

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4438-02
Bill No.: HB 1825
Subject: Historic Preservation, Tax Credits, Tax Incentives, Taxation and Revenue -
Property, Economic Development
Type: Original
Date: March 29, 2018

Bill Summary: This proposal changes the laws regarding the historic preservation tax credit by limiting it to blighted areas and prohibiting its use on certain residential property.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	\$0	\$0	Unknown
Total Estimated Net Effect on General Revenue	\$0	\$0	Unknown

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this legislation adds a definition for "blighted area" and changes the definition for "eligible property" by requiring the properties to be in blighted areas. To the extent that these changes lead to reduced participation in the Historic Tax Credit program, General and Total State Revenues may increase. This may impact the calculation pursuant to Article X, Section 18(e).

B&P notes that redeemed tax credits under the Historic Preservation Tax Credit have averaged \$51.6 million over the last three years.

Officials at the **Department of Economic Development** and the **Department of Revenue** each assume there is no fiscal impact from this proposal.

Officials at the **Department of Natural Resources** assume the department's State Historic Preservation Office (SHPO) is responsible for reviewing and approving rehabilitation work for the state and federal historic preservation tax credit programs. Any changes in the tax credit structure may have an impact on the number of rehabilitation projects the SHPO reviews and approves. Additionally, with reduced number of projects, the fee assessed per tax credit that in part funds the SHPO would also be reduced (Economic Development Advancement Fund 0783).

The Department of Economic Development (DED) tracks the financial side of the historic preservation tax credit program and SHPO assists with the rehab design review; therefore, DED is in a better position to quantify the potential economic impacts of limiting tax credits. With the potential of a reduced program there may continue to be a rush on the available funds, bringing an increased number of projects and greater workload to the SHPO prior to January 1, 2019, due to the uncertainty of future funding and credit availability.

Oversight notes that starting January 1, 2019, this proposal restricts the location of a property that wants to qualify for the Historic Preservation tax credit to blighted areas. Currently the cap on the credit is \$140 million and residential property owners can receive up to \$250,000 per property. There is no annual cap on the residential property tax credit.

ASSUMPTION (continued)

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Historic Preservation tax credit program had the following activity:

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 (projected)
Certificates Issued	154	210	162	175	175
Projects	210	182	113	123	123
Amount Authorized	\$97,136,287	\$90,749,410	\$154,152,770	\$160,000,000	\$160,000,000
Amount Issued	\$53,206,338	\$59,590,351	\$85,136,859	\$100,000,000	\$100,000,000
Amount Redeemed	\$47,638,886	\$57,496,338	\$49,742,927	\$60,000,000	\$70,000,000

Amount Outstanding - \$102,834,919 Amount Authorized but Unissued - \$341,073,841

Oversight notes the portion of the proposal that limits projects to blighted areas might reduce the number of future projects under the Historic Preservation Tax Credit. Oversight assumes a reduction in the number of projects would take place immediately; however, due to the lag time between the authorization, issuance and redemptions of the credits that reduction may not be felt for several years.

Oversight is unable to determine what percentage of the existing (and previous) projects would have qualified under the “blighted area” definition used in this proposal. Therefore, Oversight will reflect an Unknown savings starting in FY 2021 due to the lag time between authorization and issuance of these credits.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE			
<u>Savings</u> - restriction of Historic Preservation tax credits to blighted areas	<u>\$0</u>	<u>\$0</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>\$0</u>	<u>Unknown</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
<u>FISCAL IMPACT - Small Business</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Beginning January 1, 2019, this bill limits the Historic Preservation Tax Credit to blighted areas and prohibits its use on private residences and residential properties valued more than \$250,000.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Natural Resources
Department of Revenue
Office of Administration
Division of Budget and Planning

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