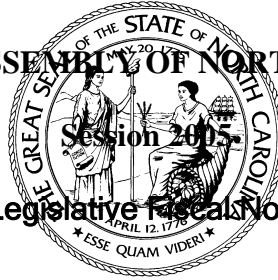


GENERAL ASSEMBLY OF NORTH CAROLINA



Legislative Fiscal Note

**BILL NUMBER:** House Bill 474 (Third Edition)

**SHORT TITLE:** Mill Rehabilitation Tax Credit.

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

	<b>FISCAL IMPACT</b>				
	Yes (X)	No ( )	No Estimate Available ( )		
	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>
<b>REVENUES:</b>			(in millions)		
<b>General Fund</b>	(2.8)	(8.3)	(14.7)	(10.8)	(6.7)
<b>POSITIONS</b> (cumulative):					
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Revenue.					
<b>EFFECTIVE DATE:</b> 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 (G.S. 105-129.29 through 105-129.34, Historic Rehabilitation Tax Credits). The existing tax credit may be taken in five equal installments over a period of five years after the property is placed into service. House Bill 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 this bill varies by economic tier in order to provide additional incentive for mill rehabilitations in more distressed counties.

Historic mill renovations costing more than \$3 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 \$3 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. In addition, a certified historic structure that at one time served as a State training school for juvenile offenders may claim a credit equal to 40% of its qualified rehabilitation expenditures regardless of whether it is converted into an income-producing or non-income-producing property.

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 bill includes a five-year sunset. Qualified rehabilitation expenditures incurred on or after July 1, 2011, are not eligible for credits created by this bill.

**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.

<b>Existing Article 3D Credit v. HB 474</b>			
		Income-producing	Non-income-producing
<b>Article 3D</b>		20%	30%
<b>HB 474</b>	Tiers 1-3	40%	40%
	Tiers 4-5	30%	No credit given

Preservation NC estimates there are approximately 30 to 35 mill properties out of more than 200 eligible properties throughout North Carolina likely to be rehabilitated as a result of this tax credit. Since most major mill rehabilitations in urban counties have already been completed, the projection assumes the establishment of this credit will generate private investment in remaining eligible properties in upper economic tiers as well as some properties in lower economic tier counties through 2006-07 and 2007-08. By 2008-09, the projection assumes most properties undergoing renovation will be located in lower economic tier counties. The projection also assumes a 12-month lag between a project’s construction and its placement in service.

The estimated first-year cost of House Bill 474 is based on the estimated actual investment in two income-producing properties in Durham, NC. These properties are part of the American Tobacco project and are expected to be completed and put in service in fall 2006 and spring 2007. The base expenditure data for this projection for 2007-08 and beyond was derived from actual mill rehabilitation data for North Carolina between 2002-2004. Since most mill rehabilitation projects completed during those years were income-producing properties located in economic tiers 4 and 5, 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.

<b>Projected Number of Mill Rehabilitations by Economic Tier (by fiscal year)</b>						
	2006-07	2007-08	2008-09	2009-10	2010-11	<b>All years</b>
Low tiers (1, 2, and 3)	0	4	5	5	4	<b>18</b>
High tiers (4 and 5)	2	3	1	1	1	<b>8</b>
<b>Total</b>	<b>2</b>	<b>7</b>	<b>6</b>	<b>6</b>	<b>5</b>	<b>26</b>

<b>Projected Number of Mill Rehabilitations by Type (by fiscal year)</b>						
	2005-06	2006-07	2007-08	2008-09	2009-10	All years
Income-producing	2	3	2	2	1	<b>10</b>
Non-income-producing	0	4	4	4	4	<b>16</b>
<b>Total</b>	<b>2</b>	<b>7</b>	<b>6</b>	<b>6</b>	<b>7</b>	<b>26</b>

The cost of individual mill rehabilitations in this projection ranges from \$4.0 million to \$25.6 million with most projects costing between \$5 million and \$15 million. Preservation NC believes there are only two remaining non-renovated 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.

House Bill 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 individuals 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 will not. 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.

<b>HB 474 Impact (Proposed Credit less Existing Credit)</b>					
	2006-07	2007-08	2008-09	2009-10	2010-11
HB 474 (proposed)	8,400,000	11,625,362	20,140,980	18,178,066	14,991,847
Article 3D (existing)	\$ 5,600,000	\$ 3,301,626	\$ 5,462,509	\$ 7,365,323	\$ 8,245,807
<b>Total fiscal impact</b>	<b>2,800,000</b>	<b>8,323,736</b>	<b>14,678,472</b>	<b>10,812,743</b>	<b>6,746,041</b>

**SOURCES OF DATA:** Preservation NC, State Historic Preservation Office

**TECHNICAL CONSIDERATIONS:** None

**FISCAL RESEARCH DIVISION:** (919) 733-4910

**PREPARED BY:** Brenna Erford

**FISCAL RESEARCH DIVISION:** (919) 733-4910

**PREPARED BY:**

**APPROVED BY:** Lynn Muchmore, Director  
Fiscal Research Division

**DATE:** June 19, 2006



**Signed Copy Located in the NCGA Principal Clerk's Offices**