

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4244-12
Bill No.: Perfected SS#2 for SCS for SB 590
Subject: Tax Credits; Historic Preservation
Type: Original
Date: March 14, 2018

Bill Summary: This proposal modifies the Historic Preservation tax credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Economic Development Advancement Fund	\$933,663	\$933,663	\$933,663
Total Estimated Net Effect on <u>Other</u> State Funds	\$933,663	\$933,663	\$933,663

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> 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	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§235.550 Historic Preservation Tax Credit

Officials at the **Department of Economic Development** assume this bill amends the provisions of the historic tax credit program. The bill plus the amendments change the cap on the program to \$120 million, down from \$140 million. It ties \$30 million of the cap to qualified census tract projects. It further ties the cap to the Consumer Price Index. The average change in the CPI over the last 3 years is a 1% increase. Thus, the cap will likely rise by 1% each year.

This change in lowering the cap will have an estimated savings in the first year of \$15 million (\$20 million less the cost/benefit ratio of the program of .25). This savings will decline as the cap is increased by the CPI.

Officials at the **Department of Revenue (DOR)** assume the current cap for Historic Preservation Tax Credit is set at \$140 million. The proposed bill reduces the cap to \$90 million. The impact would be an increase to state revenues in the estimated amount of \$50 million. However, the proposed bill allows for an additional \$30 million in credit that may be authorized. Subsequently, the amount of increased state revenues would decrease from \$50 million to \$20 million.

The proposed bill allows for the Missouri Department of Economic Development to increase its fee to the recipient of any Historic Preservation Tax Credit from 2 ½ to 4 percent. The Department estimates this will increase the fee collected by an estimated \$508,980. The average amount issued for FY(s) 15, 16, 17 was approximately \$33,931,978. The Department would have collected an estimated \$848,299 at 2 ½ percent and an estimated \$1,357,279 at 4 percent.

This \$1,357,279 would be deposited into the Economic Development Advancement Fund. After deposited, 37 ½ percent of this fee that has been deposited would be appropriated from the Economic Development Advancement Fund for business recruitment and marketing. This would amount to an estimated \$508,980. Therefore, the total amount remaining in the Economic Development Advancement Fund would be \$848,299. Thus, there would be no true increase to the fund.

After all the facts, state revenues could potentially increase by an estimated \$20 million each year.

ASSUMPTION (continued)

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal makes multiple changes to the Historic Preservation tax credit.

This proposal would impose a \$90.0 million 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 \$140.0 million; but B&P notes the average amount of authorizations over the last three fiscal years is \$114.0 million. Lowering the cap by \$24.0 million for authorizations will generate incremental savings over several years until reaching fully realized savings. Based on historic authorization and redemption data, B&P estimates this could increase Total State Revenue and General Revenue by approximately \$642,000 in FY 2019 and \$24,000,000 once fully realized.

This proposal would increase the newly created \$90 million cap by inflation, every year that the authorization cap was reached. B&P notes that this will erode the savings from lowering the cap over a number of years.

This proposal adds a definition for qualified census tract and directs DED to create a map showing census tracts by varying amounts of poverty. This proposal further allows an additional \$30 million in historic preservation credits to be authorized for projects in qualified census tracts. Based on historical authorization and redemption data, B&P estimates that this proposal would reduce Total State Revenue and General Revenue by \$800,000 in FY 2019 and \$30.0 million once fully realized.

This proposal would amend Section 620.190, increasing the fee DED is allowed to charge on issued historic preservation credits. The current fee is capped at 2.5%; this proposal would increase the fee to 4.0%. B&P notes that the three-year average issuances for historic preservation tax credits were \$66.0 million from FY 2015-FY 2017. B&P estimates that DED could have collected as much as \$1.6 million in fees on those issuances. Therefore, B&P estimates that increasing the fee to 4.0% could generate up to an additional \$1.0 million for the Economic Development Advancement Fund.

B&P summary estimates that this proposal could increase Total State Revenue by \$840,000 while decreasing General Revenue by \$160,000 in FY 2019. Once fully implemented, B&P estimates that this proposal will decrease Total State Revenue by greater than \$5.0 million and General Revenue by greater than \$6.0 million, depending on the amount of inflation adjustment that occurred.

ASSUMPTION (continued)

These changes may impact other economic activity, but B&P does not have data to estimate the induced revenues.

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 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 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 \$90 million. 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

ASSUMPTION (continued)

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.

When determining the impact of a cap change on tax credit legislation, Oversight reflects the amount of increased revenue to the State as the difference between the new cap and the average amount issued over the last five years. In this case, the new cap of \$90 million is higher than the five year issue average of \$62,244,236. Therefore, Oversight assumes the changes in the proposal would not result in a savings to the State in the three year window of the fiscal note.

§620.1900 Economic Development Advancement Fund Fee

Oversight notes this proposal increases the 2.5% fee paid on Historic Preservation tax credits to the Economic Development Advancement Fund. Currently, DED can collect \$1,556,106 (\$62,244,236 issue average x .025 fee). The fee is increased to 4%. Therefore, DED could collect \$2,489,769 (\$62,244,236 issue average x .04 fee). This would result in the Fund receiving an additional \$933,663 based on the new 4% fee.

Oversight notes this bill contains an emergency clause so this fee would be collected in FY 2019.

Bill as a Whole

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume a potential positive impact to premium tax revenues as a result of changes to the Historical Preservation tax credit. 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.

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

ASSUMPTION (continued)

In response to the previous version of this proposal, officials from the **Office of the Secretary of State (SOS)** stated 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.

<u>FISCAL IMPACT - State Government</u>	FY 2019	FY 2020	FY 2021
ECONOMIC DEVELOPMENT ADVANCEMENT FUND			
<u>Additional Revenue</u> - increase in the fee from 2.5% to 4% on the Historic Preservation tax credits	<u>\$933,663</u>	<u>\$933,663</u>	<u>\$933,663</u>
ESTIMATED NET EFFECT ON ECONOMIC DEVELOPMENT ADVANCEMENT FUND	<u>\$933,663</u>	<u>\$933,663</u>	<u>\$933,663</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2019	FY 2020	FY 2021
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No impact to small businesses is expected.

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 \$90 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)

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
March 14, 2018