LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 4** HLS 201ES 21
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action: **W/ SEN FLOOR AMD**
Proposed Amd.:
Sub. Bill For.:

Date: June 25, 2020 9:31 AM
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Dept./Agy.: CRT / Revenue
Subject: Commercial Historic Rehabilitation Tax Credit Extension
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TAX CREDITS EGF SEE FISC NOTE GF RV See Note

Extends the date for eligible expenses to qualify for the tax credit for the rehabilitation of historic structures and extends the effectiveness of the credit (Item #19)

Present law provides tax credits of 20% of qualified expenses incurred before January 1, 2022 to rehabilitate nonresidential and rental historic structures in downtown development districts and cultural districts. Overall program credits are not capped, but per taxpayer per district credits are capped at $5 million per year. Credits are nonrefundable but transferable, and unused credit amounts are allowed a five-year carry-forward. State credits may be used in addition to a any federal tax credit, and are available for eligible expenditures incurred before January 1, 2022.
Proposed law extends the program by four years, to expenses incurred before July 1, 2026. For completed Part 2 Proposed Work Description applications submitted on or after July 1, 2021, total program credits granted in any fiscal year are capped at $120 million. More credit can be granted if appropriated. Excess credit claims roll over to first in line the next fiscal year. Excess credit available rolls over for allowance in the next year. CRT and LDR shall establish the method for allocating available credits. The 20% credit is allowed depending on actual rehabilitation expenses relative to the Part 2 Work Description cost estimate. Back-end credit claim caps are set for FY21 ($75M), FY22 ($85M), FY23 ($100M), with no caps for FY24 and beyond. Greater cap amounts can be appropriated.

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	2020-21	2021-22	2022-23	2023-24	2024-25	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

Credit cap administration is an extra workload requirement for both CRT and LDR, although LDR already administers a similar cap process for film tax credits and solar installation tax credits. Verification of qualifying project completion expenditures within the bill's percentage bounds of the Part 2 cost estimates is also an addition to the program process. These additional administrative requirements are likely to be manageable within existing agency resources.

REVENUE EXPLANATION

In the absence of the bill, credit costs should decline sometime after FY22 and beyond as current projects complete the program without new projects entering. This would result in an increasing amount of greater net tax receipts each year as the program winds down. The bill will delay for one year those baseline cost reductions from occurring. The average credit realizations of recent years (FY13-FY19) could be viewed as a simple anticipation of continued costs. This approach would imply continual total costs in the future years of the extension in excess of $72 million per year. The level of cost continuations could be greater than suggested by this seven-year average, as the program's fiscal year costs have trended up, and future realizations could be more in line with what has been experienced in FY17 - FY19 ($94 million per year). Projections submitted to the REC on May 11, 2020 by the Dept. of Revenue in the Incentive Expenditure Forecast estimated possible credit realizations for this program $150 million in FY20 and $123 million in FY21.

The back-end credit claim caps may constrain annual credits costs if future credit claims continue at levels comparable to the FY17 - FY19 average, or approach the LDR projection, but not if claims approximate the longer-run average. Performance averages can mask material annual variation ($8M - $34M since FY13), and unclaimed cap amounts in one year roll over for use in following years, making specific annual program cost effects of the caps highly uncertain. The front-end cap may constrain the program's long-run potential cost to that cap after FY23, to the extent the flow of projects through the program exhausts that cap.

In addition, the bill amends the program for projects submitting a Part 2 Proposed Work Description from July 1, 2021. These projects must have completed project expenses within 75%-125% of the Part 2 cost estimate to receive the 20% credit on the completed expenses. If expenses exceed the 125% threshold, the credit is limited to the 125% expense amount. If less than the 75% threshold, then the project is allowed no credit. To obtain a sense of the effect of these provisions, CRT looked at 47 projects completed since July 1, 2019. None of these projects completed with costs less than 75% of their Part 2 estimate, suggesting that this provision is unlikely to constrain program costs. Twenty of these projects completed with costs greater than 125% of their Part 2 estimate, and would have had their credit limited under the bill's provisions. However, projects submitting Part 2 cost estimates in 2021 will be aware of the bill's provisions and are likely to work to insure more accurate Part 2 cost estimates, even if higher cost estimates.

Senate — Dual Referral Rules

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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