FOUNDATIONS OF PRESERVATION

FUNDING YOUR PRESERVATION PROJECT

For Profit Entities

Historic buildings in our downtowns and village centers can be rehabilitated and adaptively reused for small businesses, restaurants, housing, and more, enhancing the economic vitality of Maine communities. Projects vary in size and complexity–from mixed-use redevelopment of a three-story commercial block to the transformation of sprawling mill complexes into hundreds of housing units. However, they all require secure funding and a sustainable use to ensure long-term success. State and federal historic rehabilitation tax credits are the most powerful financing tool available for commercial preservation efforts, but there are other sources that may be relevant to your community or project. This handout is intended as a starting point for exploring financial incentives that could support your redevelopment of an historic building.

Rockland's c. 1873 Hewitt Block was rehabilitated using state and federal historic rehabilitation tax credits, creating a basement restaurant space, first floor storefront, and a mix of offices and apartments in the upper floors.

Where to Start

If you own a historic building in need of substantial rehabilitation or have your eyes set on a new project, you'll need to do your homework–planning for a sustainable use for the property, assessing the feasibility of adapting the space for that new use, and securing financing.

Feasibility studies and market analyses are good tools for understanding the highest and best use of a property. However, it is just as important to talk with members of the public, business owners, local planning and economic development staff, and elected officials to learn about their interests or concerns.

Different uses will then inform the structure of financing the real estate project, which is usually referenced as a funding or capital stack. The stack is the combination of various sources of capital–primarily equity and debt–all with varying terms, priorities, and levels of risk.

Historic Rehabilitation Tax Credits

Historic rehabilitation tax credits play a crucial role in incentivizing the preservation and adaptive reuse of historic buildings and have been an effective economic redevelopment tool in towns and cities across the country. In Maine, a state program mirrors the federal rehabilitation tax credit program, bolstering its impact.

- Qualifications – Properties must be listed in the National Register of Historic Places, either individually or as part of a historic district, undergo substantial rehabilitation that meets the *Secretary of the Interior Standards for Rehabilitation*, and have an income-producing use.
- Project Team – Successful building owners and developers assemble teams of professionals to shepherd projects through the process, including architects, engineers, preservation consultants, contractors, attorneys, and accountants.
- Process – Applicants work through a three-part procedure: 1) certification of the historic structure, 2) description of building condition and planned rehabilitation work, and 3) certification of completed work.
- Claiming the Credit – Once the rehabilitation is certified complete, the property owner can claim tax credits the following tax year based on a percentage of the qualified rehabilitation expenditures (QREs). QREs usually include construction costs for work on the historic building and soft costs like architectural, engineering, permitting, and legal fees.

Federal

A 20% federal income tax credit is available for qualified rehabilitation projects and administered by the National Park Service and the Internal Revenue Service, in partnership with the Maine Historic Preservation Commission. The tax credits are allocated over a five-year period after the building is put into service. Learn more about this credit.

State

The 25 % Substantial Rehabilitation Credit is available for qualified rehabilitation projects that claim the federal credit. The rehabilitation must meet all the requirements of the federal tax incentive program.

The 25% Small Project Rehabilitation Credit is available for qualified rehabilitation projects with QREs of between $50,000 and $250,000 that do not claim the federal credit. The rehabilitation must meet all the requirements of the federal tax incentive program except the substantial rehabilitation requirement.

Both state credits are increased to 35% if the rehabilitation project supports the creation of affordable housing.

Maine state tax credits are administered by the Maine Historic Preservation Commission and the Maine Bureau of Revenue Services. They are fully refundable, with 25% of the total state credit claimed in the year the building is put into service, and 25% of the credit is taken in each of the next three years.

Those interested in pursuing historic rehabilitation tax credits are strongly encouraged to read through program requirements and seek guidance from qualified professionals.

Tax Credit Syndication

Many developers and historic property owners have neither the equity to fully underwrite the construction costs of a rehabilitation nor the tax liability to benefit from the credit programs. Syndication, or allocation of benefits to an ownership or investment group, as part of a historic rehabilitation tax credit project unlocks the full potential of the program. Investors can buy the historic tax credits at a discounted price upfront, providing equity, with the understanding that they can claim the tax credits upon completion of the project. As a result, the developer requires less debt as part of the project funding stack, which makes it less risky and more profitable. Syndication requires all parties to have a stake in the property for the duration of the project.

Other Financing Tools

Low Income Housing Tax Credits (LIHTCs) and New Market Tax Credits (NMTCs) are two other federal tax incentives that can be paired with historic rehabilitation tax credits. The former creates affordable housing and the latter encourages private investment into underserved, low-income communities.

The Mt. Merici Convent in Waterville was rehabilitated for senior Affordable Housing using state and federal historic rehabilitation tax credits and LIHCs. Photo: Hanson Historic Consulting

Community Development Block Grants (CDBGs) are funded by the Department of Housing and Urban Development (HUD) and allocated by the Maine Department of Economic & Community Development (MDECD) to local governments in support of community development initiatives including affordable housing creation, community facilities, and downtown revitalization. CDBG awards can be granted to for profit entities depending on the rehabilitation project, its use, and its impact.

The United States Department of Agriculture (USDA) provides guaranteed loan financing and grant funding to support development and creation of housing in rural communities. For example, the Rural Energy for America Program (REAP) finances small businesses with energy efficiency improvements like solar panels, HVAC systems, window and door upgrades, and insulation.

Additional financing and associated technical assistance for projects may be available through:

- Finance Authority of Maine (FAME)
- Small Business Administration (SBA)
- Coastal Enterprises, Inc. (CEI)
- The Genesis Community Loan Fund

Opportunities for funding support from local governments vary greatly and can include incentives like façade improvement grants, tax increment financing, and bonds. Inquiries should be directed to town and city offices, particularly planning and economic development staff and elected officials.

Assistance

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