COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4244-04
Bill No.: SB 590
Subject: Tax Credits; Historic Preservation
Type: Original
Date: January 19, 2018

Bill Summary: This proposal modifies the Historic Preservation tax credit and creates the Capitol Complex and Public Building Preservation tax credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	(Up to $10,000,000)	(Up to $10,000,000)	$2,244,236
Total Estimated Net Effect on General Revenue	**(Up to $10,000,000)**	**(Up to $10,000,000)**	**$2,244,236**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss/increase in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 14 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Capitol Complex Fund	Up to $10,500,000	Up to $10,500,000	Up to $10,500,000
Total Estimated Net Effect on Other State Funds	**Up to $10,500,000**	**Up to $10,500,000**	**Up to $10,500,000**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Local Government	**Up to $10,000,000**	**Up to $10,000,000**	**Up to $10,000,000**

FISCAL ANALYSIS

ASSUMPTION

§235.550 Historic Preservation Tax Credit
Officials at the **Office of Administration Division of Budget and Planning** (**B&P**) assume this proposal would impose a $50,000,000 cap on the Historic Preservation Tax Credit, which may be increased by any amount for tax credits that were initially approved, but then rescinded by the Department of Economic Development. The current cap is $140,000,000; but B&P notes the average amount of authorizations over the last three fiscal years is $114,012,822. Lowering the cap by $90,000,000 for authorizations will generate incremental savings over several years until reaching the fully- realized savings. Based on historic authorization and redemption data, B&P estimates this proposal could increase Total State Revenue and General Revenue by approximately $1,710,946 in FY 19 and $64,012,822 once fully realized.

Officials at the **Department of Economic Development** (**DED**) assume §253.550 lowers the cap on the historic tax credit program to $50 million. Lowering the Historic Preservation Tax Credit cap will result in a savings of $90 million less the benefit the state gets for those dollars of 25%, for a total savings of $68,400,000.

Officials at the **Department of Revenue** (**DOR**) assume this section places a $50 million authorization cap on the Historic Preservation Tax credit. The current authorization cap is $140 million, and the three-year average for authorizations is $114.0 million. This section may increase General Revenue and Total State Revenues by up to $64 million (the difference between the new authorization cap and the past average authorizations), once fully implemented.

Officials at the **Department of Natural Resources** (**DNR**) note the Department's State Historic Preservation Office (SHPO) staff reviews rehabilitation work for the state historic preservation tax credit program to ensure it conforms to the Secretary (of the United States Department) of the Interior's Standards for Rehabilitation. Any changes in the tax credit structure may have an impact on the number of rehabilitation projects the SHPO reviews. Additionally, with a reduced number of projects, the fee assessed per tax credit that in part funds the SHPO would also be reduced (Economic Development Advancement Fund 0783). This SHPO/DED funding structure may be further affected by the creation of the Capitol Complex Fund utilizing revenues derived from fees imposed pursuant to section 620.3200.

The Department of Economic Development (DED) tracks the financial side of the historic preservation tax credit program, and SHPO assists with the rehab design review; therefore, DED is in a better position to quantify the potential economic impacts of limiting tax credits. With the threat of a reduced program there may continue to be a rush on the available funds, bringing an

ASSUMPTION (continued)

increased number of projects and greater workload to the SHPO prior to July 1, 2018, due to the uncertainty of future funding and credit availability.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Historic Preservation tax credit program had the following activity:

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Certificates Issued	142	158	154	210	162
Projects	118	128	210	182	113
Amount Authorized	$93,923,652	$146,635,429	$97,136,287	$90,749,410	$154,152,770
Amount Issued	$71,495,994	$41,791,636	$53,206,338	$59,590,351	$85,136,859
Amount Redeemed	$78,814,711	$59,829,671	$47,638,886	$57,496,338	$49,742,927

Amount Outstanding - $102,834,919 Amount Authorized but Unissued - $341,073,841

Oversight notes that starting July 1, 2018, the cap is lowered from $140 million to $50 million and no credits can be given for residential properties. Currently residential property owners can receive up to $250,000 per property. There is no annual cap on the residential property tax credit.

Oversight notes a portion of the proposal lowers the cap on the Historic Preservation Tax Credit. Oversight assumes a reduction in the authorization cap would take place immediately; however, due to the lag time between the authorization, issuance and redemptions of the credits that reduction may not be felt for several years. This credit requires that prospective taxpayers apply for the tax credit prior to construction at which time they are authorized tax credits. Prospective taxpayers would apply for the authorization of the new reduced cap credits starting after July 1, 2018 (FY 2019). The projects generally have a two year build cycle before completion and issuance of the credits. Therefore, projects approved after July 1, 2018 would not generally result in tax credits issued until after the end of FY 2020, and would not be able to be redeemed until FY 2021. Oversight will reflect the amount of increased revenue to the State as the difference between the new cap of $50 million and the average amount issued over the last five years of $62,244,236. Oversight will show the savings as $12,244,236 ($62,244,236 - $50,000,000) in FY 2021.

§620.3200 DED Fee on Historic Preservation Tax Credits
Officials at the **B&P** assume this proposal would also create the Capitol Complex Fund that will be used for maintenance, renovations, and rehabilitation of the Capitol Complex, administered by

ASSUMPTION (continued)

the Missouri Development Finance Board. Revenues for this fund will consist of a fee collected by the Department of Economic Development on all issued Historic Preservation Tax Credits, as well as other monetary donations. Because this fund will be a Missouri Development Finance Board fund outside the State Treasury, it will have no impact on total state revenues. B&P defers to DED for more specific impacts regarding the fee collection and fund administration provisions.

Officials at the **DED** assumes this proposal creates a new fee to fund the Capitol Complex Fund.

In response to similar legislation filed this year, SB 611, officials at the **Missouri Development Finance Board** (**MDFB**) assumed this allows a 1% fee imposed on tax credits issued under chapter 253 with the fee payable to MDFB for the benefit of the Capitol Complex Fund. The fee will reduce state costs for repairs on a dollar for dollar collected basis. MDFB is deferring the fiscal impact of this section to DED.

Oversight notes §620.3200 allows the Department of Economic Development to charge a fee to the recipient of any tax credits issued by the Department under the provisions of chapter 253 (Historic Preservation Tax Credit) in an amount not to exceed one percent of the amount of tax credits issued. Oversight also notes this fee shall be payable to the Missouri Development Finance Board for the benefit of the Capitol Complex Fund. Since the Historic Preservation cap is lowered to $50 million, Oversight will show revenue to the Capitol Complex Fund in the amount of Up to $500,000 ($50,000,000 x 1%) starting in FY 2019.

§620.3210 and §620.3220 Capital Complex Tax Credit
Officials at the **B&P** assume this proposal would also create a tax credit for individuals or entities that make eligible monetary or artifact donations to the Capitol Complex Fund, beginning January 1, 2018. Taxpayers may claim a tax credit for an amount up to 50% of their eligible monetary donation or for an amount up to 30% of their eligible artifact donation. The credit for monetary donations is not refundable and has a four-year, carry-forward provision. The credit for eligible artifact donations is not refundable and has a four-year, carry-forward provision. Issuances of these tax credits are capped at $5,000,000 annually. These tax credits may offset Tax Year 2018 liabilities; therefore, reducing general and total state revenues by up to $5,000,000 annually beginning in FY 2019. These tax credits may impact the calculation under Article X, Section 18(e).

Officials at the **DNR** assume additional funding could be needed to fund additional storage pods and the operating costs associated with the storage of Department-owned artifacts if the Board of

ASSUMPTION (continued)

Public Buildings received an influx of artifacts and required additional space in the Capitol to display and store that collection, resulting in Department artifacts having to be stored elsewhere.

Oversight notes the Department of Economic Development shall not authorize more than $5 million in tax credits under §620.3210 in any calendar year. This tax credit begins with tax year January 1 , 2018, so the first year a person would claim the credit is FY 2019. Therefore, Oversight will show a fiscal impact of Up to the maximum cap of $5 million beginning in FY 2019.

Oversight notes §620.3210.4 of this proposal allows for a qualified donor to claim a credit in the amount of 50% of the eligible monetary donation ($5 million maximum tax credit cap / 50% = $10,000,000). §620.3210.5 of this proposal allows for a qualified donor to claim a credit in the amount of 30% of the eligible artifact donation ($5 million maximum tax credit cap / 30% = $16,666,666). Oversight will show donations to the Capitol Complex Fund Up to $10,000,000 (cash portion).

§620.3220 Public Buildings Preservation Tax Credit

Officials at the **B&P** assume this proposal would also create a tax credit for individuals or entities that make eligible monetary donations to public entities expressly for preserving historic buildings, beginning January 1, 2018. Taxpayers may claim a tax credit for an amount up to 50% of their eligible monetary donation. The credit for monetary donations is not refundable and has a four-year, carry-forward provision. Issuances of these tax credits are capped at $5,000,000 annually. These tax credits may offset Tax Year 2018 liabilities; therefore, reducing general and total state revenues by up to $5,000,000 annually beginning in FY 2019. These tax credits may impact the calculation under Article X, Section 18(e).

Public entities who receive these donations must establish a fund called the "Public Building Preservation Fund" and deposit these moneys only into this fund to be used solely for historic renovation or preservation purposes. Due to the language established in subsection 5, there could be an impact on total state revenue if moneys are donated by a qualified donor to the Public Building Preservation Fund of the state of Missouri. As a result, Total State Revenue could increase up to $10,000,000 annually.

Officials at the **DOR** assume §620.3220, would create the Public Buildings Preservation Tax Credit Act allowing for a 50 percent tax credit for monetary donations made towards a capital improvement projects. This credit has a $5,000,000 annual cap; therefore, the department estimates that this section will decrease Total State Revenue up to $5,000,000.

ASSUMPTION (continued)

DOR's Personal Tax Section requires one Revenue Processing Technicians I ($26,340) for every 6,000 tax credits redeemed. The Corporate Tax Section requires one Revenue Processing Technicians I ($26,340) for every 4,000 tax credits redeemed.

DOR estimates the FTE costs at $91,708 in FY 2019, $92,100 in FY 2020 and $92,828 in FY 2021. The Department assumes it will be able to absorb the above listed costs. If multiple bills pass which require Department resources and updates, the Department could request additional FTE's and related equipment and expenses through the appropriation process.

Officials at the **DED** assume this proposal creates a new tax credit fee and the Capitol Complex Fund and Public Buildings Preservation Tax Credit Act. Both allow for a tax credit for donations to the funds. Each program is capped at $5 million. The new credits will cost $10 million annually and DED will need to hire 2 Economic Development Incentive Specialist III ($53,136) to administer the programs.

Oversight notes that neither tax credit places a limit on the amount one taxpayer can receive. Therefore, due to the limited number of credits that may be issued, DED can absorb the administration of these credits with existing resources. Should the number of credits issued, reach the level to justify additional FTE, DED can request the FTE through the appropriation process.

Bill as a Whole

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume a potential unknown impact to premium tax revenues may occur as a result of the changes to the Historic Preservation Tax Credit and the creation of the Capitol Complex and Public Building Preservation tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

The department will require minimal contract computer programming to add the Capitol Complex and Public Building Preservation tax credits to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

ASSUMPTION (continued)

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight will assume the donations made under the Public Buildings Preservation Tax Credit Act will generally be made to counties and municipalities and therefore, will reflect the donations at the local level.

FISCAL IMPACT - State Government	FY 2019	FY 2020	FY 2021
GENERAL REVENUE			
Additional Revenue - Lowering of the Historic Preservation tax credit cap to $50 million §253.545 (p.5)	$0	$0	$12,244,236
Revenue Reduction - Capitol Complex tax credit §620.3210	(Up to $5,000,000)	(Up to $5,000,000)	(Up to $5,000,000)
Revenue Reduction - Public Buildings Preservation tax credit §620.3220	(Up to $5,000,000)	(Up to $5,000,000)	(Up to $5,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**(Up to $10,000,000)**	**(Up to $10,000,000)**	**$2,244,236**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss/increase in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

	FY 2019	FY 2020	FY 2021
CAPITOL COMPLEX FUND			
Additional Revenue fees charged by DED (1% of Historic Preservation Credit) §620.3200	$500,000	$500,000	$500,000
Donations - value of donations (50% tax credit for cash donations, 30% tax credit for donations of artifacts) §620.3200	Up to $10,000,000	Up to $10,000,000	Up to $10,000,000
ESTIMATED NET EFFECT ON THE CAPITOL COMPLEX FUND	**Up to $10,500,000**	**Up to $10,500,000**	**Up to $10,500,000**

FISCAL IMPACT - Local Government	FY 2019	FY 2020	FY 2021
LOCAL POLITICAL SUBDIVISIONS			
Donations - value of donations (50% tax credit for cash donations (§620.3220)	Up to $10,000,000	Up to $10,000,000	Up to $10,000,000
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	**Up to $10,000,000**	**Up to $10,000,000**	**Up to $10,000,000**

FISCAL IMPACT - Small Business

Entities may receive a tax credit for 50 percent of an eligible monetary donation or 30 percent of an eligible artifact donation. In addition, businesses may receive a 50 percent tax credit for an eligible monetary donation made for a capital improvement projects and certain businesses may benefit from projects generated from those donations.

FISCAL DESCRIPTION

HISTORIC PRESERVATION TAX CREDIT - Currently, the Department of Economic Development (DED) shall not approve tax credits for the rehabilitation of historic structures which, in the aggregate, exceed $140 million, increased by any amount of tax credits for which approval shall be rescinded for any reason. For each fiscal year beginning on or after July 1, 2018, the act reduces the aggregate cap to $50 million. (§253.550)

This act also modifies the Historic Preservation Tax Credit by making the credit discretionary rather than an entitlement, and by requiring DED to consider additional factors prior to determining whether a credit shall be awarded, including the projected net fiscal benefit of the project, the overall size and quality of the project, and the level of economic distress in the area. DED shall have the ability to disapprove an application for a tax credit based on these factors. (§253.559)

If the DED determines that an application shall be awarded a tax credit, the credit shall be the least amount to cause the project to occur, not to exceed twenty-five percent of eligible costs. (§253.559)

For all fiscal years beginning on or after July 1, 2018, residential structures shall not be eligible to receive tax credits under this program. (§253.545 and §253.550)

FISCAL DESCRIPTION (continued)

The DED may charge a fee in an amount not to exceed one percent of any tax credit issued to a recipient for the rehabilitation of historic structures. Any revenues generated by such a fee shall be deposited in the Capitol Complex Fund, which is created by this act. (§620.3200)

CAPITOL COMPLEX TAX CREDIT ACT - This act creates the Capitol Complex Tax Credit Act.

The Capitol Complex Fund, which is created by this act, shall be authorized to receive any eligible monetary donation, as defined in the act, and shall be segregated into two accounts: a rehabilitation and renovation account, and a maintenance account. Ninety percent of the revenues deposited into the fund shall be placed in the rehabilitation and renovation account and seven and one-half percent of revenues deposited in the fund shall be placed in the maintenance account. The remaining two and one-half percent of the funds may be used for the purposes of fund-raising, advertising, and administrative costs.

The choice of projects for which money is to be used, as well as the determination of the methods of carrying out the project and the procurement of goods and services, shall be made by the Commissioner of Administration. No moneys shall be released from the fund for any expense without the approval of the Commissioner of Administration.

For all taxable years beginning on or after January 1, 2018, any qualified donor, as defined in the act, shall be allowed a tax credit equal to fifty percent of the monetary donation amount. Any amount of tax credit that exceeds the qualified donor's state income tax liability shall not be refunded but may be carried forward for the following four years.

For all taxable years beginning on or after January 1, 2018, a qualified donor shall be allowed a tax credit equal to thirty percent of the value of an eligible artifact donation, as defined in the act. Any amount of tax credit that exceeds the donor's tax liability shall not be refunded for artifacts, but the credit may be carried forward for four subsequent years.

The DED shall not issue tax credits under this act in excess of $5 million per year in the aggregate. Donations received in excess of the cap shall be placed in line for tax credits the following year. Alternatively a donor may donate without receiving the credit or may request that their donation is returned.

Tax credits issued for donations under this act are not subject to any fee. Tax credits may be assigned, transferred, sold, or otherwise conveyed.

FISCAL DESCRIPTION (continued)

This act shall sunset six years after August 28, 2018, unless re-authorized by the General Assembly. (§620.3210)

PUBLIC BUILDINGS PRESERVATION TAX CREDIT ACT - This act creates the Public Buildings Preservation Tax Credit.

For all tax years beginning on or after January 1, 2018, a taxpayer shall receive a tax credit for an eligible monetary donation, as defined in the act, to a public entity for the purpose of restoring, renovating, improving, or maintaining one or more buildings owned by the public entity. A public entity is defined as the state of Missouri, or any city, county, township, village, town, or municipal corporation in this state.

A public entity receiving a donation shall establish a fund to receive such donations, and shall use moneys in the fund exclusively for the restoration, renovation, improvement, or maintenance of one or more buildings owned by the public entity.

The DED shall not issue tax credits for donations under this act in excess of $5 million per year in the aggregate. Donations received in excess of the cap shall be placed in line for tax credits the following year. Alternatively a donor may donate without receiving the credit or may request that their donation is returned.

Tax credits issued for donations under this act are not subject to any fee. Tax credits issued under this act shall not be refundable but may be carried forward to any of the four subsequent tax years. Tax credits may be assigned, transferred, sold, or otherwise conveyed.

This act shall sunset six years after August 28, 2018, unless re-authorized by the General Assembly. (§620.3220)

This act contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Department of Revenue
Joint Committee on Administrative Rules
Missouri Development Finance Board
Office of Administration
  Division of Budget and Planning
Office of the Secretary of State

Ross Strope

Acting Director
January 19, 2018

JH:LR:OD