Doug Gibbs February 16, 2012 402-471-0051

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *							
	FY 2012-13 FY 2013-14						
_	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE			
GENERAL FUNDS	\$170,375	\$0	\$ 82,960	(\$ 6,150,000)			
CASH FUNDS							
FEDERAL FUNDS							
OTHER FUNDS							
TOTAL FUNDS	\$170,375	\$0	\$ 82,960	(\$ 6,150,000)			

^{*}Does not include any impact on political subdivisions. See narrative for political subdivision estimates.

LB 888 amends Nebraska Revised Statutes dealing with revenue and taxation to adopt the Historic Property Restoration and Reuse Act. The bill is to become operative for tax years beginning on or after January 1, 2012.

The bill would provide an income tax credit for any person incurring an eligible expenditure in an amount equal to 25% of the eligible expenditure or 30% if the eligible property is owned by federally-designated 501(c)(3) nonprofit organizations. The credits may be carried forward until completely utilized and may also be sold, transferred, or assigned to another person.

In order to claim the credit an application must be filed with the Department of Revenue within 12 months after the date the eligible property is placed in service. The Department is to then refer the application to the State Historic Preservation Officer to determine if the person qualifies for the credit under the Act. When the application is approved the Department is to issue a certificate to the person evidencing the credit.

The credit is subject to recapture if the any time during five years after the eligible property is placed into service the eligible expenditure for the credit was granted ceases to qualify as an eligible expenditure. The recapture amount is based on a declining percentage dependent on the year in which it ceases to qualify.

The bill provides for the Department of Revenue to promulgate and adopt rules and regulations to carry out the Act which are to include an application fee. The bill does not specify the amount of the application fee or which cash fund is to receive the fund.

Applications for the credit will not be accepted on or after January 1, 2018.

The Department of Revenue estimates that LB 888 will have the following fiscal impact:

FY2012-13: \$ 0 FY2013-14: (\$ 6,150,000) FY2014-15: (\$ 8,346,000)

The State Historical Society has indicated that for the period 2002 to 2011, rehabilitation expenditures on historic buildings have averaged \$28,722,307 per year. Assuming the entire amount qualifies as eligible expenditures, the average tax credit would be approximately \$7.9 million per year.

Based on the above, the Department of Revenue's estimate of fiscal impact appears reasonable and we find no basis to disagree with their estimate.

The Department of Revenue has indicated a one-time programming cost of \$90,794 to the OCIO to modify tax forms and the NebFile system. The State Historical Society estimates expenditures of \$79,581 and \$82,960 for FY2012-13 and FY2013-14 respectively, for 1.0 FTE and operating costs.

We agree with the Department of Revenue's and the Historical Society's estimate of cost.

DEPARTMENT OF ADMINISTRATIVE SERVICES

	REVIEWED BY	Lyn Heaton	2/21/12	PHONE 471-2526
COMMENTS				

COMMENTS

DEPT. OF REVENUE – Sec. 6 of the bill includes an implication that the Dept. of Revenue is required to assess an application fee to offset the department's costs of processing applications submitted under the bill. However, the bill does not specify a fee amount and does not indicate the fund to which the application fee is to be credited. It should also be noted that while the Dept. of Revenue would reasonably incur some initial one-time implementation expenses, the on-going cost of administering the new law would fall on the State Historical Society.

STAT HISTORICAL SOCIETY – The estimated expenditures are in the range of what would be reasonable given the bill's provisions regarding eligibility and recapture.

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Fiscal Note

2012

	State Agency	Estimate/SLA7	'A -		
Revenue			FISCAL	Date Due LFA:	1/9/2012
	Date Prepared:	1/19/2012		Phone: 471-5700	
FY 2012-	2013	FY 201	3-2014	FY 20	<u>14-2015</u>
Expenditures	Revenue	Expenditures	Revenue	<u>Expenditures</u>	Revenue
\$90,794			(\$6,150,000)		(\$8,346,000)
\$90,794			(\$6,150,000)		(\$8,346,000)
	Expenditures \$90,794	Date Prepared:	Date Prepared: 1/19/2012 FY 2012-2013 FY 201	Date Prepared: 1/19/2012 FY 2012-2013 FY 2013-2014 Expenditures Revenue Expenditures Revenue (\$6,150,000)	Date Prepared: 1/19/2012 Phone: 471-5700

LB 888 provides for an income tax credit under the Historic Property Restoration and Reuse Act (Act) for eligible expenditures including, but not limited to, qualified rehabilitation expenditures as defined in IRC section 47(c)(2).

The taxpayer making the expenditures must file an application with the Department within 12 months of placing the property in service. The Department is required to refer the application to the State Historic Preservation Officer to determine whether the person qualifies under the Act. When the application is approved, the Department must issue a certificate for the credit, or multiple certificates if requested by the taxpayer.

The credit allowed is 25% of the eligible expenditures by individuals, corporations, estates, or trusts, and 30% of the eligible expenditures for IRC section 501(c)(3) nonprofit organizations. The credits can be used as a nonrefundable credit against the income tax, and may be carried forward until used. The credits may also be transferred, sold, or assigned to other persons. The seller must notify the Department within 15 days of the transfer.

If the expenditure is no longer an eligible expenditure within five years, there is recapture based on how many years the expenditure was considered to be eligible. The bill is effective for tax year 2012, and no applications may be filed after January 1, 2018.

Implementation of LB 888 is expected to include modifications to the 1040N, 1120N, and 1041N returns and to the NebFile system. The Department expects to be billed \$90,794 by the OCIO for one-time mainframe programming services. The Department shall promulgate rules and regulations to carry out the Act, which includes an application fee to offset the cost of processing applications submitted under the Act.

Based on a similar historic preservation tax credit program in Iowa, and the proportion of historic properties in Nebraska, LB 888 will result in a reduction to the General Fund of \$6.150 million and \$8.346 million in fiscal years FY 2013-14 and FY 2014-15, respectively.

Major Objects of Expenditure								
Class Code	Classification Title	12-13 <u>FTE</u>	13-14 FTE	14-15 FTE	12-13 Expenditures	13-14 Expenditures	14-15 Expenditures	
					700 701			
					\$90,794			
Capital Outlay								
Total	,				\$90,794			

Please complete ALL (5) blanks in the first three lines.

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2012

LB⁽¹⁾ 888 FISCAL NOTE

State Agency OR Political Subdivision Name: (2)

Nebraska State Historical Society

Prepared by: (3)

Michelle Furby/Bob Puschendorf Date Prepared: (4)

January 13, 2012 Revised 2/16/12

Phone: (5)

(402) 471-3171

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	FY 2012-2013		FY 2013	-2 014
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	79,581	*	82,960	*
CASH FUNDS			•	
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	79.581		82,960	

Return by date specified or 72 hours prior to public hearing, whichever is earlier.

Explanation of Estimate:

Estimate based on:

- 1 FTE, Building Program Specialist to review projects, provide technical assistance to projects, serve as liaison to Department of Revenue
- Supplies and materials
- Travel expenses to project locations
- · Computer equipment and software

*Revenue implications for LB888. The following items have been calculated from data obtained for actual historic rehabilitation in Nebraska, compiled by the National Park Service for fiscal years 2002-2011:

- Average rehabilitation expenditures on historic buildings: \$28,722,307
- Total housing units created: 1195

The following statistics have been compiled applying this data from a model developed by Rutgers University for the National Center for Preservation Technology and Training of the National Park Service:

- Average jobs created from historic rehabilitation in Nebraska: 480/year or a mean of 522
- Average state taxes generated: \$687,690/year
- Average local taxes generated: \$693,140/year
- Average gross state product: \$18,841,270/year

	MAJOR OBJE	CTS OF EXPENI	DITURE	
Personal Services:				
POSITION TITLE	NUMBER OI <u>12-13</u>	F POSITIONS 18-14	2012-2013 EXPENDITURES	2013-2014 EXPENDITURES
Building Program Specialist	1	1	44,331	45,218
Benefits	••		30,300	32,792
Operating	**		1,250	1,250
Travel	•••		2,500	2,500
Capital outlay			1,200	1,200
Aid				
Capital improvements				
TOTAL	•••		79,581	82,960