LEGISLATIVE FISCAL OFFICE
Fiscal Note

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

Date: June 23, 2020 3:14 PM **Author:** MAGEE

Dept./Agy.: CRT / Revenue

Subject: Commercial Historic Rehabilitation Tax Credit Extension **Analyst:** Greg Albrecht

TAX CREDITS EG1 SEE FISC NOTE GF RV

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 one year, to expenses incurred before January 1, 2023. For Part 1 applications submitted on or after July 1, 2020, the credit is 10% of eligible expenses. For these projects, total program credits granted in any fiscal year are capped at $75 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. No more than 50% of the annual credit cap can be reserved for projects within a single arts council region, but unreserved amounts may be allocated to any region if not exhausted by May 1 each year. Credits allowed depend on actual rehabilitation expenses relative to the Part 2 Work Description of a project.

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

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

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.

In addition, the bill amends the program for new projects entering the program from July 1, 2020, and for currently ongoing projects. New projects entering from July 1, 2020 receive a 10% credit (less than the current law 20%), and must have completed project expenses within 75%-125% of the Part 2 cost estimate to receive the credit on the completed expenses. If expenses exceed the 125% threshold, the 10% credit is limited to the 125% expense amount. If less than the 75% threshold, then the project is allowed no credit. Ongoing projects are subject to the same expenditure tests, but for application of the current law 20% credit, and can receive zero credit, as well. 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 entering the program from July 1, 2020 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. Ongoing projects, though, may ultimately be limited in the dollar amount of credit they receive to the extent that they complete with costs greater than 125% of their Part 2 estimates. The degree of materiality of possible cost reductions is indeterminable, but may occur as early as FY21. The $75M credit cap would work to hold annual program costs near it's historical average, but the extension of the program for only one year makes an ongoing effect uncertain, in that the entire program would begin to wind down after FY23 anyway. Indeterminable revenue increases may occur relative to the current law program baseline that would begin to wind down after FY22 without the bill, itself resulting in eventual revenue increases.

The bill also works to encourage the geographical distribution of new projects, by limiting the allocation of the credit cap to no more than 50% to projects within a single arts council region. CRT reports that, over the last five years, some 87% of self-reported qualifying rehabilitation expenditures have occurred within Region 1 (Jefferson, Orleans, Plaquemines parishes).

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}

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