

February 11, 2022

The Honorable Jim Kelly, Chairperson
House Committee on Financial Institutions and Rural Development
Statehouse, Room 218-N
Topeka, Kansas 66612

Dear Representative Kelly:

SUBJECT: Fiscal Note for HB 2569 by Representative Proctor, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2569 is respectfully submitted to your committee.

HB 2569 would establish the Historic Kansas Act by providing an older structures tax credit and make amendments to the existing historic structures tax credit. The bill would allow a taxpayer to receive a new income tax credit for 10.0 percent of the total amount of qualified expenditures incurred for the restoration and preservation of a qualified structure. The bill would require that the qualified structure be at least 50 years old. An additional tax credit of 10.0 percent of the qualified expenditures may be allowed for the installation of fire suppression materials or equipment by a qualified taxpayer. The taxpayer would be required to spend at least \$2,000 on the qualified project, but project costs cannot exceed \$1.0 million. The tax credit would be transferable and non-refundable and could be carried forward for up to ten tax years. The bill prohibits the taxpayer from participating in the historic structures tax credit for the same structure if they claim the older structures tax credit.

The bill would remove the requirement that at least \$5,000 be spent on the restoration and preservation of a qualified historic structure to claim the 25.0 percent historic structures tax credit. The bill would increase the credit amounts for the historic structures tax credit based on population: 30.0 percent tax credit for a structure located in a city with a population between 9,500 and 50,000; and 40.0 percent tax credit for a structure located in a city with a population of less than 9,500. The bill would also remove outdated language and make technical corrections. All tax law changes in the bill would become effective in tax year 2022.

The Department of Revenue estimates that HB 2569 would decrease State General Fund revenues by at least \$83.0 million in FY 2023, \$84.1 million in FY 2024, and \$85.0 million in FY 2025. To formulate these estimates, the Department of Revenue reviewed building data on from its Property Valuation Division (PVD). PVD indicates that there are currently 1,230,477 buildings in the State of Kansas which are over 50 years of age which could qualify as a qualified structure. If all buildings take the minimum 10.0 percent credit on the minimum level of expenditures of \$2,000 to earn a \$200 tax credit, then the total amount of tax credits earned would be \$246.0 million. If only a third of the taxpayers (410,159 buildings) take the minimum tax credit, then the

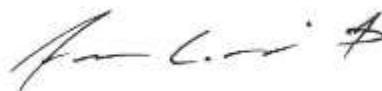
bill would reduce State General Fund revenues by \$82.0 million in FY 2023. Removing the \$5,000 minimum expenditures for the historic structures tax credit is estimated to reduce State General Fund revenues by \$1.3 million in FY 2023. The Department has no data to estimate the fiscal effect of the new 10.0 percent tax credit on the installation of fire suppression materials or equipment, so the overall fiscal effect of the bill would likely be higher.

The Department of Revenue indicates that it would require a total \$103,664 from the State General Fund in FY 2023 to implement the bill and to modify the automated tax system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. In addition, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, additional expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Department of Revenue and the Historical Society are unclear who would manage the older structures tax credit and who would be required to verify the qualified expenditures incurred for the restoration and preservation of a qualified structure. In addition, the bill is unclear on who would administer the transferability of tax credits and what would be included in qualified expenditures.

The Historical Society indicates that it would require a total \$827,850 from the State General Fund in FY 2023 to administer the older structures tax credit program, review and approve restoration plans, and implement changes to the existing historic structures tax credit. The bill would require that the agency to hire 7.50 new FTE positions, including 3.50 Senior Administrative Assistants and 4.00 Historic Preservation Specialist II positions to answer questions from taxpayers and to review, process, and track tax credits. The agency estimates that ongoing expenses for salaries and wages for the 7.50 FTE positions and overhead expenses would total \$439,875 from the State General Fund in FY 2024. The agency indicates it would need to spend \$250,000 for a new database management system for tracking the new tax credit, including its transferability. The agency estimates that approximately half of the building stock in Kansas to be over 50 years old so the potential numbers of applicants could be enormous. If it is the intention for the agency to not review and approve restoration plans, verify compliance, or track the transferability of the 10.0 percent older structures tax credit, then the amount of required expenditures and the number of positions would be reduced significantly. Any fiscal effect associated with HB 2569 is not reflected in *The FY 2023 Governor's Budget Report*.

Sincerely,



Adam Proffitt
Director of the Budget

cc: Bobbi Mariani, Insurance
Lynn Robinson, Department of Revenue
Matthew Chappell, Historical Society