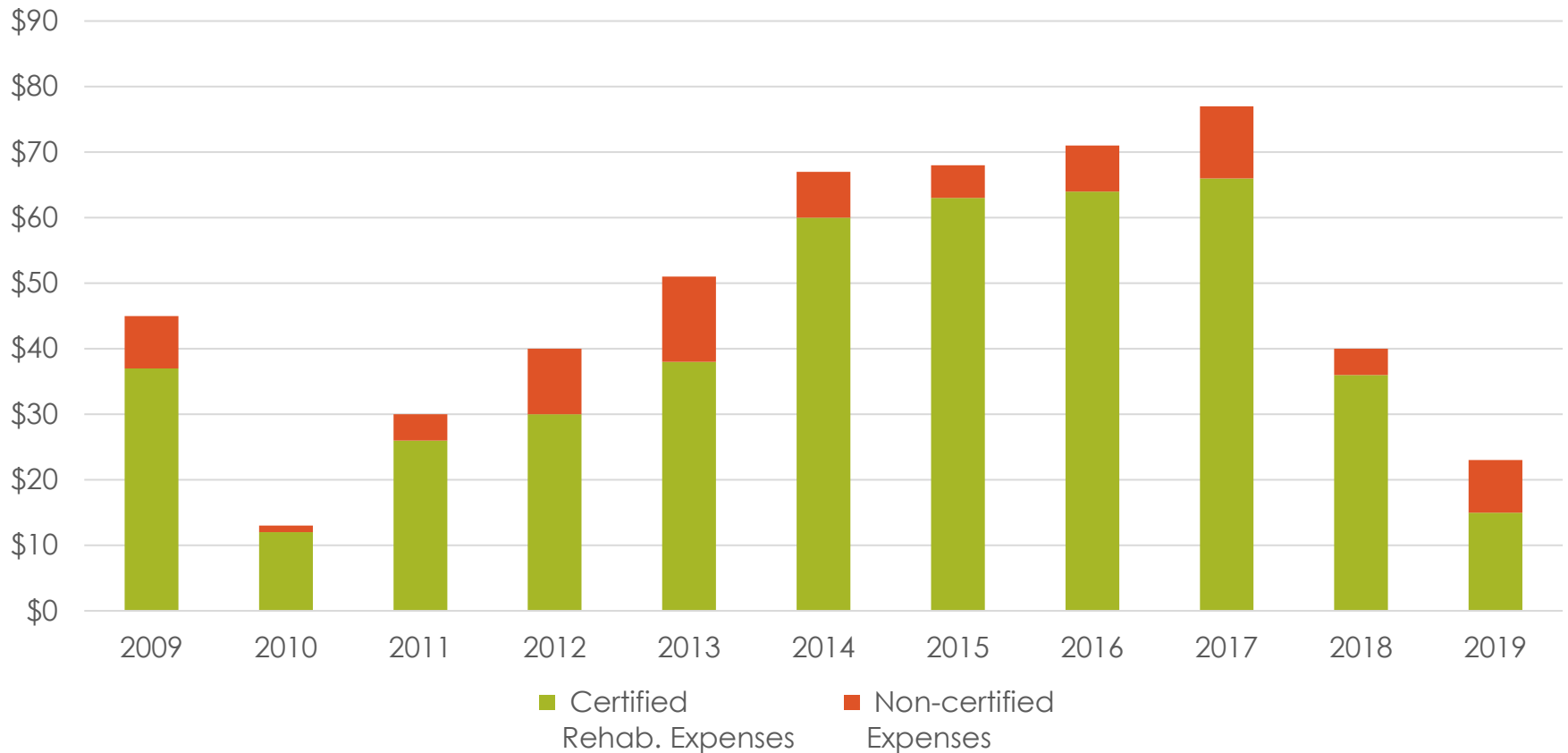
- Neighborhood rehabilitation
- Downtown revitalization
- Real estate market enhancement
- Catalytic tax base growth
- Reuse of infrastructure
- Heritage tourism/retiree attraction
- Historic tax credits (HTCs)

# IMPACT OF HTC<sub>s</sub> – 2008-2019

Maine's tax credit passed in 2008

- 122 privately developed projects
- 1,330 affordable housing units created and preserved; 1725 total housing units
- \$555 million invested - completed or under construction
- 4.5 million square feet of rehab & new construction
- \$476 million in rehab, \$79 million in new (no HTC)
- Tax assessment: From \$71 million to \$264 million – 370%!

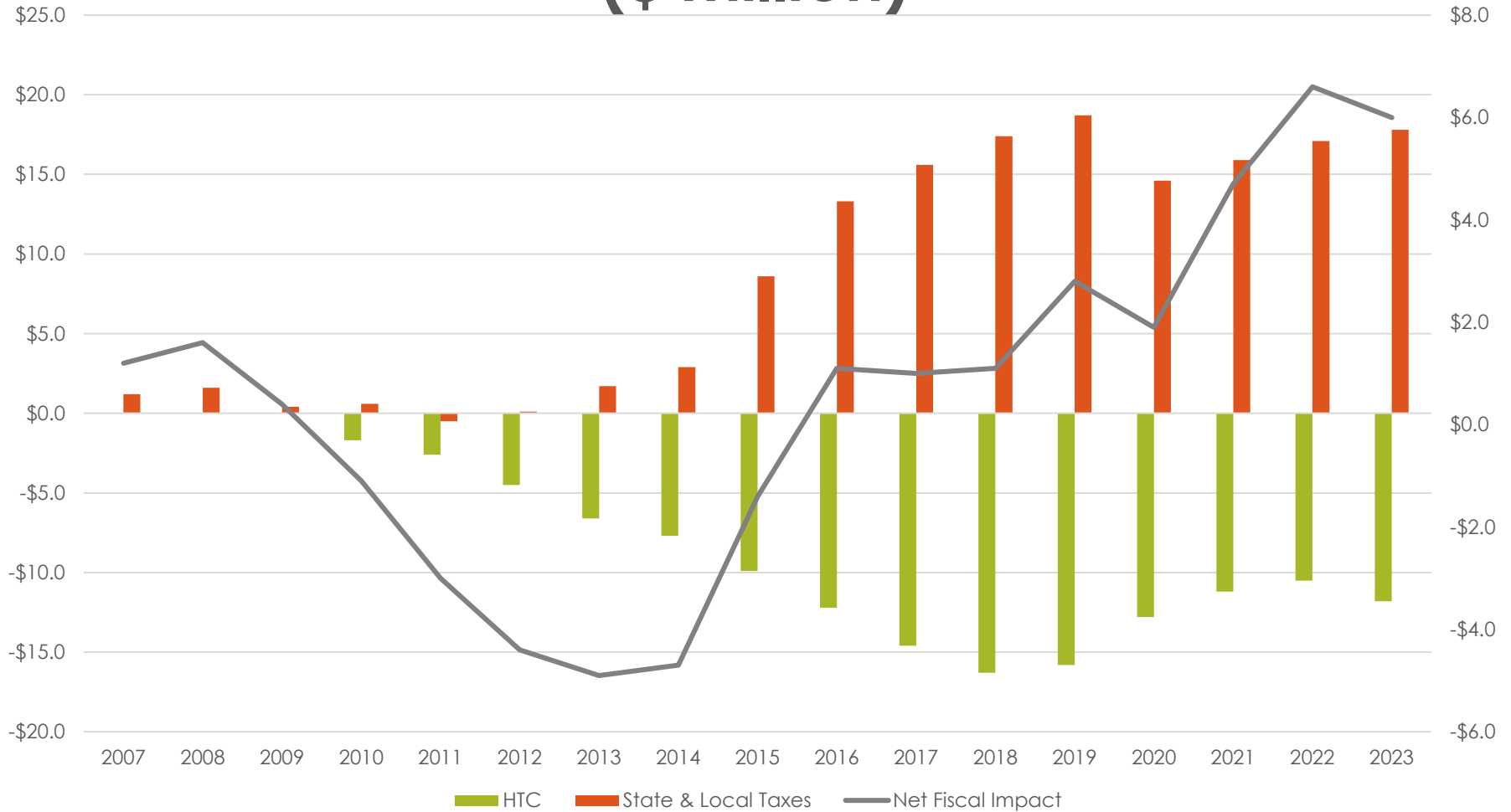
# HTC Investment in Maine 2009-2019 (\$ million)



Source: Maine Preservation and Maine Historic Preservation Commission



# Fiscal Impact of HTC 2007-2019 (\$ million)



# CITIES/TOWNS – HISTORIC TAX CREDIT PROJECTS

Auburn	2	Falmouth	1	Rangeley	1
Augusta	6	Farmington	1	Rockland	2
Bangor	6	Freedom	1	Rockport	3
Bangor	1	Georgetown	1	Saco	6
Bar Harbor	1	Gorham	1	Sanford	1
Bath	2	Hallowell	6	Scarborough	2
Berwick	1	Kennebunk	1	South Paris	1
Biddeford	12	Lewiston	10	Thomaston	1
Brewer	1	Lisbon Falls	1	Unity	1
Brooklin	1	Livermore Falls	1	Waterville	3
Brunswick	1	North Berwick	1	Westbrook	1
Damariscotta	1	Norway	1		
Dover-Foxcroft	1	Ogunquit	1		
Eastport	1	Orono	1		
Fairfield	1	Portland	44		

*Maine Preservation & Maine  
Historic Preservation Commission  
Completed and in progress Q4  
2019*

# OVERVIEW

## USING THE TAX CREDIT

- Tax credit is a dollar-for-dollar reduction in tax liability
  - A dollar of credit = a dollar in decreased taxes owed
- Applies to income-producing buildings
  - Commercial
  - Industrial
  - Rental housing - including affordable
- Building must be listed in National Register of Historic Places
  - Individually or as contributing structure in NR historic district
  - Officially listing within 24 mos. of project completion
- Rehabilitation work must meet the Secretary of the Interior's Standards for Rehabilitation

# SCOPE OF OPPORTUNITY

- **Federal tax credit** (enacted 1977)
  - 20% of qualified rehabilitation expenditures (QREs)
- **Maine state tax credit**(enacted 2008)
  - 25% of QREs
  - 34% (35%) for affordable housing
  - Must claim federal credit
- **TOTAL** = 45% or 54/55% credit for affordable projects
- **Maine Small Project Rehabilitation Credit**
  - 25% state credit for rehab projects with QREs \$50,000 - \$250,000
  - Available to those that don't claim federal credit
  - Not required to meet substantial rehab test

# QUALIFIED REHABILITATION EXPENSES (QREs)

- Credit taken against Qualified Rehab Expenses (QREs)

## **Allowable Costs**

- Construction & construction-related costs
- Architectural/engineering fees
- Permits, builder, contractor, developer fees
- Property taxes & insurance during construction
- Construction loan interest, fees
- Preservation consulting, appraisal, environmental and, market studies
- Accounting, attorney fees

## **Disallowed Costs**

- Property acquisition costs
- New construction (outside the envelope)
- Site work (landscaping, parking, etc.)
- Permanent loan fees or interest
- Tax credit fees from investors/lenders
- Organizational expense
- Syndication legal fees
- Marketing
- Project reserves (operating, vacancy, maintenance)
- Furniture, fixtures, equipment

# OBTAINING HTC<sub>s</sub> – APPROVALS

- Apply to Maine Historic Preservation Commission (MHPC) – for both Fed & State credits
- MHPC recommends to National Park Service (NPS) which makes final decision (except Small Project Rehab Projects)
- **Part 1** – Confirming the building qualifies
  - Individually listed in NR = Part 1
  - If building not already listed in NR, must be individually eligible or contributing to NR district
- **Part 2** – Approval of rehabilitation plans
  - Interior & exterior
  - Must meet Secretary of Interior's Standards for Rehabilitation
  - Amendments
- **Part 3** – Approval of completed work – confirmation that work was consistent with the Standards AND Part 2

# SECRETARY OF THE INTERIOR'S STANDARDS FOR REHABILITATION

**Rehabilitation** is defined as the act or process of making possible a compatible use for a property through repair, alterations, and additions while preserving those portions or features which convey its historical, cultural, or architectural values. The Rehabilitation Standards acknowledge the need to alter or add to a historic building to meet continuing or new uses while retaining the building's historic character.

## **The Standards**

1. A property will be used as it was historically or be given a new use that requires minimal change to its distinctive materials, features, spaces and spatial relationships.
2. The historic character of a property will be retained and preserved. The removal of distinctive materials or alteration of features, spaces and spatial relationships that characterize a property will be avoided.
3. Each property will be recognized as a physical record of its time, place and use. Changes that create a false sense of historical development, such as adding conjectural features or elements from other historic properties, will not be undertaken.
4. Changes to a property that have acquired historic significance in their own right will be retained and preserved.

# SECRETARY OF THE INTERIOR'S STANDARDS FOR REHABILITATION (cont'd)

5. Distinctive materials, features, finishes, and construction techniques or examples of craftsmanship that characterize a property will be preserved.
6. Deteriorated historic features will be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature will match the old in design, color, texture and, where possible, materials. Replacement of missing features will be substantiated by documentary and physical evidence.
7. Chemical or physical treatments, if appropriate, will be undertaken using the gentlest means possible. Treatments that cause damage to historic materials will not be used.
8. Archeological resources will be protected and preserved in place. If such resources must be disturbed, mitigation measures will be undertaken.
9. New additions, exterior alterations, or related new construction will not destroy historic materials, features, and spatial relationships that characterize the property. The new work will be differentiated from the old and will be compatible with the historic materials, features, size, scale and proportion, and massing to protect the integrity of the property and its environment.
- 10. New additions and adjacent or related new construction will be undertaken in such a manner that, if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.



# OBTAINING HTC<sub>s</sub> – GETTING YOUR PROJECT APPROVED

- Work with the building from the “inside out”
- Understand the building’s structure, detailing and materials
- Detailed planning up front saves time and money later
- You need a good team
  - Owner/Developer
  - Preservation consultant
  - Architect & engineers
  - Contractor
  - Attorney
  - Accountant

# COLLECTING THE HTC AND RESTRICTIONS

- HTCs must be claimed in year when rehabilitated building is “Placed in Service” (certificate of occupancy is issued – ready for leasing)
- Begin to collect the credits in the next tax filing after FY end
- HTC can be allocated unevenly among partners
- HTC subject to recapture for 5 years after placed in service – from:
  - Sale of property OR any change in the partnership
  - Noncomplying change to building/removal from Register, casualty loss
  - Failure to rehabilitate a depreciable building – income-producing
  - HTCs do NOT apply to owner-occupied buildings
    - Percentage of IP vs OO

# WHO CAN USE THE TAX CREDITS?

## **State Credit** (paid out over 4 years)

- Any taxpayer who files Maine tax return
- Fully refundable
- Nonprofit partner (avoid federal tax on state credit)

## **Federal Credit** (paid out over 5 years)

- 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 capital gain
- Taxpayers with income below \$200,000 - \$250,000/year (carry back 1 year roll forward 20 years)
- C – Corporations & banks
- NOT ELIGIBLE - Nonprofit organizations

# DISQUALIFIED LEASE FOR NONPROFITS OR GOVERNMENTS

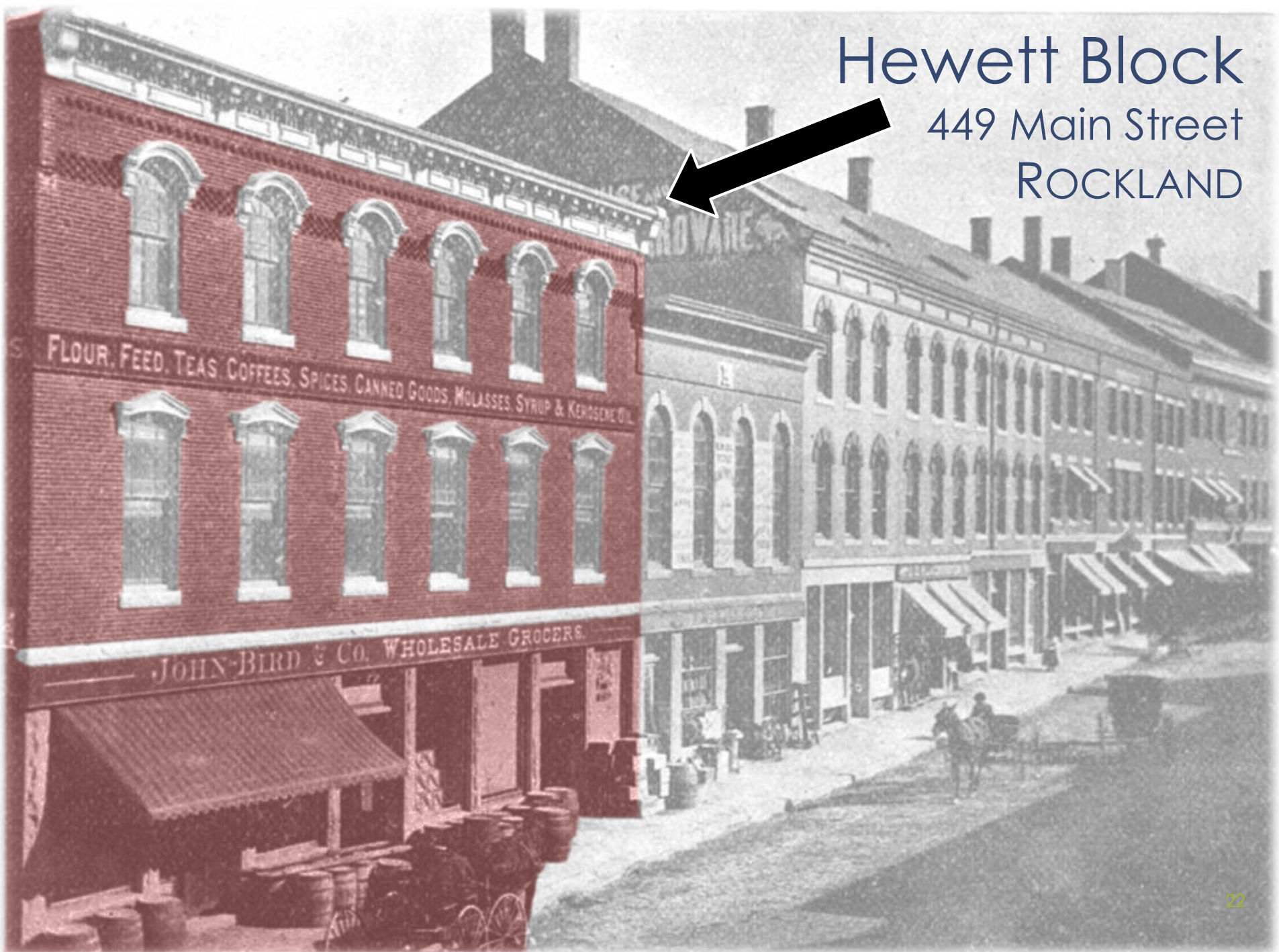
- Cannot use HTC if BOTH apply:
  - >50% of space occupied by government or nonprofit AND
  - Disqualified lease
- Disqualified lease – if any of the following conditions exist
  - Project is financed with tax-exempt debt issued by tax exempt tenant
  - Lease is for more than 20 years
  - Sale/leaseback – a tenant was previous owner of the property
  - Lease specifies a fixed or determinable purchase price or option to buy

# CASE STUDIES

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# Hewett Block

449 Main Street  
ROCKLAND





For

Lease

Summer

2009

MONARCH  
CAFE

OPEN





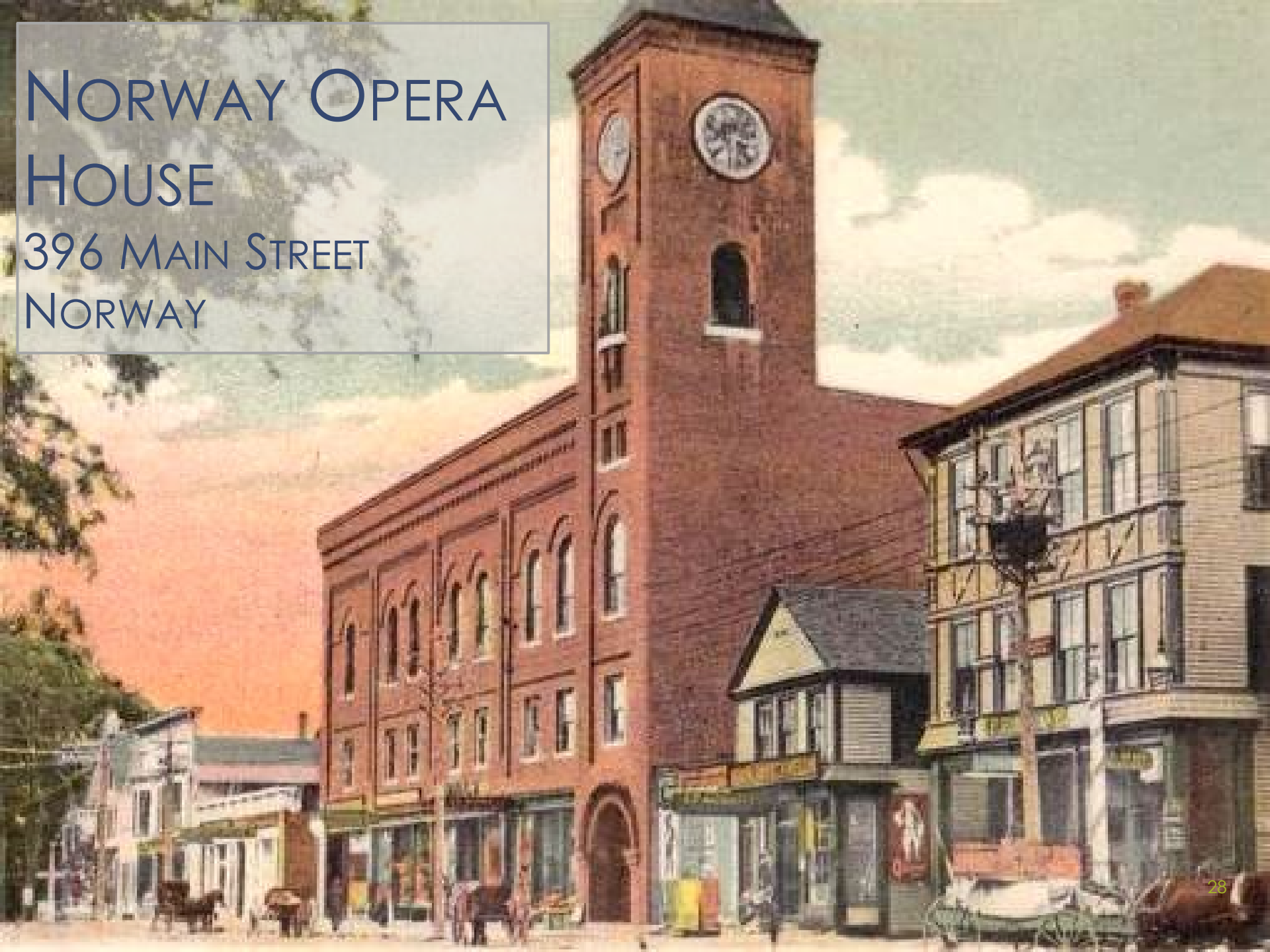






# NORWAY OPERA HOUSE

396 MAIN STREET  
NORWAY



# NORWAY OPERA HOUSE

396 MAIN STREET, 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](http://www.saveouroperahouse.org)











# Before & After



# Before & After







NEWLY RENOVATED  
COMMERCIAL SPACE  
**FOR LEASE**  
743-5638

NEWLY RENOVATED  
COMMERCIAL SPACE  
**FOR LEASE**  
743-5638

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NEWLY RENOVATED  
COMMERCIAL SPACE  
**FOR LEASE**  
743-5638

# Renys Farmington \$800,000



# Main Street, Biddeford



# Pro Forma for 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



# American Woolen Mill / River Walk Dover-Foxcroft

- 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 - accommodate needs of seniors as well as younger people
- River Walk will produce a percentage of the building's energy needs
- The building is a model for sustainable development

# American Woolen Mill / River Walk Dover-Foxcroft

## **Uses**

- INN
- RESTAURANT
- CAFE
- CONFERENCE & EVENT SPACE
- OFFICE CO-OP
- GREEN TECHNOLOGY CENTER
- ART SCHOOL AND STUDIO SPACE
- FARMERS MARKET / CO-OP
- PARKING GARAGE
- AMPHITHEATER
- OUTDOOR TERRACE
- WATERFRONT PARK

# American Woolen Mill / River Walk Dover-Foxcroft

## Funding Sources

Historic Tax Credit Equity	\$3,812,408
Loan Amount	\$1,177,580
TIF Bond	\$452,669
Loan (Incubator)	\$1,177,580
EDA Grant	
(Incubator & Data Center)	\$1,500,000
EPA Funds	\$400,000
CDBG Funds	\$200,000
Renewable Rebate	\$60,000
Corporate Sponsor	\$1,000,000
<b>Construction Loan</b>	<b>\$5,049,988</b>

## Permanent Loan Summary

Interest Rate:	5.00%
Amortization (yrs):	20
Periodic Payment:	YR 12

# Administration Building at Stevens Commons, Hallowell



VT. DEPT. OF TRANSPORTATION  
BUREAU OF PARKS & LANDS  
SOUTHERN REGION - PARKS  
VT. DEPT. OF NATURAL RESOURCES  
STOCK ENHANCEMENT  
Hallowell DIVISION

# Administration Building at Stevens Commons, Hallowell



# 17 Alfred Street, Biddeford



# 17 Alfred Street, Biddeford





# 17 Alfred Street, Biddeford



# 17 Alfred Street, Biddeford



# WHY MESS WITH HTC<sub>s</sub> AT ALL? TO FILL YOUR PROJECT \$\$ GAP

- Leveraged debt (loans): 60-70%
- HTCs and other credits
  - Low Income Housing Tax Credit (LIHTC (Section 42) – but HTC basis reduction may reduce LIHTC
  - New Markets Tax Credits (Section 45D) – expensive and complex, usually require \$10MM deal size
- Community Development Block Grants
- Tax Increment Financing (TIFs)
- EDA Title IX (job creation)
- USDA Loans
- Ground leases (public owner – no acquisition)
- Nonprofit partner

# FIND YOUR PARTNER

## DO SI DO

- Those with federal tax appetite - investment funds/syndicators
- Local financial institutions – may need CRA pts
- Large national companies
- Real estate owners

# NOW SWING YOUR PARTNER

- Good attorney – with credit investor experience
- Good CPA – for projections and final Cost Certification
- Good architect – definitely with NPS experience
- Your local lender – community or regional bank

# SYNDICATION – BRINGS SMILES & FURROWED BROWS

- Syndication - means of allocating benefits to group of owners
  - Developers want cash. Investors want benefits; like credits and depreciation
- HTCs allocated to partners in same ratio as bottom line profits
- Typical scenario - most cash flow & appreciation to developer
- Results:
  - Maximize tax benefits
  - This also means investor owns a sizeable chunk of your RE
  - Investors bring equity – this means less debt
  - Better cash flow for developer – fees, negotiated operating cash flow
  - Minimize need for 3<sup>rd</sup> party subsidy
  - **MAKES PROJECTS FEASIBLE**

# HOW IT WORKS

- The completed RE project generates the HTC credit
- Investors pay cash for those credits and other benefits
  - Usually at some discount to cover the 5yr time period
    - Federal credits around \$0.82- 0.88/dollar
    - State Credits at \$0.82/dollar
  - Investor pays equity in up front (20% in constr, 80% at completion)
  - All that equity replaces what would have been debt
  - Investor leaves the project after 5 years

# HOW IT WORKS (cont'd)

- During rehabilitation, HTC investors are “in the deal” but haven’t seen any credits yet, and are taking real risk – 20% in during construction saves some construction borrowing
- At completion, building is **Placed in Service** and the tax credit is delivered
- Construction loan converts to perm loan – usually much lower amount
- Any bridge loans are paid off with HTC equity investment
- Projects usually carry insurance for the HTC investors in addition to usual hazard coverage



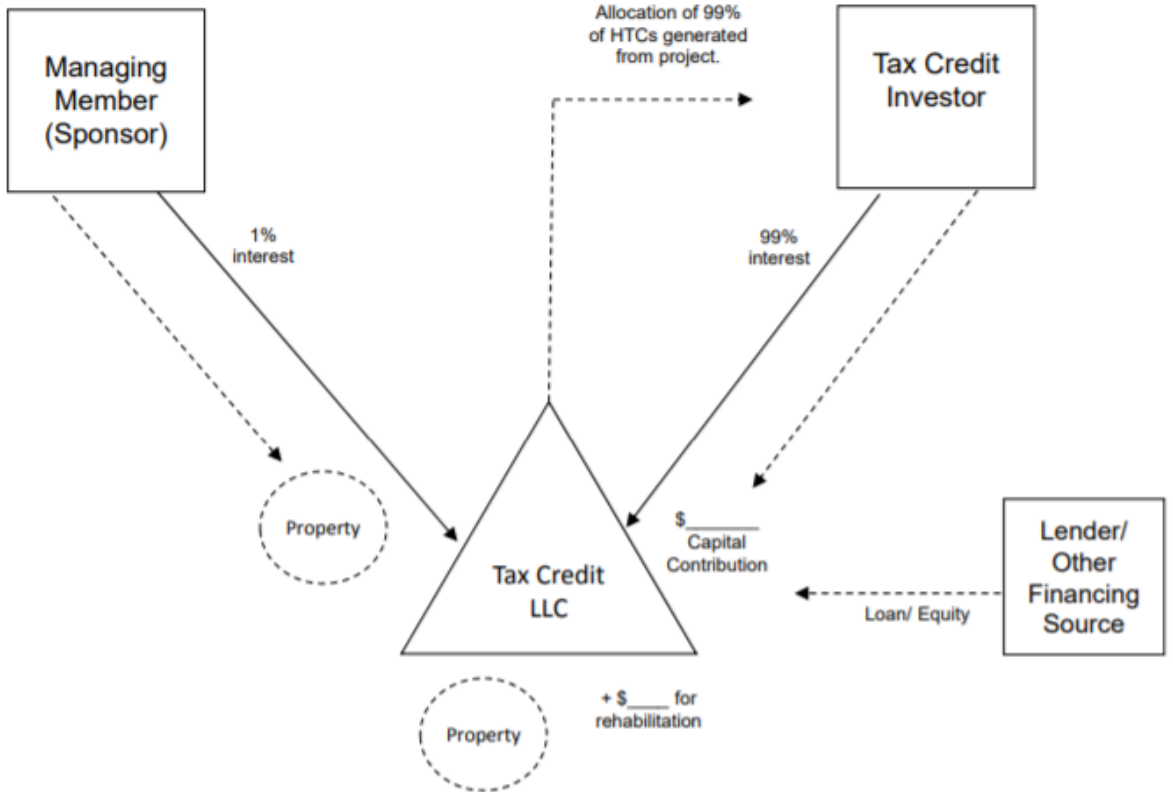
# HOW IT WORKS (cont'd)

- Key delivery items for Developer:
  - Certificate of Occupancy
  - Cost certification – from your good accountant
  - Part III from National Park Service (Part B from Maine SHPO)
  - Projects usually carry insurance for the HTC investors in addition to usual hazard coverage
  - Lien waivers, proof of completion, other typical close-out items

# STRUCTURING THE DEAL

## Single Tier

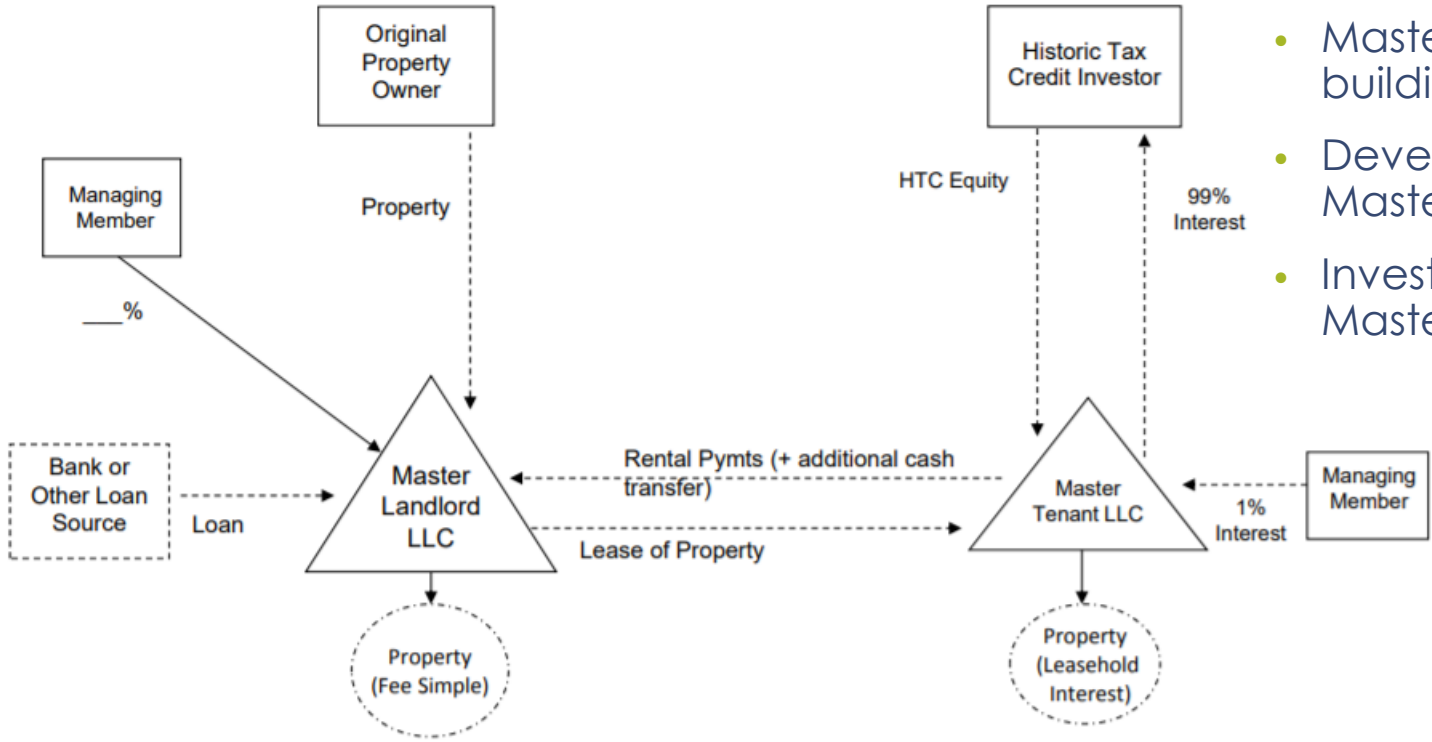
- Developer 1% interest in owner entity
- Investor has 99% interest in owner entity



# STRUCTURING THE DEAL

## Master Tenant

- Owner entity leases building to Master Tenant
- Master Tenant leases building to occupants
- Developer owns 1T5 of Master Tenant
- Investor owns 99% of Master Tenant



# ASSEMBLING THE DEAL

## Developer

- Identifies historic rehab project
- Raises capital
- Engages accounting firm
- Selects team
- Works with MHPC to ensure project qualifies

## MHPC & NPS

- Review of Parts I, II, III

## HTC Investor

- Determine purchase price per credit dollar
- Provide term sheets detailing investment

## Operating Partnership

- Rehab & operate / lease the projects

# ASSEMBLING THE DEAL - CONSIDERATIONS

## 5 Ps

- Partners – HTC consultant, accountants, legal team
- Pricing
- Pay-in schedule
- Priority distribution / return?
- Put

## Investors

- Developer experience
- Sources/uses and timing
- Real estate issues (title, environmental, zoning, parking, other permitting, etc.)

## All Parties

- Exit strategy
- Guarantees
- Structure
- Due diligence requirements
- Experience/reputation and closing process
- Compliance with IRS safe harbor
- Provide term sheets detailing investment

Q & A

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# QUICK POLL

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On a scale of 1 to 10 how likely are you to use the information you learned during today's webinar?

1=Not likely to 10=Extremely likely

HTCs  
Upcoming  
Webinar

April 24 at 3:00 p.m. EDT

Coronavirus Response: The Historic Tax  
Credit as an Economic Recovery Tool

Offered in Collaboration with National  
Trust for Community Investment  
Corporation

<https://register.gotowebinar.com/register/4468637762920041740>



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MAINE DOWNTOWN CENTER



# QUESTIONS? CONTACT US

## **Greg Paxton**

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# THANK YOU FOR ATTENDING

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- emailed to you later this week
- available on-demand on the Maine Preservation website

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