COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4244-17
Bill No.: Truly Agreed To and Finally Passed CCS for SS#2 for SCS for SB 590
Subject: Tax Credits, Historic Preservation
Type: Corrected
Date: June 12, 2018
#Corrected Oversight assumption.

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
General Revenue	$0	$0	$0
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

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 increase/decrease in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Economic Development Advancement	$0	Up to $1,800,000	Up to $1,800,000
Total Estimated Net Effect on Other State Funds	**$0**	**Up to $1,800,000**	**Up to $1,800,000**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 11 pages.

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	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

§253.545 - §253.559 Historic Preservation tax credit

Officials at the **Office of Administration Division of Budget and Planning** (**B&P**) assume §253.550.2(1) 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Preservation Tax Credit, which may be increased by any amount for tax credits that were initially approved, but then rescinded by the Department of Economic Development.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.

Section 253.545.1(7) adds a definition for qualified census tract and directs DED to create a map showing census tracts by varying amounts of poverty. Section 253.550.2(2) would allow an additional $30 million in historic preservation credits to be authorized for projects in qualified census tracts.

B&P notes that combining the two caps under Sections 253.550.2(1) of $90 million and 253.550.2(2) of $30 million would be greater than the current average authorizations of $114.0 million, but less than the current authorization cap of $140.0 million. Therefore, B&P estimates that these provisions will have no direct impact to Total State Revenue or General Revenue.

Section 253.550.2(3) would adjust the $90 million authorization cap for inflation if the maximum amount of credits were authorized under both Sections 253.550.2(1) and 253.550.2(2) in the preceding fiscal year. B&P notes that this will erode the savings from lowering the cap under Section 253.550.2(1) and may result in a negative impact to Total State Revenue and General Revenue over time.

Section 253.550.4 states that the authorization cap under Section 253.550.3 shall not apply to any applications (approved or not) made before October 1, 2018. B&P notes that this proposal would go into effect on August 28, 2018. It is unclear if this would mean that all applications received from 8/28/18 through 10/1/18 would not be subject to either the $140 million current cap or the $90 million proposed cap. B&P notes that this could have a significant negative impact to General Revenue and Total State Revenue.

Section 253.559 adds additional requirements for historic preservation applications and additional requirements for DED to use when evaluating historic preservation applications. Section 253.559.3(2) would exempt projects receiving less than $275,000 from the additional requirements. Section 253.559.7 would also require taxpayers applying for the credit to provide proof of financing with sixty days of being awarded credits. Section 253.559 also lowers the time rehabilitation must commence from the current two years down to nine months.

ASSUMPTION (continued)

Officials at the **Department of Revenue** (**DOR**) assume for each fiscal year beginning on or after July 1, 2018, the Department of Economic Development shall not approve applications for tax credits under the provisions of subsections 4 and 10 of §253.559 which, in aggregate, exceed ninety million dollars, increased by any amount of tax credits for which approval shall be rescinded under the provisions of §253.559.

For each fiscal year beginning on or after July 1, 2018, the Department shall authorize an amount up to, but not to exceed, an additional thirty million dollars in tax credits issued under subsections 4 and 10 of §253.559, provided that such tax credits are authorized solely for projects located in a qualified census tract.

For each fiscal year beginning on or after July 1, 2018, if the maximum amount of tax credits allowed in any fiscal year as provided under subdivisions (1) and (2) of this subsection is authorized, the maximum amount of tax credits allowed under subdivision (1) of this subsection shall be adjusted by the percentage increase in the Consumer Price Index for All Urban Consumers, or its successor index, as such index is defined and officially reported by the United States Department of Labor, or its successor agency. Only one such adjustment shall be made for each instance in which the provisions of this subdivision apply. The director of the Department of Economic Development shall publish such adjusted amount.

When fully implemented, the Department estimates that this proposed legislation would increase state revenues by an estimated $20 million each fiscal year due to the reduction in the Historic Preservation Tax Credit cap.

Officials at the **Department of Natural Resources** (**DNR**) assume the Department's 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.

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 possibility 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 August 28, 2018, due to the uncertainty of future funding and credit availability.

ASSUMPTION (continued)

Officials at the **Department of Economic Development** (**DED**) assume this proposal lowers the Historic Preservation tax credit cap to $90 million. It creates an additional $30 million cap tax credit for projects in qualified census tracts.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program in January 2018, the Historic Preservation tax credit program had the following activity:

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018 year to date
Certificates Issued	158	154	210	162	67
Projects	128	210	182	113	48
Amount Authorized	$146,635,429	$97,136,287	$90,749,410	$154,152,770	$145,417,525
Amount Issued	$41,791,636	$53,206,338	$59,590,351	$85,136,859	$24,805,764
Amount Redeemed	$59,829,671	$47,638,886	$57,496,338	$49,742,927	$44,490,943

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 $120 million. The cap allows for $90 million for any projects and in §253.550.2(2) authorizes $30 million for certain projects and properties located in a qualified census tract. 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.

In previous fiscal notes, Oversight showed the $30 million as a separate tax credit. Further, review indicates the $30 million would be a set aside of the full credit, to be used exclusively for the designated projects.

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 $120 million is higher than

ASSUMPTION (continued)

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.

#Oversight notes the current cap on the Historic Preservation tax credit is $140 million annually. This proposal in §253.550.2 would allow $90 million of the cap on the credit to be adjusted by the percentage increase in the Consumer Price Index beginning on July 1, 2018. The U.S. Department of Labor shows the Consumer Price Index as follows:

Year	Consumer Price Index
2016	.8
2015	-.5
2014	1.5
2013	1.4
2012	2.0

Source: U.S. Department of Labor

Oversight notes the five year average of the Consumer Price Index is 1%. Oversight will show the impact as Could Exceed the estimate of a 1% growth rate which is recalculated below.

	#Average Annual Increase 1%	#Annual Cap	#Potential Cumulative Cap Increase over FY 2019
#FY 19 Historic Preservation Tax Credit	-	90,000,000	-
Potential FY 2020 Increase	900,000	90,900,000	900,000
Potential FY 2021 Increase	909,000	91,809,000	1,809,000
Potential FY 2022 Increase	918,090	92,727,090	2,727,090
Potential FY 2023 Increase	927,271	93,654,361	3,654,361
Potential FY 2024 Increase	936,544	94,590,905	4,590,905
Potential FY 2025 Increase	945,909	95,536,814	5,536,814
Potential FY 2026 Increase	955,368	96,492,182	6,492,182

ASSUMPTION (continued)

As **Oversight** noted above, since the new cap is still higher that the five year issue average we do not show an impact from the cap change in the fiscal note. Since this inflation factor will continue to raise that cap, we will not show a fiscal impact from this proposal.

§620.1900 Economic Development Advancement Fund
Officials at the **B&P** assume this section would increase the fee DED may charge from 2.5% to 4% on the tax credits issued under Sections 253.545 to 253.559 (Historic Structures Rehabilitation) and directs 37.5% of the fee to business recruitment and marketing activities. The fee is to be deposited into the Economic Development Advancement Fund. B&P notes that the additional 1.5% fee would apply to only the Historic Preservation tax credits. The three-year average of issued Historic Preservation Credits was $66.0 million from FY 2015-FY 2017. Therefore, B&P estimates that this provision will increase Total State Revenue by $1.0 million beginning in FY 2019.

Officials at the **Department of Economic Development** (**DED**) assume this proposal adds the 4% fee for historic projects and requires that 37.5% of the proceeds from the 4% fee "be appropriated from the economic development advancement fund for business recruitment and marketing".

Officials at the **DOR** assume this proposed legislation allows for the DED 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) 2015, 2016, 2017 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. Subsequently, there is no impact to Total State Revenue.

Officials at the **DNR** assume that presently, the Department receives funds transferred from the Economic Development Advancement Fund (0783) for historic preservation operations through an approved line item in the annual budget (HB 6). This funding is derived from the tax credit application fees DED collects and is transferred to DNR for the assistance the SHPO provides in reviewing historic tax credit projects. This bill proposes to direct the application fees to other sources for different purposes: 37.5 % for business recruitment, 50% for marketing, and the

ASSUMPTION (continued)

remainder to DED . It does not appear that the funds usually transferred to the DNR/SHPO would continue to be available unless that provision is found elsewhere. For FY18, this amounts to $113,808.

Oversight notes the 1.5% increase (2.5% to 4%) is a 37.5% increase. The increase is earmarked for business recruitment. Oversight assumes the remaining 2.5% would continue to be distributed as under current law.

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%. This proposal sets the cap on the current Historic Preservation tax credit at $90 million and creates a new $30 million credit. Therefore, DED could collect Up to $1,800,000 ($120,000,000 new cap x .015 difference between old and new fee).

Bill as a Whole
Officials at the **DED** assume the impact is complicated. Lowering the historic cap to $90 million, increased by the CPI for Urban Consumers (1.5%) each year less the economic benefit the state receives for the savings results in the first line of the chart below. The 4% fee on the historic credits results in income in line 2 below.

	Year 1	**Year 2**	**Year 3**
Historic Savings	37,500,000	36,487,500	35,459,812.50
4% Fee Revenue	3,600,000	3,654,000	3,708,810
Total	41,100,000	40,141,500	39,168,662.50

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.

ASSUMPTION (continued)

Officials at the **B&P** estimates that this proposal could decrease Total State Revenue and General Revenue in the future due to the inflation adjustment authorized in §253.550.2(3) and the language in §253.550.4. These changes may impact other economic activity, but B&P does not have data to estimate the induced revenues. B&P estimates this may impact the calculation under Article X, Section 18(e).

FISCAL IMPACT - State Government	FY 2019 (10 Mo.)	FY 2020	FY 2021
ECONOMIC DEVELOPMENT ADVANCEMENT FUND			
Additional Revenue - increase in the fee from 2.5% to 4% on the Historic Preservation tax credits	$0	Up to $1,800,000	Up to $1,800,000
ESTIMATED NET EFFECT ON ECONOMIC DEVELOPMENT ADVANCEMENT FUND	**$0**	**Up to $1,800,000**	**Up to $1,800,000**

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 increase/decrease in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government	FY 2019 (10 Mo.)	FY 2020	FY 2021
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that claim these credits could be impacted.

FISCAL DESCRIPTION

This act modifies several provisions relating to historic buildings.

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. DED shall authorize up to an additional $30 million in Historic Preservation tax credits above the $90 million cap provided that any such tax credits are authorized solely for projects located in a qualified census tract, which is defined as a census tract with a 20% poverty rate or higher as determined by a map published by DED, as described in the act. If the $90 million cap and the $30 million supplemental cap are both authorized in a fiscal year, the $90 million cap shall be adjusted by the percent increase in inflation. Only one such adjustment shall be made for each instance in which the inflation adjustment is triggered.

Current law exempts projects approved or applied for prior to January 1, 2010, from the authorization cap on the amount of tax credits that may be authorized. This act changes such date to October 1, 2018. (§253.550)

This act also modifies the Historic Preservation Tax Credit 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, the level of economic distress in the area, and input from the local elected officials in the local municipality as to the importance of the project to the municipality. Such additional factors shall not apply to projects receiving less than $250,000 in tax credits. (§253.559.3)

All taxpayers with applications receiving approval on or after July 1, 2019, shall submit evidence of the capacity of the applicant to finance the cost and expenses for the rehabilitation of the eligible property, as described in the act. (§253.559.7)

This act requires that a taxpayer receiving approval for tax credits shall commence rehabilitation within nine months, rather than two years, of the date of approval. (§253.559.8)

Current law allows DED to charge a fee of 2.5% on the amount of tax credits issued by the Department. This act allows the Department to charge a fee of 4% on the amount of Historic Preservation tax credits issued by the Department.

37.5% of the revenue generated by the 4% fee rate shall be appropriated from the Economic Development Advancement Fund for business recruitment and marketing. (§620.1900)

FISCAL DESCRIPTION (continued)

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
Office of Administration
  Division of Budget and Planning

Ross Strope

Acting Director
June 12, 2018

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