

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 1153 - HB 1237

March 23, 2015

SUMMARY OF BILL: Enacts the Historic Rehabilitation Tax Credit Act. Authorizes a tax credit against any state premium tax liability in an amount of 25 percent of the qualified rehabilitations expenditures for the rehabilitation of a certified historic structure, provided that the rehabilitation shall meet standards consistent with the standards of the Secretary of the United States Department of the Interior for rehabilitation, as certified by the Tennessee Historical Commission, and the qualified rehabilitation expenditures associated with the certified historic structure shall exceed \$5,000. Requires the tax credit to be claimed in three equal installments beginning with the year in which the certified historic structure or portion of the structure, attributable to the qualified rehabilitation expenditures is placed in service. Authorizes the credit to be allocated among some or all of the partners, members, shareholders, or other owners of any partnership, limited liability company, S-corporation, or other similar pass-through entity, and establishes that if any portion of the tax credit is recaptured or disallowed, only the owner, and not any allocattee of the tax credit, shall be liable to repay any amount of recapture or disallowance.

Requires the Commission to promulgate three forms to be submitted by an applicant: a form used to request designation of a property as a certified historic structure, a form used to request certification of a proposed rehabilitation as meeting the standards consistent with the standards of the Secretary of the United States Department of the Interior for rehabilitation, and a form used to request certification of a completed rehabilitation. Authorizes federal forms to be submitted instead if the applicant also applies for the federal historic rehabilitation tax credit. Requires the Commission to issue, concurrently with the certificate of completed rehabilitation, to the owner a tax credit certificate providing the amount of tax credit generated by the qualified rehabilitation expenditures incurred during the rehabilitation. Requires the Commission to promulgate rules within 180 days of the effective date of this Act, and authorizes the Commission to adopt a fee of no more than \$5,000 for the required applications and certifications.

ESTIMATED FISCAL IMPACT:

**Increase State Revenue – \$57,600/FY15-16 and Subsequent Years/
Historical Commission**

**Decrease State Revenue –
\$809,000/FY15-16/State Premium Taxes*
\$2,427,000/FY16-17/State Premium Taxes*
\$4,044,900/FY17-18/State Premium Taxes***

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\$4,853,900/FY18-19 and Subsequent Years/State Premium Taxes*

Increase State Expenditures – \$57,600/FY15-16 and Subsequent Years/

Historical Commission

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be reflected as additional private capital investment leveraged by the proposed state tax credits, additional jobs created as a result of rehabilitation efforts that would be undertaken as a direct result of this bill, additional commercial activity at restored historical properties, and increased property values at and around the restored properties. However, due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

***The following funds/departments will be affected by the estimated decrease in state revenue: General Fund, Second Injury Fund, and the Department of Commerce and Insurance. However, the extent to which any fund or the Department will be affected cannot be determined with reasonable certainty.**

Assumptions:

- The first year in which tax credits will be awarded will be FY15-16.
- Based on information provided by the U.S. Department of the Interior, National Park Service, Technical Preservation Services in the annual statistical reports, the average total rehabilitation expenditures in Tennessee that qualified for the federal historic rehabilitation tax credit was estimated to be \$19,415,728 for FY11-12, FY12-13, and FY13-14.
- The annual rehabilitation expenditures that would qualify for the 25 percent tax credit, as established by this bill, are estimated to be \$19,415,728 in FY15-16 and subsequent years.
- The tax credit earned in one year pursuant to this bill is estimated to be \$4,853,932 (\$19,415,728 x 25%). The credit will be claimed in three equal installments, resulting in an annual amount of credit awarded of \$1,617,977 (\$4,853,932 / 3).
- Due to the time required to complete the rehabilitation of a project, place the project in service, and certify and review all qualified rehabilitation expenditures, the impact in the first year (FY15-16) is estimated to be 50 percent of the full year impact, or \$808,989 (\$1,617,977 x 50%).
- The decrease in state revenue is estimated to be: \$808,989 in FY15-16; \$2,426,966 in FY16-17 (\$808,989 + \$1,617,977); \$4,044,943 in FY17-18 (\$808,989 + \$1,617,977 + \$1,617,977); and \$4,853,931 in FY18-19 and subsequent years (\$1,617,977 + \$1,617,977 + \$1,617,977).
- The following funds/departments are estimated to be affected by the estimated decrease in state revenue: General Fund, Second Injury Fund, Department of Commerce and Insurance. However, the extent to which such funds will be affected cannot be determined with reasonable certainty.

- According to the Tennessee Historical Commission, the Commission will require one additional position to administer the proposed program. This employee will: review documents to determine if they are fully completed, accurate and compliant with the established standards, work closely with the Commission's federal tax credit reviewer in order to ensure that projects using both the state and federal tax credit programs are in agreement, review plans and specifications, work with architects and property owners, make site visits, attend meetings, speak at public events about the program, and respond to inquiries from the public and other stakeholders.
- The recurring increase in the Commission's expenditures associated with this position is estimated to be \$57,561 (\$31,332 salary + \$13,432 benefits + \$2,397 FICA + \$10,400 travel, supplies and materials, and other).
- The Commission will set application and certification fees to offset the cost of administering the program. The recurring increase in the Commission's revenue is estimated to be \$57,561.
- Any impact on revenue as a result of additional projects that will be undertaken as a direct result of this bill and would otherwise not be completed under current law would be considered forgone revenue and, due to many unknown factors, cannot be quantified with reasonable certainty.
- Secondary economic impacts may occur as a result of this bill. Such impacts may be reflected as additional private capital investment leveraged by the proposed state tax credits, additional jobs created as a result of rehabilitation efforts that would be undertaken as a direct result of this bill, additional commercial activity at restored historical properties, and increased property values at and around the restored properties. However, due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Jeffrey L. Spalding, Executive Director

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