

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0483S.03C
Bill No.: SCS for SB 35
Subject: Economic Development; Department of Economic Development; Urban
Redevelopment
Type: Original
Date: February 25, 2025

Bill Summary: This proposal establishes Tax Credits to Revitalize Missouri Downtowns and Main Streets.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue Fund*	(\$261,387)	Up to (\$50,365,200)	Up to (\$51,358,409)
Total Estimated Net Effect on General Revenue	(\$261,387)	Up to (\$50,365,200)	Up to (\$51,358,409)

*Oversight reflects an impact up to the maximum cap and adjusted by CPI annually if certain conditions are met. Additionally, the amounts reflect FTE, for both the Department of Economic Development and the Department of Revenue.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue Fund – DED	2 FTE	2 FTE	2 FTE
General Revenue Fund - DOR	0 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	2 FTE	3 FTE	3 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 2026	FY 2027	FY 2028
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 99.720- Tax Credit for Downtown Revitalization

In response to the previous version of the bill, officials from the **Department of Economic Development (DED)** note:

Section 99.720 is a new tax credit program "Revitalizing Missouri Downtowns and Main Streets Act"

For all tax years beginning on or after January 1, 2026, an applicant may receive a tax credit of 25% to 30% in an amount of a) \$15,000 if the building is in a Main Street District or b) \$500,000 if not located in a Main Street location. 25% of each cap amount (see below) will be reserved for qualified Main Street district projects but can be released for other locations if the full 25% is not used at the end of the fiscal year.

Qualified converted building is any building and its structural components if:

- a) prior to conversion, the building was nonresidential real property, which was leased, or available for lease, to office tenants.
- b) has been substantially converted from an office use to a residential, retail, or other commercial use; and
- c) such building was initially placed at least 25 years before the beginning of the conversion.

This legislation could result in a reduction of \$100 million per year in state revenue as 99.720.4(1) establishes a tax credit cap of \$50 million for buildings under 750,000 square feet and 99.720.4(2) a \$50 million cap for buildings over 750,000 square feet. DED will need to hire 3 FTE's to administer this program.

Upon further inquiry, the **DED** indicated the need for only (2) FTE due to the changes within the committee substitute with a lesser overall cap (\$50 million) for the projects. Therefore, Oversight will reflect an impact for 2 FTE (Senior Economic Development Specialists \$83,784) for DED in the fiscal note, effective FY 2026.

Oversight estimated the FTE costs based on the salary and E&E provided by DESE in their response to the previous version.

Officials from the **Office of Administration – Budget & Planning (B&P)** note:

For all tax years beginning on or after January 1, 2026, this act authorizes a taxpayer to claim a tax credit equal to 25% of qualified conversion expenditures incurred for converting

nonresidential real property from office use to predominantly (greater than 50% of the project's square footage) residential, retail, or other commercial use and may include on-site parking. Projects located in qualified Missouri Main Street districts allow taxpayers to claim a tax credit for 30% of qualified conversion expenditures incurred with respect to upper for housing. Tax credits authorized by the act shall not be refundable but may be carried back three years or carried forward ten years and can be transferred, sold, or assigned.

Tax credits related to this act shall not exceed \$50M in any fiscal year provided that the total tax credits are allocated over a period of six years and 10% of the estimated cost of conversion have been expended in actual physical work in 36 months. Twenty-five percent of the tax credit cap shall be used solely for projects located in a qualified Missouri main street district. If this has been authorized, upper floor housing projects located in a qualified Missouri main street district may receive tax credits from the remaining unreserved amount. If the tax credits cap has been reached in any given fiscal year, the cap shall be increased by the equivalent percentage increase in inflation. If all tax credits have been disbursed for the year, DED shall notify all waiting applicants no additional approvals will be granted and the priority given to the applicant waiting approval.

Taxpayers shall apply to the Department of Economic Development (DED) to receive the tax credits. Applications shall include proof of ownership or site control, floor plans of the existing structure, architectural plans, and, where applicable, plans of the proposed conversion of the structure, as well as proposed additions, estimated cost of conversion, the anticipated total costs of the project, the actual basis of the property, as shown by proof of actual acquisition costs, the anticipated total labor costs, the estimated project start date, and the estimated project completion date, proof that the property is an eligible property, a copy of all land use and building approvals reasonably necessary for the commencement of the project, and any other information which the Department may reasonably require to review the project for approval.

All approved applications receiving approval shall be submitted within 120 days following the award evidence of the capacity of the applicant to finance the costs and expenses for the conversion of the eligible property. Approved applications, excluding projects of more than 750,000 square feet, shall commence conversion within 12 months of the date of issuance of the tax credit approval letter from the DED.

To claim a tax credit, a taxpayer shall apply for final approval and issuance of tax credits from the DED, which shall determine the final amount of qualified conversion expenditures and whether the completed rehabilitation meets eligibility requirements. The final application shall demonstrate that the taxpayer has substantially converted a qualified building with satisfactory evidence of any conversion expenditures for the structure and any other requested information, as determined by the DED. Seventy-five percent of the approved tax credits shall be issued by DED within 60 days of receiving final application materials, with the remaining twenty-five percent being issued within 60 days of the final determination.

The DED shall annually determine the overall economic impact to the state from the rehabilitation of eligible property. No taxpayer shall be issued tax credits for conversion expenditures on a converted building within 27 years of a previous issuance of tax credits.

Officials from the **Department of Revenue (DOR)** note:

Starting January 1, 2026, this proposal would create a tax credit for converting former office buildings to residential, retail, or other commercial use buildings. The tax credit would be equal to 25% of qualified conversion expenditures with respect to a qualified converted building. The Department of Economic Development (DED) is given primary authority over this program.

Starting January 1, 2026, this proposal would create a tax credit for 30% of qualified conversion expenditures with respect to upper floor housing located in a qualified Missouri main street district. The DED is given primary authority over this program.

The credits under these programs are not refundable; but can be carried back to the three proceeding years or carried forward up to ten years. These credits can be transferred, sold, or assigned. Any credits authorized for a partnership, limited liability company taxed as a partnership, or multiple owners of property shall be passed through to the partners, members, or owners pro rata. The approved tax credits shall be prioritized in the order of submission. There is no sunset date for this program.

Section 99.726.1 sets a cap of \$50 million annually for these projects. Section 99.726.1 goes on to allow buildings of more than 750,000 square feet to also qualify for credits of up to half of the \$50 million.

Section 99.726.3 states that in any fiscal year in which the maximum number of credits is issued, then the maximum number of credits allowed is to be increased by the Consumer Price Index. For fiscal note purposes, DOR uses a 2% inflation rate when calculating CPI increases.

These tax credits are to start on January 1, 2026, and will result in a loss of general revenue annually starting FY 2027, the first year the credits can be claimed on the tax return.

Fiscal Year	Loss to General Revenue
FY 2026	\$0
FY 2027	(\$50,000,000)
FY 2028	(\$51,000,000)

This proposal creates two new tax credits that would require two new line being added to the Form MO-TC (\$2,200 *2=\$4,400), updates to DOR website and changes to individual income tax computer system (\$1,832*2= \$3,664). These changes are estimated to cost \$8,064. DOR's existing tax credit staff is no longer able to take on any additional tax credits without additional resources. Due to the intensive knowledge of credits that is needed they are not able to use temporary staff to help with processing these returns. This proposal would require at least 1 FTE Associate Customer Service Rep at a salary of \$37,020.

Oversight notes the officials from the DOR assume the proposal will have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect the impact for 1 FTE (Associate Customer Service Rep at \$37,020 annually) for DOR in the fiscal note effective FY 2027.

Oversight notes DOR requests a one-time cost for form and computer updates to comply with the proposed language; however, Oversight notes that DOR receives appropriation for routine updates and will not show those costs in the fiscal note.

Oversight notes Section 99.726. 1. sets a cap of \$50 million annually for these projects. Additionally, Section 99.726. 3 states that in any fiscal year in which the maximum number of credits is issued, then the maximum number of credits allowed is to be increased by the Consumer Price Index. Therefore, Oversight will reflect the maximum allotted tax credit cap each year, effective FY 2027, and for purpose of this fiscal note, adjusted maximum cap of \$50 million in combined tax credits with CPI in FY 2028.

Officials from the **City of Kansas City** assumed the proposal will have no fiscal impact on their organization.

Officials from the **Oversight Division** assume the proposal will have no fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

Rule Promulgation

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.

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE			
<u>Costs – DOR 1 FTE Section(s) Section 99.726 1. (p.8)</u>			
Personnel Service	\$0	(\$37,760)	(\$38,516)
Fringe Benefits	\$0	(\$30,926)	(\$31,229)
Expense & Equipment	\$0	(\$13,463)	(\$582)
<u>Total Costs – DOR p.8</u>	\$0	(\$82,149)	(\$70,327)
FTE Change	0 FTE	1 FTE	1 FTE
<u>Costs – DED 2 FTEs Section(s) Section 99.726 1. (p.3)</u>			
Personnel Service	(\$139,640)	(\$170,919)	(\$174,338)
Fringe Benefits	(\$82,288)	(\$100,088)	(\$101,459)
Expense & Equipment	(\$39,459)	(\$12,044)	(\$12,285)
<u>Total Costs – DED</u>	(\$261,387)	(\$283,051)	(\$288,082)
FTE Change	2 FTE	2 FTE	2 FTE
<u>Costs – Section 99.726. 1. Tax Credit (p.8)</u>	\$0	Up to (\$50,000,000)	Up to (\$51,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$261,387)</u>	<u>Up to (\$50,365,200)</u>	<u>Up to (\$51,358,409)</u>
Estimated Net FTE Change on General Revenue	2 FTE	3 FTE	3 FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

Small businesses that qualify for the new credits would be impacted by this proposal.

FISCAL DESCRIPTION

This bill creates the "Revitalizing Missouri Downtowns and Main Streets Act."

For all tax years beginning on or after January 1, 2026, this act authorizes a taxpayer to claim a tax credit equal to 25% of qualified conversion expenditures, as defined in the act, or 30% of qualified conversion expenditures with respect to upper floor housing, as described in the act, incurred for converting nonresidential real property from office use to predominantly residential use, which may include retail or other commercial use. Tax credits authorized by the act shall not be refundable, but may be carried back three years or carried forward ten years. Tax credits may also be transferred, sold, or assigned, as described in the act.

The total amount of tax credits authorized pursuant to this act shall not exceed \$50 million in any fiscal year. Tax credits authorized for qualified converted buildings of more than 750,000 square feet shall be allocated to the annual limit calculation over a period of six years, provided that certain conditions are met, as described in the act.

Twenty-five percent of the maximum amount of tax credits available to be authorized shall be authorized solely for projects located in a qualified Missouri main street district, as defined in the act. If the total amount of such reserved tax credits have been authorized, projects located in a qualified Missouri main street district may receive tax credits from the remaining unreserved amount of tax credits. If the maximum amount of allowable tax credits is authorized in any given fiscal year, such maximum allowable amount shall be increased by the percentage increase in inflation.

A taxpayer shall apply to the Department of Economic Development to receive tax credits pursuant to this act. Such application shall include proof of ownership or site control, floor plans of the existing structure, architectural plans, and, where applicable, plans of the proposed conversion of the structure, as well as proposed additions, estimated cost of conversion, the anticipated total costs of the project, the actual basis of the property, as shown by proof of actual acquisition costs, the anticipated total labor costs, the estimated project start date, and the estimated project completion date, proof that the property is an eligible property, a copy of all land use and building approvals reasonably necessary for the commencement of the project, and any other information which the Department may reasonably require to review the project for approval.

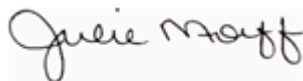
All taxpayers with applications receiving approval shall submit within 120 days following the award of credits evidence of the capacity of the applicant to finance the costs and expenses for the conversion of the eligible property. All taxpayers with applications receiving approval, excluding projects of more than 750,000 square feet, shall commence conversion within twelve months of the date of issuance of the letter from the Department granting the approval for tax credits.

To claim a tax credit authorized by this act, a taxpayer with approval shall apply for final approval and issuance of tax credits from the Department, which shall determine the final amount of qualified conversion expenditures and whether the completed rehabilitation meets the requirements of the act. The final application shall demonstrate that the taxpayer has substantially converted a qualified converted building; satisfactory evidence of any qualified conversion expenditures for the structure, as determined by the Department; and any other information reasonably requested by the Department.

The Department shall determine, on an annual basis, the overall economic impact to the state from the rehabilitation of eligible property pursuant to this act. No taxpayer shall be issued tax credits for qualified conversion expenditures on a qualified converted building within 27 years of a previous issuance of tax credits pursuant to this act on such qualified converted building. 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 Revenue
Office of Administration – Budget & Planning
Department of Economic Development
Oversight Division
Office of the Secretary of State
Joint Committee on Administrative Rules



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