COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2770S.01I
Bill No.: SB 721
Subject: Tax Credits; Historic Preservation
Type: Original
Date: April 16, 2023

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Bill Summary: This proposal modifies provisions relating to facilities of historic significance.

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2024 | FY 2025 | FY 2026 |
| General Revenue Fund* | ($1,962,784) | ($2,286,687) | ($2,607,109) |
| | | | |
| **Total Estimated Net Effect on General Revenue** | **($1,962,784)** | **($2,286,687)** | **($2,607,109)** |

*****Oversight notes the revenue expense includes $30 million and $300,000 CPI annual adjustments, additional DED 1 FTE (Senior Economic Development Specialist, at $74,664 annually).

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2024 | FY 2025 | FY 2026 |
| | | | |
| | | | |
| **Total Estimated Net Effect on Other State Funds** | **$0** | **$0** | **$0** |

Numbers within parentheses: () indicate costs or losses.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2024 | FY 2025 | FY 2026 |
| | | | |
| | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2024 | FY 2025 | FY 2026 |
| General Revenue Fund | 1 FTE | 1 FTE | 1 FTE |
| | | | |
| **Total Estimated Net Effect on FTE** | **1 FTE** | **1 FTE** | **1 FTE** |

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☐ Estimated Net Effect (savings or increased revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2024 | FY 2025 | FY 2026 |
| | | | |
| **Local Government** | **$0** | **$0** | **$0** |

## FISCAL ANALYSIS

ASSUMPTION

**Section 253.544 – 253.559 Historic Preservation Tax Credit**

Officials from the **Department of Revenue (DOR)** assume this proposal renames the Historic Preservation Tax Credit Program to the *Missouri Historic, Heritage, Tourism and Rural Revitalization Act*. Renaming the tax credit program will not have a fiscal impact on the Department.

For informational purposes, the Department is providing information on the Historic Preservation tax credit. It was created in 1997 and has an annual cap on larger scale projects of $120 million with $30 million reserved for specific projects and no limit on homeowner claims.

| Year | Authorized | Issued | Total Redeemed |
|---|---|---|---|
| FY 2022 | $127,701,891.25 | $119,310,869.31 | $106,311,497.14 |
| FY 2021 | $108,876,422.99 | $113,974,281.81 | $118,211,637.42 |
| FY 2020 | $134,740,008.39 | $108,648,413.83 | $88,487,136.31 |
| FY 2019 | $149,232,242.59 | $95,790,454.95 | $54,566,148.49 |
| FY 2018 | $151,542,287.87 | $37,275,810.30 | $56,483,070.60 |
| FY 2017 | $154,152,769.59 | $85,136,858.50 | $49,742,926.72 |
| FY 2016 | $90,749,410.21 | $59,590,350.87 | $57,496,338.08 |
| FY 2015 | $97,136,286.75 | $53,206,337.42 | $47,638,885.69 |
| FY 2014 | $146,635,428.72 | $41,791,636.18 | $59,829,670.95 |
| FY 2013 | $93,923,651.90 | $71,495,993.81 | $78,483,650.67 |
| FY 2012 | $98,591,345.91 | $105,272,650.95 | $133,937,746.83 |
| **TOTALS** | $1,353,281,746.17 | $891,493,657.93 | $851,188,708.90 |

This proposal will leave the caps in place but adds a Consumer Price Index adjustment for inflation. Therefore, these credits will result in an additional loss to general revenue in future years. For fiscal note purposes when doing inflation adjustments, DOR uses a 2% inflation factor for each year. Therefore, DOR would expect the cap on this program to increase as follows:

| Fiscal Year | Cap | Difference |
|---|---|---|
| 2023 | $30,000,000 | $0 |
| 2024 | $30,600,000 | ($600,000) |
| 2025 | $31,212,000 | ($612,000) |
| 2026 | $31,836,240 | ($624,240) |
| 2027 | $32,472,965 | ($636,725) |
| 2028+ | $33,122,425 | ($649,460) |

This proposal makes additional changes to how the credit works. This credit is administered by the Department of Economic Development. DOR defers to them for impact from these changes.

**Oversight** notes that DOR assumes the proposal will have no administrative impact on their organization. **Oversight** does not have any information to the contrary. Therefore, **Oversight** will reflect a zero impact for DOR in this section of the fiscal note.

**$30Million Cap with CPI Adjustment**

**Oversight** notes the proposal adjusts evaluation criteria for projects over $300,000, and adds vacant schools, or theaters, to the projects that are not subject to evaluation criteria.

**Oversight** notes the proposal adds non-for-profit businesses, under Section(s) 253.544 to 253.559, as eligible to receive this tax credit.

**Oversight** notes the DOR assume the proposal would allow for the *Missouri Historic, Heritage, Tourism and Rural Revitalization Act* (previously named Historic Preservation Tax Credit) cap to appreciate with CPI adjustment annually. Therefore, the maximum cap of $30,000,000 shall be adjusted annually by the percentage increase in the Consumer Price Index for All Urban Consumers.

**Oversight** note the CPI annual adjustments will be in addition to the current $30 million (reserved for special projects) tax credit cap. Therefore, Oversight will note the DOR's CPI estimated adjustment amounts difference as a reduction to the general revenue in the fiscal note.

Officials from the **Department of Economic Development (DED)** note:

Section 26.950 in HB 316 which would have moved the state historic preservation office and Missouri advisory council on historic preservation to the office of the lieutenant governor is not in SB 721; however, SB 721, in 253.544 removes SHPO and adds lieutenant governor's office.

SB 721 does not contain section 620.1900 that is in the HB. This is where it states that DED can charge a fee of 2.5% of the amount of the tax credits issued for any program or 4% of the amount of tax credits issued under 253.544 to 253.559. No fees can be charged for tax credits issued under 135.460, 208.770, and 32.100 to 32.125.

Section 253.544 creates the Missouri Historic, Rural Revitalization and Regulatory Streamlining Act.

This legislation revises the Historic Preservation Tax Credit. Increases tax credit to 35% for applicants not participating in the Missouri Low Income Housing Tax Credit Program and eligible single family housing located in a qualifying area, and adds non-profit entities to the definition of eligible recipients. Allows for 10% of the total costs of rehabilitation to be incurred prior to application.

Total program cap is not increased, however, the legislation increases the threshold for projects not subject to the cap, from $275,000 to $300,000, and allows for this threshold to increase each year based on consumer price index. DED estimates this revision will have an impact on TSR of ($1,250,000) estimating approximately 50 projects at an increase of $25,000 per project.

Allows for projects located within a qualified census tract to be authorized out of $90M cap after the $30M QCT-only cap has been met in a given fiscal year. Allows for the $30M QCT-only cap to increase annually based on the increase in the Consumer Price Index.

Instructs the Department to allow application submission year-round. Allows for properties with a federal Part 1 application or draft national register of historic places nomination submission to the state historic preservation office to be eligible for application to the program. Adjusts evaluation criteria for projects over $300,000, and adds vacant schools or theaters to the projects that are not subject to evaluation criteria.

Allows a third party review to determine whether proposed rehabilitation satisfies the qualified rehabilitation standard. Creates standards processing time requirements for processing projects, including determination of project's alignment with rehabilitations standards within 90 days of filing of application the legislation includes a provision that would require DED to issue 75% of the credit within 60 days. Includes requirements for the approval and issuance of tax credits for phased projects. Modifies the commencement of rehabilitation limitations to 10% within 18 months of the date of approval.

DED needs 1.0 FTE to oversee all the additional requirements this legislation would add to the Historic Preservation Tax Credit.

**Oversight** provides overview of the approved tax credit expenditures (submitted by DED) in last three years below:

| | FY 2020 ACTUAL | FY 2021 ACTUAL | FY 2022 ACTUAL | 3 year Average |
|---|---|---|---|---|
| Certificates Issued (#) | 179 | 191 | 123 | **164** |
| Projects/Participants (#) | 141 | 145 | 131 | **139** |
| Amount Authorized | $ 134,740,008.39 | $ 108,876,422.99 | $ 127,744,891.75 | **$ 123,787,107.71** |
| Amount Issued | $ 108,648,413.83 | $ 113,974,281.81 | $ 119,310,869.31 | **$ 113,977,854.98** |
| Amount Redeemed | $ 88,487,136.31 | $ 118,211,637.42 | $ 106,311,497.14 | **$ 104,336,756.96** |

**Oversight** notes the Act provides certain percentages of funds for taxpayers who intends to rehabilitate properties as follows:

a) 25% for rehabilitation of any property considered to be Missouri Low Income housing property under Sections 135.350 to 135.363
b) 35% for any taxpayer incurring costs and expenses for the rehabilitation of eligible property that is not a property that receives or intends to receive a tax credit under Sections 135.350 to 135.363
c) 25% for any taxpayer who rehabilitating property which is not located in a qualifying area approved for a tax credit

**Projects below $300,000 with CPI adjustment**

**Oversight** notes the proposal allows for smaller projects, under Section 253.559 and subsection 6, to be adjusted by the percentage increase in the CPI.

**Oversight** notes the DED assumes this section of the proposal will have an additional impact to the general revenue totaling $1,250,000 (about 50 project receiving $25,000 more per project) begging in FY 2024.

**Oversight** notes that the projects bellow $300 thousand are currently not subject to the overall $30 million cap.

**Oversight** will note, for fiscal note purpose when doing inflation adjustments, a 2% inflation factor for each year as follow:

| Fiscal Year | Cap | Difference |
|---|---|---|
| FY 2023 | $13,750,000 ($275,000 x 50) | |
| FY 2024 | $15,000,000 ($300,000 x 50) | $1,250,000 |
| FY 2025 | $15,300,000 (2% infl.) | $1,550,000 |
| FY 2026 | $15,606,000 (2% infl.) | $1,856,000 |

Therefore, **Oversight** will note estimated impact, as a reduction in general revenue, beginning in FY 2025 as presented in the table above.

**Oversight** notes the proposal requires that the DED establish an application cycle that allows for year-around submission and year around receipt and review of such an application.

**Oversight** notes DED assumes need for one (1) FTE Senior Economic Development Specialist, at $74,664 annually, as a result of the administrative changes made to the Historic Preservation Tax Credit. For purposes of this fiscal note, **Oversight** will report DED=s estimated administrative cost.

Officials from the **Office of the Lieutenant Governor (MLG)** assume the proposal, in current version, will not have a fiscal impact on the organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for the MLG.

Officials from the **University of Central Missouri (UCM)** assume the proposal will have an indeterminate fiscal impact on their organization. However, the UCM did not provide any specifics as to the impact. Therefore, Oversight will reflect a zero impact in the fiscal note for UMC under the assumption that any fiscal impact would be absorbable within UCM’s budget.

Oversight notes the officials from the **Department of Natural Resources**, the **Office of the Governor**, the **Missouri University System, the Missouri State University**, the **Missouri Western State University**, the **City of Kansas**, and the **City of Springfield** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

<u>Rule Promulgation</u>

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note 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 $5,000. 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 its 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.

| FISCAL IMPACT – State Government | FY 2024 (10 Mo.) | FY 2025 | FY 2026 |
|---|---|---|---|
| | | | |
| **GENERAL REVENUE** | | | |
| | | | |
| Reduction in Revenue – Section 253.550 2 (2) CPI adjustment of $30 M in tax credit award for approved projects | ($600,000) | ($612,000) | ($624,240) |
| | | | |
| Reduction in Revenue – Section 253.559 6. CPI adjustment for projects below $300,000 | ($1,250,000) | ($1,550,000) | ($1,856,000) |
| | | | |
| | | | |
| Costs – DED Section 253.559 7. | | | |
| Personnel Service | ($62,220) | ($76,157) | ($77,680) |
| Fringe Benefits | ($36,265) | ($44,076) | ($44,646) |
| Expense & Equipment | ($14,299) | ($4,454) | ($4,543) |
| Total Costs – DED | ($112,784) | ($124,768) | ($126,869) |
| FTE Change (p.6-7) | 1 FTE | 1 FTE | 1 FTE |
| | | | |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE** | **($1,962,784)** | **($2,286,687)** | **($2,607,109)** |
| | | | |

| FISCAL IMPACT – Local Government | FY 2024 (10 Mo.) | FY 2025 | FY 2026 |
|---|---|---|---|
| | | | |
| | **$0** | **$0** | **$0** |
| | | | |

FISCAL IMPACT – Small Business

A direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act modifies the definition of "blighted area" for the purposes of tax increment financing (TIF). Such areas shall be in a distressed community and be insanitary or unsafe for living or working; shall have unemployment one and one-half times greater than the average for the state;

or have a median household income of less than fifty percent of the median household income of the metropolitan statistical area in which the area is located. (Section 99.805)

A redevelopment plan shall include all federal, state, county, and municipal tax incentives received as sources of funds for the redevelopment plan. Such redevelopment plan shall also include a study stating that the project was not developed through private enterprise, and shall also include an economic feasibility analysis that indicates whether a return on investment is expected without public assistance. (Section 99.810)

This act exempts redevelopment projects from funding limits for TIF projects associated with a geospatial intelligence federal employer in St. Louis City if such projects consist solely of public infrastructure improvements on public land that requires less than $2 million in TIF financing and will pay off its bonds in seven years or less. (Section 99.811)

This act requires a municipality to pay an amount equal to 25% of payments in lieu of taxes received for a TIF project to all other taxing entities in the municipality that are entitled to receive property tax revenue. Such amount shall be distributed pro rata to such entities. If a TIF project includes residential uses, real property tax levies attributable to the residential portion shall be distributed to the local school district or districts. (Section 99.812)

This act requires the Department of Economic Development to annually submit a report to the Governor and the General Assembly that provides certain information regarding TIF projects in the state, as described in the act. (Section 99.813)

Redevelopment districts providing emergency services in certain municipalities and counties, as described in the act, shall be entitled to reimbursement from a TIF special allocation fund in an amount between 25%-100% of such revenue. (Section 99.814)

This act adds blighted areas located in distressed communities to the areas eligible to receive state revenues for a TIF project. Additionally, this act prohibits redevelopment projects unless all school districts in the redevelopment area have low fiscal capacity, as defined in the act; all census blocks or groups have high unemployment, as defined in the act; or all municipalities or census blocks or groups are characterized by moderate income, as defined in the act. (Section 99.845)

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 Revenue
Office of the Lieutenant Governor
Department of Natural Resources
Office of the Secretary of State
Joint Committee on Administrative Rules
Office of the Governor
Missouri University System
Missouri State University
Missouri Western State University
City of Kansas
City of Springfield

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