LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 83** HLS 19RS 312
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action: **w/ SEN COMM AMD**
Proposed Amd.:
Sub. Bill For.:

Date: May 21, 2019 5:52 PM
Author: HARRIS, J.
Dept./Agy.: CRT / Revenue
Subject: Commercial Historic Rehabilitation Tax Credit Extension
Analyst: Greg Albrecht

TAX CREDITS RE1 DECREASE GF RV See Note

Extends the sunset of the tax credit for rehabilitation of historic structures to January 1, 2026

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 products districts. A minimum of $10,000 must be spent on a project, and work must meet the standards of the federal Interior Department for rehabilitation, as determined by the state. Overall program credits are not capped, but per taxpayer per district credits are capped at $5 million per year. State credits may be used in addition to a 20% federal tax credit. Effective for all taxable years ending prior to January 1, 2022. Proposed law increases the credit to 25% for expenses incurred on or after January 1, 2022, and establishes a credit reservation process for these projects, with a maximum program reservation amount of $300M per year. Reservations are first-come, first-served. Insufficient reservations are foregone, while excess reservations become first-in-line the following year. Procedures for credit forfeiture are provided. Provides for an expenditure verification report from program participants. Credits are available for expenses incurred up to 2030.

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	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	2019-20	2020-21	2021-22	2022-23	2023-24	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	DECREASE	DECREASE	**$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**

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

Since the tax credits associated with these existing projects would affect FY20 through FY22 tax receipts regardless of this bill (and subsequent years with carry-forwards), those costs can not be attributed to this bill. In the absence of the bill, credit costs should decline from FY22 and beyond as current projects complete the program without new projects entering. The bill will delay for eight years those baseline cost reductions from occurring, as well as increase the baseline cost by the 5% credit enhancement provided by the bill (a 25% increase in the credit rate). The bill increases state exposure starting with FY23 by allowing more tax credits to be generated and realized over an extended time period than current law would allow.

The average credit realizations of recent years could be viewed as a simple anticipation of continued baseline costs beyond FY22. This approach would imply continual total costs in the future years of the extension in excess of $80 million per year (credit realizations have stepped up from FY15 at $67.3 million, $58.9 million in FY16, $91.9 million in FY17, and $101.2 million in FY18). With the 5% credit rate enhancement of the bill, the level of cost continuations under this scenario would be some 25% greater, or $100 million per year. Costs could be even greater than suggested by the latest four-year average adjusted by the bill's 5% credit rate enhancement, as the program's fiscal year costs have been trending upward, and future realizations could be more in line with what has been experienced in FY17 and FY18 with a 25% credit rate enhancement, or $125 million per year.

Program participation data from Culture, Recreation, and Tourism indicate that some 1,187 projects have generated an estimated $769.6 million of tax credits on $3.125 billion of qualified expenditures and $4.083 billion of total expenditures (self-reported by participants) since the program's inception in 2002. On a tax credit basis, the program has exhibited a compound annual average growth rate of 45% per year. The Department of Revenue reports actual tax credit realizations have totaled $555 million over the period FY05 - FY18, implying tax credits outstanding yet to be claimed of some $214 million for completed projects (credit is nonrefundable with a 5-year carry-forward, but are transferable).

No precise estimate of the annual continuation of costs beyond FY22 is reliable, but the program's size and growth suggests additional annual costs in the tens of millions of dollars resulting from the bill's extension of the program and credit rate enhancement. The credit reservation cap of $300 million per year ultimately constrains the program's cost, but annual program-wide credit claims are not capped, and can differ and exceed the reservation cap in any particular year.

Senate	Dual Referral Rules	House
☐	13.5.1 >= $100,000 Annual Fiscal Cost {S & H}	☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☐	13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}	☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

John D. Carpenter
Legislative Fiscal Officer