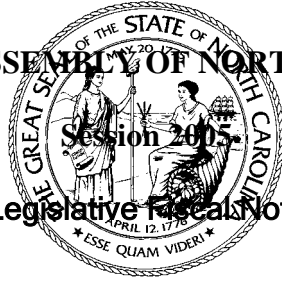


GENERAL ASSEMBLY OF NORTH CAROLINA



Legislative Fiscal Note

BILL NUMBER: House Bill 474 (Second Edition)

SHORT TITLE: Mill Rehabilitation Tax Credit.

SPONSOR(S): Representatives Ross, Howard, Brubaker, and Goodwin

	FISCAL IMPACT (Millions)				
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>
REVENUES:					
General Fund	-	(3.5)	(9.9)	(15.6)	(10.9)
POSITIONS (cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue.					
EFFECTIVE DATE: January 1, 2006					

BILL SUMMARY: Current law allows a 20% tax credit for rehabilitation of income-producing historic properties and a 30% tax credit for rehabilitation of non-income-producing historic properties (Article 3D). The existing tax credit may be taken in five equal installments over a period of five years after the property is placed into service. HB 474 provides a larger tax credit for rehabilitation of qualified historic mill properties and a different schedule for investors to claim the credit. In addition, the tax credit created by HB 474 varies by the economic tier in which the historic mill is located in order to provide additional incentive for mill rehabilitations in more distressed counties.

Under HB 474, historic mill renovations costing more than \$2 million located in economic tiers 1, 2, or 3 (most distressed counties) may claim either a 40% tax credit for an income-producing property or a 50% tax credit for a non-income-producing property. Mill renovations costing more than \$2 million in economic tiers 4 and 5 may claim either a 30% tax credit for income-producing properties or a 40% tax credit for non-income-producing properties. Regardless of tier, any income-producing mill rehabilitation (commercial space and rental apartments) may take the entire amount of the credit in the first year it is available with a nine-year carryover if the credit exceeds

tax liability. Non-income-producing mill rehabilitations (residential condos) may take the credit in five equal installments with a nine-year carryover if the credit exceeds tax liability.

This credit may not be claimed in addition to the Article 3D credit. The credit may be claimed against either the franchise tax, the income tax, or the gross premiums tax. The entire credit may be claimed in the taxable year in which the property is placed into service. Any unused portion of the credit may be carried forward for nine years.

The second edition includes a five-year sunset. This change does not affect the bill’s fiscal impact.

ASSUMPTIONS AND METHODOLOGY: The chart below illustrates the differences in value of tax credits available for rehabilitated mills under current law (Article 3D) and HB 474.

Existing Article 3D Credit v. HB 474			
		Income-producing	Non-income-producing
Article 3D		20%	30%
HB 474	Tiers 1-3	40%	50%
	Tiers 4-5	30%	40%

Preservation NC estimates there are approximately 30 to 35 mill properties out of more than 200 eligible properties throughout North Carolina that are likely to be rehabilitated due to this tax credit. This projection assumes an approximate 70%-30% split between mill rehabilitations located in lower and upper economic tiers since most major mill rehabilitations in urban counties have already been completed. It also assumes a 12-month lag between a project’s construction and its placement in service.

The base expenditure data for this projection was taken from actual mill rehabilitation data for North Carolina between 2002-2004. Most mill rehabilitations during those years were income-producing properties located in economic tiers 4 and 5. In the projection, the location (economic tier) and type (income-producing or non-income-producing) of mill rehabilitation has been altered to reflect expectations for future investment. The following tables detail these assumptions.

Projected Number of Mill Rehabilitations by Economic Tier (by FY)						
	2005-06	2006-07	2007-08	2008-09	2009-10	All years
Low tiers (1, 2, and 3)	0	2	4	5	6	17
High tiers (4 and 5)	0	2	2	1	1	6
Total	0	4	6	6	7	23

Projected Number of Mill Rehabilitations by Type (by FY)						
	2005-06	2006-07	2007-08	2008-09	2009-10	All years
Income-producing	0	1	2	2	2	7
Non-income-producing	0	3	4	4	5	16
Total	0	4	6	6	7	23

The cost of individual mill rehabilitations in this projection ranges from \$2.9 million to \$25.6 million with most projects costing between \$5 million and \$15 million. Preservation NC believes there are only two mill properties remaining that are likely to attract investors and will cost more than \$20 million to rehabilitate. The projection assumes these two projects will be completed and placed into service in 2008-09 and 2009-10.

As written, HB 474 would allow the tax credit for income-producing properties to be taken in full the year the property is placed into service. Preservation NC has indicated that although many entities who develop historic mills for income-producing uses may be able to take most of their available credit in one year, most non-income-producing mill property owners cannot. For this reason, the credit will be available to non-income-producing property owners over a period of 5 years, similar to the existing Article 3D credit.

HB 474 Impact (Proposed Credit less Existing Credit)					
	2005-06	2006-07	2007-08	2008-09	2009-10
Article 3D (existing)	-	1,783,936	4,167,270	7,692,414	11,493,559
HB 474 (proposed)	-	5,256,560	14,155,297	23,305,186	22,436,543
Total fiscal impact	-	\$ 3,472,624	\$ 9,988,027	\$ 15,612,772	\$10,942,984

SOURCES OF DATA: Preservation NC, State Historic Preservation Office

TECHNICAL CONSIDERATIONS: None

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Signed Copy Located in the NCGA Principal Clerk's Offices