COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6473-03
Bill No.: SB 1032
Subject: Tax Credits, Historic Preservation
Type: Original
Date: April 3, 2018

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2024)
General Revenue	(Could Exceed $6,108,779)	(Could Exceed $12,522,779)	(Could Exceed $23,950,919)	(Could Exceed $11,850,186)
Total Estimated Net Effect on General Revenue	**(Could Exceed $6,108,779)**	**(Could Exceed $12,522,779)**	**(Could Exceed $23,950,919)**	**(Could Exceed $11,850,186)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2024)
State Capitol Commission	$0 or up to $5,000,000	$0 or up to $10,000,000	$0 or up to $20,000,000	$0 or up to $5,000,000
Economic Development Advancement	$1,244,885	$1,244,885	$1,244,885	$1,244,885
Total Estimated Net Effect on Other State Funds	**Up to $6,244,885**	**Up to $11,244,885**	**Up to $21,244,885**	**Up to $6,244,885**

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2024)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2024)
Total Estimated Net Effect on FTE	**0**	**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	Fully Implemented (FY 2024)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning** (**B&P**) assume this proposal would make multiple changes to the historic preservation tax credit program.

Section 8.007 and 253.550
Section 8.007.2 allows the General Assembly to appropriate variable amounts into the State Capitol Commission Fund from FY 2019 through FY 2024. The section further states that any money which is appropriated and that exceeds money received from other sources shall be included in the total amount of tax credits which may be authorized under Sections 253.545 to 253.559. Section 253.550.2(2) states that the maximum amount of credits authorized shall be reduced by the amount appropriated under Section 8.007.2.

Section 253.545
This section makes multiple changes to definitions. It adds a definition for projects that are essential community or heritage facilities. In addition, this section adds a definition for qualifying counties, which are all counties except those of the first class with a charter form of government. B&P notes that under this definition Jackson County, Jefferson County, St. Charles County, and St. Louis County would not be considered a qualifying county.

Section 253.550
This section increases the authorization cap, beginning in FY 2019, for inflation. B&P notes that the current authorization cap is $140 million annually. Assuming a 2% inflation rate, this provision could increase the authorization cap by $2.8 million in FY 2019, $5.7 million in FY 2020, and $8.6 million in FY 2021 compared to the current cap amount. Therefore, B&P estimates that by FY 2021, this provision could decrease Total State Revenue and General Revenue by $8.6 million.

Section 253.557
This section reduces the carry-back and carry-forward provisions of the historic preservation tax credits. This proposal would decrease the carry-back provision from the current three years allowed to one year. This proposal would further decrease the carry-forward allowance from ten years to five years.

This section also allows non-profit corporations to qualify for historic preservation tax credits if the credits were approved for essential community or heritage facility projects.

ASSUMPTION (continued)

Section 253.559
This section reduces the length of time between application approval and the commencement of rehabilitation projects.

Section 253.559.8 creates a fee on tax credits issued under Sections 253.544 to 253.559. A taxpayer shall remit a total fee of 2.5% of the value of the tax credits. Where 2% is to be deposited into the economic development advancement fund, 0.25% to be used by DED for the administration of the historic preservation tax credit program, and 0.25% is to be deposited for DNR. B&P notes that no specific fund is listed for the portions of the fee that go to DED and DNR. For the purpose of this fiscal note, B&P assumes the money would be deposited into General Revenue. B&P notes that the three-year average issuances for historic preservation tax credits were $66.0 million during FY 2015-FY 2017. Therefore, B&P estimates that this provision will increase Total State Revenue by $1.6 million and General Revenue by $0.3 million beginning in FY 2019.

Section 253.559.10 states that projects not located in a qualifying county may not receive both historic preservation tax credits and low-income housing tax credits for the same project.

Section 253.559.11 creates an appeals process for applications.

Summary
B&P estimates that this proposal will decrease Total State Revenue by $1.2 million and General Revenue by $2.5 million in FY 2019. B&P further estimates that by FY 2021, this proposal will decrease Total State Revenue by $6.9 million and General Revenue by $8.2 million.

This proposal will impact the calculations made under Article X, Section 18(e).

Officials at the **Department of Economic Development** (**DED**) assume in determining a fiscal impact, the cap on the historic program remains at $140 million but would be tied to the consumer price index. Over the last 3 years, the CPI has increased an average of 1%. $140 million x 1% = $1,400,000 less the cost/benefit ratio of .25 or $350,000 = an estimated annual increase in the cap of $1,050,000 for the first fiscal year. Then 1% of the new amount for the next year, and so on.

Also this legislation requires DED to hire and pay for appeal officers. DED would hire one or more CPAs to serve in this capacity. DED estimates a cost of $100/hour at 200 hours a year for a cost of $20,000.

ASSUMPTION (continued)

Officials at the **Department of Natural Resources** assume the Department would not anticipate a significant direct fiscal impact as a result of the proposed changes made to the structure of the state historic preservation tax credit program due to the annual adjustment to the cap based on increases to the Consumer Price Index for all Urban Consumers. Other proposed changes may have a collective, cumulative effect on the program but are not anticipated to be fiscally significant. The DED tracks the financial side of the historic tax credit program and the State Historic Preservation Office assists with the rehabilitation design review; therefore, DED is in a better position to quantify the potential economic impacts of adjusting tax credits.

Officials at the **Department of Revenue** and the **Office of the State Treasurer** each assume there is no fiscal impact from this proposal.

Oversight notes in §8.007.2 that the General Assembly may appropriate funds to the State Capitol Commission Fund in the amounts of $5 million in FY 2019, $10 million in FY 2020, $20 million for FY 2021 and FY 2022, $10 for FY 2023 and $5 million for FY 2024. Oversight notes that if these monies would not have be utilized under the current Historic Preservation program, this would result in an additional cost to the state; therefore, Oversight will range the fiscal impact from $0 (either the appropriation is not made or this is simply taking the place of other historic preservation tax credit issuances) to the amounts allowed (if there is sufficient available cap space available in the Historic Preservation program that these expenditures would not have otherwise been made).

Oversight notes in §8.007.2 that the amount of money appropriated as listed above, if it exceeds the amount received in the State Capitol Commission Fund from other sources shall be included in the total amount of tax credits which may be authorized under §253.545 to §253.559. Section 253.550.2(2) states that the maximum amount of credits authorized under this new Historic Preservation tax credit will be reduced by the amount of money appropriated in §8.0074. Oversight confirmed with the Office of the State Treasurer that the State Capitol Commission Fund has not received any funds from any sources in the last three fiscal years. Therefore, the Historic Preservation tax credit cap would be reduced by the amount appropriated to the State Capitol Commission Fund each year.

Oversight notes this proposal in §253.550.2(3) reserves $10 million of the annual cap to be used for essential community or heritage facility projects. Oversight assumes this would not have any additional fiscal impact.

ASSUMPTION (continued)

Oversight notes the current cap on the Historic Preservation tax credit is $140 million annually. This proposal in §253.550.2 would allow 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	-	140,000,000	-
Potential FY 2020 Increase	1,400,000	141,400,000	1,400,000
Potential FY 2021 Increase	1,414,000	142,814,000	2,814,000
Potential FY 2022 Increase	1,428,140	144,242,140	4,242,140
Potential FY 2023 Increase	1,442,421	145,684,561	5,684,561
Potential FY 2024 Increase	1,456,846	147,141,407	7,141,407
Potential FY 2025 Increase	1,471,414	148,612,821	8,612,821
Potential FY 2026 Increase	1,486,128	150,098,949	10,098,949

ASSUMPTION (continued)

Oversight notes that in §253.559.8 requires a taxpayer receiving the Historic Preservation tax credit to remit a fee equal to 2.5% of the tax credit. Two percent of the fee goes to the Economic Development Advancement Fund. One quarter of a percent goes to DED for administration of the tax credit and one quarter of a percent goes to DNR for their administration costs. There is not a fund listed to receive the portion designated for DED and DNR so the fiscal note will show General Revenue receiving their half percent.

Oversight notes the Economic Development Advancement Fund could collect an additional $1,244,885 ($62,244,236 issue average x .02 fee). Additionally, General Revenue will collect $311,221.

Oversight notes that other changes in the bill may have impact on the Historic Preservation program and the number of credits that will be issued; however, Oversight does not have the detail to determine the potential impact of these changes.

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

FISCAL IMPACT - State Government	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2024)
GENERAL REVENUE				
Revenue - from Historic Preservation fee for DED & DNR § §253.559.8	Up to $311,221	Up to $311,221	Up to $311,221	Up to $311,221
Transfer Out - to the State Capitol Commission	$0 or up to ($5,000,000)	$0 or up to ($10,000,000)	$0 or up to ($20,000,000)	$0 or up to ($5,000,000)
Revenue Reduction - Historic Preservation tax credit cap indexed to inflation §253.550	(Could Exceed $1,400,000)	(Could Exceed $2,814,000)	(Could Exceed $4,242,140)	(Could Exceed $7,141,407)
Cost - DED - hearing officers	($20,000)	($20,000)	($20,000)	($20,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**(Could Exceed $6,108,779)**	**(Could Exceed $12,522,779)**	**(Could Exceed $23,950,919)**	**(Could Exceed $11,850,186)**

FISCAL IMPACT - State Government (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2024)
STATE CAPITOL COMMISSION FUND				
Transfer In - money appropriated from General Revenue	$0 or up to $5,000,000	$0 or up to $10,000,000	$0 or up to $20,000,000	$0 or up to $5,000,000
ESTIMATED NET EFFECT ON THE STATE CAPITOL COMMISSION FUND	**$0 or up to $5,000,000**	**$0 or up to $10,000,000**	**$0 or up to $20,000,000**	**$0 or up to $5,000,000**
ECONOMIC DEVELOPMENT ADVANCEMENT FUND				
Additional Revenue - creates a 2.0% fee on the Historic Preservation tax credits	$1,244,885	$1,244,885	$1,244,885	$1,244,885
ESTIMATED NET EFFECT ON ECONOMIC DEVELOPMENT ADVANCEMENT FUND	**$1,244,885**	**$1,244,885**	**$1,244,885**	**$1,244,885**

FISCAL IMPACT - Local Government	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2024)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that receive the tax credit could be impacted.

FISCAL DESCRIPTION

This act modifies provisions relating to the Historic Preservation tax credit, and renames such tax credit the "Missouri Historic, Heritage, Tourism, and Rural Revitalization Act".

Currently, the amount of tax credits that may be authorized in a fiscal year is limited to $140 million. This act indexes such limit to annual increases in inflation. For fiscal years 2019-2024, such amount shall be reduced by $5-$20 million, as described in the act. The amount of such reductions in a fiscal year may be appropriated by the General Assembly into the State Capitol Commission Fund in such fiscal year, provided that the amount by which such appropriation exceeds the amount received by the Fund from other sources shall be included in the amount of tax credits that may be issued under the act. (§8.007 and §253.550)

This act allows qualifying counties, as defined in the act, to designate certain structures as "essential community or heritage facilities", which shall be structures that are significant in the history, architecture, archeology, or culture of the state or its communities, which shall have been constructed at least 50 years prior to an application for tax credits, and which shall have at least $100,000 in estimated eligible costs and expenses to be incurred in the rehabilitation of such structure. $10 million of the amount of tax credits that may be authorized under this act shall be reserved for such essential community or heritage facility projects, provided that no county shall have more than two such projects approved in a given fiscal year, and provided that such projects shall only receive tax credits from the reserved amount. Any amount of reserved tax credits not authorized by March 31 of a fiscal year shall no longer stand reserved, and may be authorized for any project under the act.

This act also modifies the tax credits which may be claimed under the act for residential structures. Currently, such structures shall be non-income producing single-family, owner-occupied residential property. This act allows the structure to be either owner-occupied or occupied by a relative within the third consanguinity of the applicant. For applications approved

FISCAL DESCRIPTION (continued)

on or after July 1, 2018, any residential project located in a county that is not a qualified county shall only receive tax credits if it is located in a distressed area, as described in the act. (§253.550)

Currently, the amount of tax credits that a project may receive is limited to 25% of the total costs and expenses of rehabilitation incurred. This act modifies such amount for residential projects to 25% of total costs or $50,000, whichever is less. For essential community or heritage facility projects, such amount shall be 50% of total costs or $500,000, whichever is less. For all other projects located in a qualifying county, such amount shall be 35% of total costs. For projects located in a qualifying county that also receive Low Income Housing tax credits, such amount shall be 25%. For all other projects located in a county that is not a qualifying county, such amount shall remain 25%. If the scope of an approved project materially changes, such project shall be eligible to receive additional tax credits, as described in the act. (§253.545 and §253.559.3)

This act modifies the carry-back and carry-forward provisions of tax credits issued under this act by reducing such periods from a 3-year carry-back and 10-year carry-forward to a 1-year carry-back and 5-year carry-forward for all tax credits authorized on or after July 1, 2018.

Tax credits may also be claimed by not-for-profit entities only if such tax credits are authorized for essential community or heritage facility projects. (§253.557)

Projects that receive approval for tax credits shall commence rehabilitation within eighteen months, rather than two years, of the date of approval. Additionally, "commencement of rehabilitation" shall mean that as of the date that physical work has begun, the taxpayer shall have incurred no less than twenty percent, rather than ten percent, of the estimated costs of rehabilitation. Taxpayers shall notify the Department of any loss of site control, or of failure to obtain site control, within ten days of such failure. Taxpayers may voluntarily forfeit project approval at any time. The amount of tax credits authorized for such forfeited or rescinded project shall be made available for other projects. If a taxpayer later submits an application for the same project, any expenditures which are incurred after the date of the rescinded or forfeited approval shall remain eligible expenditures for the purposes of determining the amount of tax credits. (§253.259.6)

After completion of a project, the taxpayer is required to submit an application for the final approval of costs and issuance of tax credits. Within 60 days of receipt of such application, the Department shall issue to the taxpayer tax credits in the amount of 75% of the amount of tax credits for which the taxpayer is eligible based on the application for final approval, or 75% of

FISCAL DESCRIPTION (continued)

the amount of tax credits approved under the initial application, whichever is less. Within one year of an application for final approval, the Department shall make a determination of final costs and the amount of tax credits to be issued, and shall issue the balance of tax credits owed to the applicant and not issued in the initial tax credit issuance. If the amount initially issued exceeds the amount that the taxpayer is eligible for, as determined by the Department's final approval, the taxpayer shall repay such excess amount to the Department. (§253.559.7)

Upon issuance of tax credits, a taxpayer shall remit a fee of 2% of the value of the tax credits to the Department, 0.25% of the value of the tax credits to the Department for the administration of the act, and a fee of 0.25% of the value of the tax credits to the Department of Natural Resources. (§253.559.8)

Projects that are not located in a qualifying county shall not also receive Low Income Housing tax credits for the same project. (§253.559.10)

An applicant or their duly authorized representative may appeal any official decision made by the Department with regard to the application submitted to an independent third-party appeals officer designated by the Department. Such appeal shall be submitted in writing within 30 days of the applicant's receipt of the decision being appealed. The appeals officer shall deliver a written decision no later than 90 days after initial receipt of the appeal. (§253.559.11)

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 Natural Resources
Department of Revenue
Office of Administration
Division of Budget and Planning
Office of the State Treasurer

Ross Strope

Acting Director
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