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March 5, 2025

Taxation Committee
132nd Maine Legislature
100 State House Station
Augusta, ME 04333

Dear Senator Grohoski, Representative Cloutier, and Honorable Members of the Committee on Taxation:

Maine Preservation is a statewide nonprofit organization dedicated to promoting and preserving historic places, buildings, downtowns, and neighborhoods—strengthening the cultural and economic vitality of Maine communities.

I am writing to express strong support for LD 435, which will expand the Historic Rehabilitation Tax Credit by:

- Updating the reporting requirements;
- Eliminating the sunset provision, making the program permanent;
- Expediting the timing of the substantial credit, allowing $10M to be taken in the first year;
- Improving the existing small credit by increasing the base credit from 25% to 30% and raising the Qualified Rehabilitation Expenditure cap from $250,000 to $1,000,000; and
- Creating a 25% tax credit for historic owner-occupied residences and ancillary structures with a minimum expense of $5,000 and maximum $250,000 for homeowners with an Adjusted Gross Income at or below $120,000. Energy efficiency and resiliency upgrades are included in the qualified expenditures. An additional 5% could be obtained for properties that:
    - include an affordable dwelling unit provided to a renter at or below 100% of Area Median Income; or
    - have been vacant for more than five years.

Background

Our 2020 Economic Impact report found that from 2009 to 2019, 106 projects were certified and placed in service in Maine using the HRTC. Combined, these approved projects:

- Generated $525 million in construction investment;
- Rehabilitated 3.6 million square feet of commercial and residential space;
- Created or preserved 1,911 housing units, of which nearly 1,300 were affordable;
- Generated 200-700 full-time-equivalent (FTE) jobs through construction spending annually; and
- Created nearly 700 new full-time, year-round jobs in local businesses.

Furthermore, HRTC projects have added over $166 million to local property tax rolls in host communities, including $17 million in new property tax revenue since 2010. The HRTC program has become a major local development tool in its own right with an another $19 million in new income and sales tax revenues estimated to have come into state coffers since 2008. In this period, the program generated $3 million more in state and local tax revenues than it cost.

However, construction costs have doubled since the program was initiated in 2008 and yet the Qualified Rehabilitation Expenditure cap has remained static. While some developers have accounted for inflation by phasing their projects, any delay can increase the cost of construction loans and upend this already expensive and cumbersome approach. Many developers avoid these perils altogether by simply not undertaking projects. With LD 435, risk is averted and the resources expended on a complex project structure can be put to other public benefits, such as additional units of affordable housing.

Moreover, the small credit has rarely been used because the Qualified Rehabilitation Expenditures cap is too low and there isn't any similar incentive for Maine homeowners at all—though many other states offer such a program.

Analysis
In 2021, the Office of Program Evaluation and Government Accountability analyzed Maine's Historic Rehabilitation Tax Credit and found that the program's structure and administration are sound and efficient, and that the positive outcomes exceed the stated historic preservation goals while promoting affordable housing, job creation, and economic growth. LD 435 expands this already successful program.

Meanwhile, OPEGA also suggested that policymakers:

- "consider whether biennial reporting for the HRTC is meeting the Legislature's needs and is efficient." (p. 31)
- "work with MHPC and stakeholders to clarify the small project credit's purpose so that its effectiveness can be measured in the future." (p.32)
- "consider whether expanding eligibility for the HTRC aligns with State policy priorities while weighing the costs and benefits of expanding eligibility." (p. 33)

The report goes on, "OPEGA notes that allowing historic homes, barns and other non-income producing buildings to access tax credits for historic rehabilitation could support Maine's expressed goals around developing 'quality of place' and community revitalization. Making a credit available for Maine's stock of historic houses could also support the State's goal to increase affordable housing and decrease pressure on Maine's housing market...." (p. 34). LD 435 responds directly to OPEGA's findings.

Arkansas, California, Colorado, Connecticut, Delaware, Georgia, Hawaii, Indiana, Iowa, Kansas, Kentucky, Michigan, Mississippi, Missouri, New Jersey, New Mexico, North Carolina, North Dakota, Rhode Island, South Carolina, Utah, Wisconsin, Virginia, and West Virginia all have homeowner tax credit programs. In New York State, more than 3,000 projects have been completed since 2008 from Long Island to Lake Erie, with more than $65M of investment in private homes—equally split between urban and rural areas.

However, Maine's program will be unique in that it is designed to pair with existing financial incentives such as Efficiency ME's programs for weatherization and respond to policies like LD 2003 to make use of existing structures to increase housing density.

We receive inquiries from historic homeowners across the state seeking technical assistance and financial support for their rehabilitation projects on a near daily basis. Having a tax credit that benefits homeowners will provide much-needed support for ongoing stewardship, weatherization, and housing opportunities all over Maine.

Position
LD 435 will strengthen the Historic Rehabilitation Tax Credit program. Maine Preservation vigorously advocates for passage of LD 435 so that all Mainers have the opportunity to invest in the places significant to them and their communities.

We are available to answer questions and participate in the work session. Please let us know if there is any additional information that we can provide.

Sincerely,

Tara Kelly

Tara Kelly
Executive Director

132nd Maine Legislature
An Act to Expand the Historic Property Rehabilitation Tax Credit
L.D.

An Act to Expand the Historic Property Rehabilitation Tax Credit

Be it enacted by the People of the State of Maine as follows:

PART A

Sec. A-1. 27 MRSA §511, sub-§1, as enacted by PL 2007, c. 539, Pt. WW, §1, is amended to read:

1. Program. The director shall administer, in consultation with the Department of Administrative and Financial Services, Bureau of Revenue Services, a program in support of state rehabilitation tax credits for income-producing historic structures pursuant to Title 36, section 5219-BB and historic homes pursuant to Title 36, section 5219-CCC.

Sec. A-2. 27 MRSA §511, sub-§2-A is enacted to read:

2-A. Certification for rehabilitation and weatherization of historic homes. The director shall certify information necessary for applicants to demonstrate eligibility for an income tax credit under Title 36, section 5219-CCC, in accordance with this subsection.

A. As used in this subsection, the following terms have the following meanings.

(1) "Certified exterior rehabilitation" has the same meaning as in Title 36, section 5219-CCC, subsection 1, paragraph A.

(2) "Certified historic home" has the same meaning as in Title 36, section 5219-CCC, subsection 1, paragraph B.

(3) "Qualified exterior rehabilitation expenditure" has the same meaning as in Title 36, section 5219-CCC, subsection 1, paragraph E.

B. The director may require an applicant to provide information establishing the following:

(1) That the certified exterior rehabilitation of a certified historic home is consistent with subsection 2, paragraph A;

(2) That the qualified exterior rehabilitation expenditures meet the requirements for an income tax credit under Title 36, section 5219-CCC;

(3) That the certified historic home is:

(a) A building individually listed in or determined to be eligible for listing in the National Register of Historic Places;

(b) Classified as contributing to a historic district listed in or eligible for listing in the National Register of Historic Places;

(c) Designated as a local landmark or a contributing resource in a local historic district that has been certified by the United States Department of the Interior, National Park Service; or

(d) Designated as a local landmark or contributing to a local historic district that substantially meets the National Register of Historic Places criteria as determined by the director; and

(4) That the eligibility of any dwelling previously determined eligible for listing in the National Register of Historic Places will be reconfirmed at the time of the tax credit application.

By January 15th of each calendar year, the director shall provide to the Department of Administrative and Financial Services, Bureau of Revenue Services a list of all taxpayers who have applied for and demonstrated eligibility for the credit claimed under Title 36, section 5219-CCC; a list of all certified historic homes that are the subject of the credit claimed under Title 36, section 5219-CCC; and verification that those taxpayers who claimed the tax credit increase under Title 36, section 5219-CCC, subsection 3 the prior tax year remain eligible for the tax credit increase.

For the purposes of the credit claimed under Title 36, section 5219-CCC, buildings and districts determined to be eligible for listing in the National Register of Historic Places, as well as locally designated landmarks and districts, do not have to be nominated to the National Register of Historic Places by the Maine Historic Preservation Commission.

The director shall adopt rules implementing this subsection. Rules adopted pursuant to this subsection are routine technical rules as defined in Title 5, chapter 375, subchapter 2-A.

Sec. A-3. 27 MRSA §511, sub-§5, ¶B, as amended by PL 2011, c. 453, §1, is further amended to read:

B. ~~By January 15, 2013, the Maine Historic Preservation Commission shall review the tax credit provided under Title 36, section 5219-BB and shall make recommendations to the joint standing committee of the Legislature having jurisdiction over taxation matters regarding specific proposals for funding the credit.~~ By January 15, ~~2015~~ 2027, and every ~~2~~ 5 years thereafter, the Maine Historic Preservation Commission shall analyze the use of tax credits provided under Title 36, ~~section~~ sections 5219-BB and 5219-CCC as an incentive for rehabilitation of historic structures ~~and~~, economic development and the creation of new housing at the time of project completion, analyze tax and other revenues generated by the rehabilitation to determine in relation to the ~~cost~~ costs of the ~~credit~~ credits if they exceed the costs of the ~~credit~~ credits and report the results of its analysis to the joint standing ~~committee~~ committees of the Legislature having jurisdiction over taxation, housing and economic development matters with recommendations as to whether the credits under Title 36, ~~section~~ sections 5219-BB and 5219-CCC should be extended, repealed or amended. The recommendations must include specific proposals for funding the ~~credit~~ credits after fiscal year ~~2014-15~~ 2030-31 and appropriate transition provisions in order that projects in the development or planning states are not adversely affected. The joint standing ~~committee~~ committees may submit legislation related to the report.

Deleted: 6

Sec. A-4. 36 MRSA §191, sub-§2, ¶VVV is enacted to read:

VVV. The disclosure of information to the Maine Historic Preservation Commission for the purpose of administering the credit for rehabilitation of historic properties after 2007 under section 5219-BB and the credit for rehabilitation and weatherization of historic homes under section 5219-CCC.

Sec. A-5. 36 MRSA §5219-BB, sub-§2, ¶B, as amended by PL 2011, c. 240, §38, is further amended to read:

B. Equal to ~~25%~~ 30% of the certified qualified rehabilitation expenditures of a taxpayer who incurs not less than $50,000 and up to ~~$250,000~~ $1,000,000 in certified qualified rehabilitation expenditures in the rehabilitation of a certified historic structure located in the State and who does not claim a credit under the Code, Section 47 with regard to those expenditures. If the certified historic structure is a condominium, as defined in Title 33, section 1601-103, subsection 7, the dollar limitations of this paragraph apply to the total aggregate amount of certified qualified rehabilitation expenditures incurred by the unit owners' association and all of the unit owners in the rehabilitation of that certified historic structure. The credit may be claimed for the taxable year in which the certified historic structure is placed in service.

Sec. A-6. 36 MRSA §5219-BB, sub-§3, as amended by PL 2019, c. 379, Pt. C, §4, is further amended to read:

3. Increased credit for a certified affordable housing project. The credit allowed under ~~this section~~ subsection 2, paragraph A is increased to ~~30%~~ 35% of certified qualified rehabilitation expenditures for a certified affordable housing project, and the credit allowed under subsection 2, paragraph B is increased to 45% of certified qualified rehabilitation expenditures for a certified affordable housing project. If the certified affordable housing project for which an increased credit was allowed under this subsection does not remain an affordable housing project for 30 years from the date the affordable housing project is placed in service, the owner of the property is subject to the repayment provisions of Title 30-A, section 4722, subsection 1, paragraph DD. ~~Upon notification by the Maine Historic Preservation Commission and the Maine State Housing Authority pursuant to Title 30-A, section 4722, subsection 1, paragraph DD, subparagraph (4), the State Tax Assessor shall increase the credit rate under this subsection that was in effect in the calendar year prior to the calendar year in which the notification was received by one percentage point for tax years beginning in the calendar year of that notification and for any subsequent tax year. In no event may the credit rate under this subsection exceed 35% of the taxpayer's certified qualified rehabilitation expenditures.~~

Sec. A-7. 36 MRSA §5219-CCC is enacted to read:

§5219-CCC. Credit for rehabilitation and weatherization of historic homes after 2026

Deleted: 4

1. Definitions. As used in this section, unless the context otherwise indicates, the following terms have the following meanings.

A. "Certified exterior rehabilitation" means the exterior rehabilitation, including weatherization, of a certified historic home that the Director of the Maine Historic Preservation Commission certifies is consistent under Title 27, section 511, subsection 2, paragraph A.

B. "Certified historic home" means a structure located in the State that is an eligible taxpayer's homestead, as defined in section 681, subsection 2, or is used as the eligible taxpayer's homestead within 60 days of the completion of the certified exterior rehabilitation, that contains up to 4 dwelling units and that has been certified by the Director of the Maine Historic Preservation Commission as a certified historic home under Title 27, section 511, subsection 2 and may include any ancillary buildings that contribute to the historical significance of the certified historic home, as determined by the Director of the Maine Historic Preservation Commission.

C. "Dwelling unit" means a house or apartment used as a residence for an occupant.

D. "Eligible taxpayer" means a taxpayer whose federal adjusted gross income for the first year in which the credit allowed under this section may be claimed does not exceed $120,000.

E. "Qualified exterior rehabilitation expenditure" means any amount expended by an eligible taxpayer on or after January 1, 2026 that is reasonably related to a certified exterior rehabilitation, as determined by the Director of the Maine Historic Preservation Commission.

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F. "Residence" has the same meaning as in Title 21-A, section 112, subsection 1.

2. Credit allowed. An eligible taxpayer is allowed a credit against the tax imposed under this Part equal to 25% of the qualified exterior rehabilitation expenditure of an eligible taxpayer who incurs at least $5,000 in qualified exterior rehabilitation expenditures for the certified exterior rehabilitation of a certified historic home, up to a maximum credit of $50,000 per certified historic home taken within a 5-year period starting from the first tax year in which a credit may be claimed. If an eligible taxpayer does not exceed the maximum credit allowed under this section for a single certified exterior rehabilitation project, the eligible taxpayer may claim a credit for subsequent certified exterior rehabilitation projects, up to the maximum credit per certified historic home within the 5-year period. The credit may first be claimed for the taxable year in which the certified exterior rehabilitation is placed in service.

3. Increased credit for creation of new housing. The credit allowed under this section is increased to 30% of qualified exterior rehabilitation expenditures, up to a maximum credit of $60,000 per certified historic home, if:

A. For a certified historic home with more than one dwelling unit, the eligible taxpayer agrees, for a period of 4 years, to rent at least one dwelling unit to a household with income at or below 100% of the median income for the area as defined by the United States Department of Housing and Urban Development under the United States Housing Act of 1937, Public Law 75-412, 50 Stat. 888, Section 8, as amended, measured at the time of initial occupancy; or

B. The certified historic home has not been used as a residence by tenants or property owners for the 5 years prior to the year in which the credit is first claimed.

4. Timing of credit. Twenty-five percent of the credit allowed under this section must be taken in the taxable year the credit may be first claimed and 25% must be taken in each of the next 3 taxable years.

5. Credit refundable. The credit allowed under this section is refundable.

6. Transfer upon sale or for financing. Upon the sale or transfer of a certified historic home, an eligible taxpayer shall transfer, sell or assign to the subsequent owner the credit allowed under this section for the year in which the certified historic home is transferred or sold and any remaining portion of the credit for any subsequent years. An eligible taxpayer may transfer, sell or assign any portion of the credit to a mortgagor for the purposes of securing financing for the completion of the certified exterior rehabilitation.

7. Disallowance of future credit; recapture. The credit allowed under subsection 2 is subject to disallowance and recapture as provided in this subsection.

A. Future credits are subject to disallowance if:

(1) Any exterior alterations are made to the certified historic home without the approval of the Director of the Maine Historic Preservation Commission and are determined by the director to not be consistent with Title 27, section 511, subsection 2, paragraph A; or

(2) The certified historic home ceases to be the homestead of the eligible taxpayer or the successor eligible taxpayer who has been assigned credits pursuant to subsection 6.

The disallowed amount under subparagraph (1) or (2) is equal to the amount of credit remaining to be claimed for the taxable year in which the disallowance occurred and all subsequent years.

B. If an eligible taxpayer claims the income tax credit increase under subsection 3, paragraph A, but fails or ceases to rent a dwelling unit to a household with income at or below 100% of the median income for the area as agreed, the entire income tax credit increase under subsection 3, paragraph A is subject to disallowance and the assessor may recapture the tax credit increase allowed under subsection 3. Notwithstanding the 3-year time limitation for making an assessment under section 141, the assessor shall recapture the amount of the tax credit increase by making an assessment equal to the difference between the amount of the increased tax credit allowed under subsection 3 and the tax credit allowed under subsection 2 for the tax year in which the credit was claimed by the eligible taxpayer that actually claimed the credit.

8. Limitation. An eligible taxpayer who claims a credit under section 5219-R or 5219-BB for any portion of a certified historic home may not claim a credit under this section for the same certified historic home.

9. Rules. The bureau may adopt rules implementing this section. Rules adopted pursuant to this subsection are routine technical rules as defined in Title 5, chapter 375, subchapter 2-A.

Sec. A-8. Effective date; application. Those sections of this Part that amend the Maine Revised Statutes, Title 36, section 5219-BB, subsection 2, paragraph B and subsection 3 take effect January 1, 2025 and apply to applications received on or after January 1, 2025 for a tax credit for tax years beginning on or after January 1, 2025.

PART B

Sec. B-1. 36 MRSA §5219-BB, sub-§1, ¶C, as amended by PL 2021, c. 671, §2, is further amended to read:

C. "Certified qualified rehabilitation expenditure" means a qualified rehabilitation expenditure, as defined by the Code, Section 47(c)(2), made on or after January 1, 2008 with respect to a certified historic structure, if:

(1) For credits claimed under subsection 2, paragraph A, the United States Department of the Interior, National Park Service issues a determination ~~on or before December 31, 2030~~ that the proposed rehabilitation of that structure meets the Secretary of the Interior's standards for rehabilitation, with or without conditions; or

(2) For credits claimed under subsection 2, paragraph B, the Maine Historic Preservation Commission issues a determination ~~on or before December 31, 2030~~ that the proposed rehabilitation of that structure meets the Secretary of the Interior's standards for rehabilitation, with or without conditions.

For purposes of subsection 2, paragraph B, qualified rehabilitation expenditures incurred in the certified rehabilitation of a certified historic structure located in the State do not include a requirement that the certified historic structure be substantially rehabilitated.

Sec. B-2. 36 MRSA §5219-BB, sub-§4, as repealed and replaced by PL 2013, c. 550, §1 and affected by §2, is amended to read:

4. Maximum credit<u>; until 2025</u>. ~~The~~ <u>For tax years beginning before January 1, 2025, the</u> credit allowed pursuant to this section and section 2534 may not exceed the greater of:

A. Five million dollars for the portion of a certified rehabilitation as defined by the Code, Section 47(c)(2)(C) placed in service in the State in the taxable year; and

B. Five million dollars for each building that is a component of a certified historic structure for which a credit is claimed under this section.

Sec. B-3. 36 MRSA §5219-BB, sub-§4-A is enacted to read:

<u>**4-A. Maximum credit; beginning 2025.** For tax years beginning on or after January 1, 2025, the credit allowed pursuant to this section and section 2534:</u>

<u>A. In the first year in which the credit may be claimed, may not exceed the greater of:</u>

<u>(1) Ten million dollars for the portion of a certified rehabilitation as defined by the Code, Section 47(c)(2)(C) placed in service in the State in the taxable year; and</u>

<u>(2) Ten million dollars for each building that is a component of a certified historic structure for which a credit is claimed under this section;</u>

<u>B. In the 2nd year in which the credit may be claimed, may not exceed the greater of:</u>

(1) Ten million dollars minus the credit allowed under paragraph A, subparagraph (1) for the portion of a certified rehabilitation as defined by the Code, Section 47(c)(2)(C) placed in service in the State in the taxable year; and

(2) Ten million dollars minus the credit allowed under paragraph A, subparagraph (2) for each building that is a component of a certified historic structure for which a credit is claimed under this section; and

C. In the 3rd and subsequent years in which the credit may be claimed, may not exceed the greater of:

(1) Five million dollars for the portion of a certified rehabilitation as defined by the Code, Section 47(c)(2)(C) placed in service in the State in the taxable year; and

(2) Five million dollars for each building that is a component of a certified historic structure for which a credit is claimed under this section.

SUMMARY

Part A of this bill makes changes to modernize the existing small project provisions of the historic property rehabilitation tax credit, including increasing the eligible percentage of the project from 25% to 30% and increasing the expenditure cap from $250,000 to $1,000,000. This Part also increases the percentage of credit available for affordable housing creation to 35% for significant projects and 45% for small projects.

Part A also establishes a certification process for the rehabilitation and weatherization of existing homes and creates an income tax credit for rehabilitation and weatherization of certified historic homes equal to 25% of the qualified exterior rehabilitation expenditures for a qualified taxpayer whose federally adjusted gross income does not exceed $120,000. The percentage of credit that may be claimed increases to 30% if housing is created as part of the weatherization and rehabilitation efforts. This Part also adds the credit for rehabilitation and weatherization of historic homes to the report that the Maine Historic Preservation Commission provides to the Legislature and requires the report to be provided every 5 years instead of biennially.

Part B of this bill changes the maximum tax credit allowed for certified historic structure rehabilitation projects for the first 2 years in which a credit may be claimed. It changes the maximum from $5,000,000 in each of the first 2 years to $10,000,000 total across the first 2 years combined. It makes no changes to the $5,000,000 maximum tax credit allowed in subsequent years. This change applies to tax years beginning on or after January 1, 2025. This Part also eliminates the requirement that eligible projects be certified on or before December 31, 2030.