

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4430-01
Bill No.: SB 701
Subject: Tax Credits, Historic Preservation
Type: Original
Date: January 2, 2018

Bill Summary: This proposal indexes the Historic Preservation tax credit cap to inflation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	\$0	(Could Exceed \$1,400,000)	(Could Exceed \$2,814,000)
Total Estimated Net Effect on General Revenue	\$0	(Could Exceed \$1,400,000)	(Could Exceed \$2,814,000)

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 7 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 proposal would adjust the cap on the Historic Preservation tax credit annually beginning July 1, 2019 based on the Consumer Price Index for All Urban Consumers. The Federal Reserve target inflation rate is 2%. B&P assumes the cap would increase by an average of 2% each fiscal year beginning in FY 2020.

Increasing the cap annually, places a potential cumulative impact on both General and Total State Revenue with a total unknown future impact since the Historic Preservation tax credit does not expire.

	Average Annual Increase	Annual Cap	Potential Cumulative Cap Increase over FY 2019
FY 19 Historic Preservation Tax Credit	-	140,000,000	-
Potential FY 2020 Increase	2,800,000	142,800,000	2,800,000
Potential FY 2021 Increase	2,856,000	145,656,000	5,656,000
Potential FY 2022 Increase	2,913,120	148,569,120	8,569,120
Potential FY 2023 Increase	2,971,382	151,540,502	11,540,502
Potential FY 2024 Increase	3,030,810	154,571,312	14,571,312
Potential FY 2025 Increase	3,091,426	157,662,739	17,662,739
Potential FY 2026 Increase	3,153,255	160,815,993	20,815,993

B&P notes the average amount of authorizations over the last three fiscal years is \$114,012,822 and the average amount of redemptions is \$51,626,050. The annual authorizations exceeded the \$140 million cap in FY 2017.

If the CPI rate varies dramatically from the estimate of 2% the potential loss to General Revenue and Total State Revenue would also change.

This proposal could lower General and Total State Revenue by an amount to exceed \$20,815,993 per year by FY 2026 and could impact the calculation under Article X, Section 18(e).

ASSUMPTION (continued)

This program may encourage economic activity, but B&P does not have the data to estimate the induced revenues.

Officials at the **Department of Economic Development (DED)** assume this amends the historic preservation tax credit in §253.550 so that beginning July 1, 2019 (FY 2020) the cap on the tax credit is adjusted annually by the percentage increase in the Consumer Price Index. DED’s BCS averaged the CPI increase over the last 3 years, it is 1%. Assuming the CPI increases 1% in the coming years, the cap on the tax credit will increase by \$1,400,000 in the first year, \$1,414,000 in the second year, \$1,428,140 in the third year, and so on. However, the net benefit to the state is 25% for each dollar authorized. Therefore, General Revenue would only be reduced by \$1,050,000 in the first year, \$1,060,500 in the second year, and \$1,071,105 by the third year.

Oversight assumes the changes to existing program in this proposal would have a positive impact on the state. However, Oversight considers this to be an indirect impact of the proposal and will not reflect them in the fiscal note.

Officials at the **Department of Natural Resources** assume the Department would not anticipate a significant direct fiscal impact as a result of the proposed changes made to the structure of the state historic preservation tax credit program because of the annual adjustment to the cap based on increases to the Consumer Price Index for all Urban Consumers.

Officials at the **Department of Revenue** assume there may be possible programming required if the term “allowed” is to mean redeemed.

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

ASSUMPTION (continued)

Oversight notes the current cap on the Historic Preservation tax credit is \$140 million annually. This proposal would allow the cap on the credit to be adjusted by the percentage increase in the Consumer Price Index. The U.S. Department of Labor shows the Consumer Price Index as follows:

Year	Consumer Price Index
2016	.8
2015	-.5
2014	1.5
2013	1.4
2012	2.0

Source: U.S. Department of Labor

Oversight notes the five year average of the Consumer Price Index is 1%. Oversight will show the impact as Could Exceed the estimate of a 1% growth rate which is recalculated below

	Average Annual Increase 1%	Annual Cap	Potential Cumulative Cap Increase over FY 2019
FY 19 Historic Preservation Tax Credit	-	140,000,000	-
Potential FY 2020 Increase	1,400,000	141,400,000	1,400,000
Potential FY 2021 Increase	1,414,000	142,814,000	2,814,000
Potential FY 2022 Increase	1,428,140	144,242,140	4,242,140
Potential FY 2023 Increase	1,442,421	145,684,561	5,684,561
Potential FY 2024 Increase	1,456,846	147,141,407	7,141,407
Potential FY 2025 Increase	1,471,414	148,612,821	8,612,821
Potential FY 2026 Increase	1,486,128	150,098,949	10,098,949

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE			
<u>Additional Revenue - Historic</u>			
Preservation tax credit cap indexed to inflation §253.550	<u>\$0</u>	(Could Exceed <u>\$1,400,000</u>)	(Could Exceed <u>\$2,814,000</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	(Could Exceed <u>\$1,400,000</u>)	(Could Exceed <u>\$2,814,000</u>)
<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

For each fiscal year beginning on or after July 1, 2019, this act provides that the annual cap on the amount of historic preservation tax credits that may be authorized shall be adjusted annually for the percentage increase in inflation.


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

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SOURCES OF INFORMATION

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

Ross Strobe

A handwritten signature in black ink, appearing to read "Ross Strobe".

Acting Director
January 2, 2018