GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2009

Legislative Fiscal Note

BILL NUMBER: House Bill 1227 (First Edition)

SHORT TITLE: Conform Low-Income Housing Tax Credits.

SPONSOR(S): Representative Gibson

FISCAL IMPACT

	Yes (x)	**No ( )**	**No Estimate Available ( )**		
	FY 2009-10	**FY 2010-11**	**FY 2011-12**	**FY 2012-13**	**FY 2013-14**
REVENUES:					
General Fund	*** Estimated loss of $15 million over 5 years – see assumptions and methodology ***				

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue; NC Department of Cultural Resources

EFFECTIVE DATE: Becomes effective when law.

BILL SUMMARY:

House Bill 1227 expands the 40% credit for qualified rehabilitation expenditures to include those made with respect to an eligible site located in an additionally distressed area if the credit is taken for income-producing property, or of the rehabilitation expenses for non income-producing property.

The bill defines the term "additionally distressed area" as an area that:

- Is in a census tract with a poverty rate greater than 30%;
- Is in a census tract with median family income of less than 60% of statewide median family income in a non-Metropolitan Area, or less than 60% of the greater of the statewide median family income or the Metropolitan Area median family income in a Metropolitan Area; or
- Is in a census tract with an unemployment rate at least 1.5 times the national average.

If the area has a poverty rate greater than 20%, it is an additionally distressed area if one of the following criteria applies:

- It is in a census tract with median family income of less than 70% of the statewide median income in a non Metropolitan Area or less than 70% of the greater of the statewide median family income or the Metropolitan Area median family income in a

Metropolitan Area; or the tract has an unemployment rate at least 1.25 times the national average.

- It is a federally designated Empowerment Zone, Enterprise Community, or Renewal Community.
- It is designated as a HUB Zone by the US Small Business Administration.
- It is a brownfield site.
- It is in a development tier one or two area, or an urban progress zone.

ASSUMPTIONS AND METHODOLOGY:
Current law provides a credit to a taxpayer that rehabilitates a vacant historic manufacturing site and who spends at least $3 million to rehabilitate the site. The taxpayer must first provide the Secretary of Revenue with documents showing that the State Historic Preservation Officer certifies the site and rehabilitation and showing the amount of rehabilitation expenditures or expenses. The amount of the credit depends upon the development tier in which the site is located and the eligibility for a federal credit as follows:

- 40% of qualified rehabilitation expenditures – if the site is located in development tier one, or two area determined as of the date of the eligibility certification.
- 30% of qualified rehab expenditures **–** if the site is located in a development tier three area.

If the credit is taken for income-producing property, it may be taken in the year the property is placed in service. If the credit is taken for non-income-producing property, the credit must be taken in five equal installments beginning with the taxable year in which the property is placed in service.

The credit allowed may be claimed against the income tax, the franchise tax, or the gross premium tax. The taxpayer must elect the tax against which the credit will be claimed, and this election is binding.

Preservation North Carolina is aware of only one proposed project that would be impacted by the bill. The project plans include approximately 1.2 million square feet of space that would likely qualify under the criteria of the bill. The eligible expenses for this portion of the project would be subject to a 40% credit, rather than the 30% credit allowed for tier three counties. The cost of the project is estimated by applying an estimated cost per square foot of $125 by the 1.2 million square feet of eligible space. This results in a total cost of $150 million. The bill would increase the tax credit by 10% for the project, so the cost of the bill would be 10% * $150 million, or $15 million.

Because the development of the project is likely to occur over five or more years, the cost would average approximately $3 million per year. The Mill Rehabilitation Tax Credit is scheduled to sunset on January 1, 2011. If applications for additional eligible projects are received before the sunset, the cost of the bill could increase.

SOURCES OF DATA: Preservation North Carolina

TECHNICAL CONSIDERATIONS: None

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