

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: SB518**

**Bill Subtitle: TO PROVIDE CERTAIN REQUIREMENTS FOR CERTAIN COMMUNITY REINVESTMENT PROJECTS RECEIVING AN ARKANSAS HISTORIC REHABILITATION INCOME TAX CREDIT.**

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### **Basic Change :**

**Sponsors: Sen. Sample and Rep. Warren**

SB518 would amend provisions of the Arkansas Historic Rehabilitation Income Tax Credit Act to add "Qualified Community Reinvestment Projects" to the type of rehabilitation projects eligible for income tax credits. A community reinvestment project would include a rehabilitation of a structure that meets the following criteria:

- Architecturally significant historic lodging facility built before 1940 with more than six floors;
- Qualified expenses of more than \$30M and no cap per project;
- Includes at least 10,000 square feet meeting and event space;
- Received a positive cost-benefit analysis from the Arkansas Economic Development Commission (AEDC); and
- Approval on or before July 30, 2020 by the Department of Arkansas Heritage (DAH).

The project may incur qualified expenses for the period established and agreed by the applicant and the DAH. DAH would not issue more than \$5 million of historic tax credit for each qualified community reinvestment project in any one fiscal year. DAH could elect to suspend other project tax credits after the approval of a Qualified Community Reinvestment Project.

### **Revenue Impact :**

\$5 Million Annual Impact to State General Revenues per community reinvestment project.

[ Impact would begin no earlier than FY2021 or FY2022 and could possibly exist for multiple years. ]

### **Taxpayer Impact :**

Businesses approved for a Qualified Community Reinvestment Project would earn transferrable income tax credits based on 25% of eligible project expenditures.

### **Resources Required :**

Forms, instruction booklets, forms, and computer programs will need to be updated. Employees will need additional training for the credit.

### **Time Required :**

Adequate time is provided for implementation.

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### **Procedural Changes :**

None.

### **Other Comments :**

It is possible that multiple projects could be certified for the \$5 million income tax credits per fiscal year under the qualified community reinvestment project if the applicant and the DAH agree on a period that extends to multiple fiscal years. Under current law, the income tax credits are earned at the completion of the rehabilitation project one time only in a 24 month period for each eligible property.

Under current law, the DAH may issue no more than \$4 million annually in income tax credits for rehabilitation projects. The proposal would allow the agency to suspend other project tax credits while the Qualified Community Reinvestment Project is ongoing. If not suspended, a total of \$9 million or more in tax credits could be issued some years.

### **Legal Analysis :**

SB518 expands the Historic Rehabilitation Tax Credit by creating a different standard for a "Qualified Community Reinvestment Project". SB518 adds a definition for "qualified community reinvestment project" in § 26-51-2203, which includes that the building must have been built before 1940, have more than six floors, is projected to have qualified rehabilitation expenses that exceed thirty million dollars, and includes at least 10,000 square feet.

To qualify for a community reinvestment project, a positive cost-benefit analysis will have to have been completed by AEDC. All projects will be required to be approved by DAH before July 30, 2020. § 26-51-2204(b) is amended to add a section which states the Arkansas historic rehabilitation income tax credit shall be in an amount equal to 25% of the total qualified rehabilitation expenses incurred by the owner to complete a certified rehabilitation.

It is unclear how many properties would qualify for this new standard, but it is possible that DAH will receive a number of applications for potentially qualifying properties. DAH shall only issue \$4 million in historic rehabilitation income tax credits per fiscal year, excluding tax credits issued for a qualified community reinvestment project. DAH shall not issue more than \$5 million of Arkansas historic rehabilitation income tax credits for each qualified community reinvestment project in any one fiscal year.

Under the bill, DAH may suspend new applications for the Arkansas historic rehabilitation income tax credit after the approval of a qualified community reinvestment project if the Director of DAH finds that the approved qualified community reinvestment project will significantly increase the amount of allocated Arkansas historic rehabilitation income tax credits for the fiscal year compared to the amount of allocated Arkansas historic rehabilitation income tax credits in the previous fiscal year and after consulting with the Governor's Budget Director, the Executive Director of AEDC, and the Director of DFA. This bill is effective for tax years beginning on or after January 1, 2019.