

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3596-01
Bill No.: SB 586
Subject: Tax Credits; Historic Preservation; Department of Economic Development
Type: Original
Date: January 24, 2020

Bill Summary: This proposal establishes the Capitol Complex Tax Credit Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	Up to (\$10,000,000)	Up to (\$10,000,000)	Up to (\$10,000,000)
Total Estimated Net Effect on General Revenue	Up to (\$10,000,000)	Up to (\$10,000,000)	Up to (\$10,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Capitol Complex	Up to \$20,727,344	Up to \$20,727,344	Up to \$20,727,344
Total Estimated Net Effect on <u>Other</u> State Funds	Up to \$20,727,344	Up to \$20,727,344	Up to \$20,727,344

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Capitol Complex	0 - 1 FTE	0 - 1 FTE	0 - 1 FTE
Total Estimated Net Effect on FTE	0 - 1 FTE	0 - 1 FTE	0 - 1 FTE

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 2021	FY 2022	FY 2023
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 620.3200 - Historic Preservation Tax Credit Fee (1 Percent)

Officials from the **Office of Administration - Division of Budget & Planning (B&P)** state this proposed legislation would create the Capitol Complex Fund which will be used for maintenance, renovations, and rehabilitation of the Capitol Complex, administered by the Missouri Development Finance Board. Revenues for this fund will consist of a 1% fee collected by the Department of Economic Development on all issued Historic Preservation Tax Credits, as well as other monetary donations. As this fund will be a Missouri Development Finance Board fund, existing outside the State Treasury, it will have no impact on Total State Revenue (TSR). Fees collected for this will impact the calculation under Article X, Section 18(e). Based on the three year average of Historic tax credit issuances, \$72,734,375, the fees collected could be around \$727,344 per year.

Oversight notes this proposed legislation may impose a fee equal to one percent (1%) of the amount of Historic Preservation Tax Credits issued under Chapter 253. The fee imposed under Section 620.3200 of this proposed legislation would be in addition to the fee(s) currently allowed to be charged under Section 620.1900, which is paid to the Missouri Department of Economic Development, equal to four percent (4%) of the amount of Historic Preservation Tax Credits issued under Chapter 253.

Officials from the **Missouri Department of Economic Development (DED)** state DED is allowed to charge a fee of one percent (1%) on all Historic Tax Credits issued, payable to the Missouri Development Finance Board (MDFB) for the Capitol Complex Fund. DED assumes the Historic Tax Credit could issue the full amount of the cap. The cap on the Historic Tax Credit program is \$120 million per year; one percent (1%) of \$120 million will be \$1.2 million per year into the Capitol Complex Fund. This provision of the legislation will not impact TSR since the money goes directly to the MDFB for the Capitol Complex Fund.

Oversight notes the cap for the Historic Tax Credit Program is \$120,000,000 annually. Oversight further notes the Historic Preservation Tax Credit Program's three year issuance average equals \$72,734,375. One percent of the three year average equals \$727,344. The Historic Preservation Tax Credit Program's five year issuance average equals \$66,199,963. One percent of the five year average equals \$662,000. For the purposes of this fiscal note, Oversight will show the revenues deposited into the Capitol Complex Fund from this provision of the proposed legislation equal to the three year average provided by B&P.

ASSUMPTION (continued)

Officials from the **Missouri Department of Revenue (DOR)** state the Department of Economic Development may charge a fee on tax credits that are issued under Chapter 253, less than or equal to one percent (1%) of the tax credits value. The fee imposed in this proposed legislation is payable to the Missouri Development Finance Board for the benefit of the Capitol Complex Fund created under Section 620.321. The fee is to be paid upon receipt of the Historic Preservation Tax Credit(s).

Oversight notes this proposed legislation would allow for a fee equal to one percent (1%) of any Historic Preservation Tax Credit issuances. This proposed legislation imposes the one percent fee in addition to the fee currently allowed pursuant to Section 620.190, equal to four percent (4%) of Historic Preservation Tax Credit issuances. Oversight recognizes the three year average Historic Preservation Tax Credit issuances to be \$72,734,375. Oversight also notes the fees collected under Section 620.3200 of this proposed legislation shall be payable to the Missouri Development Finance Board for the benefit of the Capitol Complex Fund, established under Section 620.3210 of this proposed legislation.

Section 620.3210 - Establishes the Capitol Complex Tax Credit Act

Officials from **B&P** state this proposed legislation would create a tax credit for individuals or entities that make eligible monetary or artifact donations to the Capitol Complex Fund, beginning January 1, 2020. Taxpayers may claim a tax credit equal to an amount up to 50% of their eligible monetary donation or for an amount up to 30% of their eligible artifact donation. The credit for monetary donations is refundable or the credit may be carried forward to any of the four subsequent taxable years. The credit for eligible artifact donations has a four-year carry-forward provision. Issuances of these tax credits are capped at \$10,000,000 annually. These tax credits may offset Tax Year 2020 liabilities; therefore, reducing General Revenue (GR) and Total State Revenues (TSR) up to \$10,000,000 annually beginning in Fiscal Year 2021.

Oversight notes the tax credit created under Section 620.3210 of this proposed legislation is awarded to qualified donors who make eligible monetary donations equal to fifty percent (50%) of the donation and to qualified donors who make eligible artifact donations equal to thirty percent (30%) of the donation. Only revenues from eligible monetary donations and from the one percent fee imposed under Section 620.3200 of this proposed legislation would be deposited into the Capitol Complex Fund. Oversight notes the \$10 million cap is for both eligible monetary donations and eligible artifact donations. Thus, Oversight assumes the maximum amount that could be deposited into the Capitol Complex Fund by means of eligible monetary donations is \$20 million annually plus the one percent fee imposed under Section 620.3210 estimated at \$727,344 (1% of the Historic Preservation Tax Credit three year average issuances), for a total of

ASSUMPTION (continued)

\$20,727,344 annually, provided no eligible artifact donations are recognized. The amount deposited into the Capitol Complex Fund by means of the tax credit created is dependent on eligible monetary donations; the amount deposited could be reduced for every eligible artifact donation as no revenues are deposited from artifact donations while the donation itself would lessen the shared amount available within the \$10 million cap.

Officials from **DED** state this creates the Capitol Complex Tax Credit Act. Beginning January 1, 2020, a donor gets a tax credit equal to fifty percent (50%) for monetary donations and thirty percent (30%) for artifact donations. This proposed legislation places a cap of \$10 million in authorizations per year. This is the impact to TSR since it is a reduction of tax revenue.

DED will need to hire one (1) Economic Development Incentive Specialist III (at \$51,808 annually) to administer the program.

Oversight assumes DED could absorb the additional duties and responsibilities of the tax credit program proposed without adding additional FTE; however, due to the uncertainty of how many tax credits will be issued under this proposed legislation, Oversight will range DED's cost from \$0 (FTE can be absorbed) to the estimate(s) provided by DED for one Economic Development Incentive Specialist III (FTE is not absorbed) to the Capitol Complex Fund. Oversight notes this proposed legislation allows administrative costs to be paid out of the Capitol Complex Fund. Therefore, Oversight assumes GR would not be impacted by adding DED's FTE. Oversight notes, however, this proposed legislation would not require in-state or out-of-state travel for DED. Therefore, Oversight has adjusted the expenses reported by DED to remove the in-state and out-of-state travel expenses reported.

Officials from the **DOR** state this proposed legislation creates the "Capitol Complex Tax Credit Act." For all taxable years beginning on or after January 1, 2020, this act authorizes a tax credit against the taxes otherwise due under Chapter 143 and 148, except for Section(s) 143.191 to 143.265, for all monetary and artifact donations. The tax credit for monetary donations shall not exceed fifty percent (50%) of the eligible donation, is refundable and may be carried forward up to four taxable years. The tax credit for artifact donations shall not exceed thirty percent (30%) of the eligible donation, is not refundable but may be carried forward up to four taxable years. No more than \$10 million in tax credits shall be authorized in any given calendar year.

This section establishes the "Capitol Complex Fund", which is authorized to receive any eligible monetary donation as provided in the section and revenues derived from fees imposed in section 620.3200. The "Capitol Complex Fund" shall be separated into two accounts: a rehabilitation and renovation account and a maintenance account. The distribution of the funds shall be 90 percent and 7.5, respectively. The remaining 2.5 percent may be used for soliciting donations to the fund, advertising and promoting the fund, and administrative costs of the fund.

ASSUMPTION (continued)

DOR assumes this proposed legislation would result in a negative impact to GR of an amount up to \$10 million annually beginning in Fiscal Year 2021.

Oversight notes the tax credit program authorized under this proposed legislation would begin January 1, 2020. Tax Year 2020 tax returns claiming the tax credit(s) authorized under this proposed legislation would not be filed until after January 1, 2021 (Fiscal Year 2021). Therefore, Oversight will show the reduction to GR and TSR beginning in Fiscal Year 2021.

DOR states this proposed legislation would result in an unknown increase in tax credits redeemed and errors/correspondence generated. DOR has stated that if the increase in redemptions and/or errors/correspondence is significant, DOR will request FTE through the appropriations process based on the following:

One (1) Revenue Processing Technician I for every 6,000 tax credits redeemed and one (1) Revenue Processing Technician I for every 7,600 errors/correspondence generated.

Oversight notes DOR assumes it can absorb the responsibilities of the tax credit(s) created under this proposed legislation and, for the purposes of this fiscal note, will reflect zero FTE for this organization.

Officials from the **Office of Administration (OA)** state this proposed legislation would create the Capitol Complex Fund to be used for maintenance, renovation, and rehabilitation of the Capitol Complex. Donors to the fund would be eligible to receive a credit against state income tax for 50% of their donation amount.

The legislation provides that the Commissioner of Administration would determine what projects are performed with the money from the fund and how projects will be carried out.

OA and the Office of Administration - Facilities Management, Design & Construction Division (OA-FMDC) assumes that this bill could result in OA-FMDC being responsible for additional projects in the Capitol Complex. Without information about the amount of donations that would be received and the nature of the projects that would be performed with the money from the fund, OA-FMDC is unable to know the exact impact of this bill.

An increase in the number of projects as a result of this legislation would result in an increased workload for OA-FMDC staff and could require additional FTE, depending upon the size and number of the projects. If the projects are small, OA-FMDC assumes that the work could be absorbed by existing staff. If, however, there is one or more large projects (in excess of \$25 million) or numerous projects, additional FTE could be required. OA-FMDC assumes that the fund would not generate enough revenue in the first few years to require more than one new FTE.

ASSUMPTION (continued)

OA-FMDC estimates the impact of this bill to be \$0 to \$74,102 (salary of one Executive I, fringe and E&E) starting in FY 2023.

Oversight notes OA has stated the exact impact of this proposed legislation is unknown while providing an estimated impact of one (1) Executive I equal to \$74,102 beginning in Fiscal Year 2023. Oversight assumes since OA would be responsible for determining what projects are performed with the money in the Capitol Complex Fund and how the projects are to be carried out, OA would know what projects could or could not be carried out with existing resources and what projects would warrant additional FTE. Therefore, for the purposes of this fiscal note, Oversight assumes OA could absorb the responsibilities of the Capitol Complex Fund with existing resources. Should OA recognize the need for additional FTE in future years when evaluating what projects are to be performed, OA could require additional resources.

Officials from the **Missouri Department of Commerce and Insurance (DCI)** state this proposed legislation could result in a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) as a result of the creation of the Capitol Complex Tax Credit. Premium tax revenue is split 50/50 between General Revenue (GR) and the 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 and which insurers will qualify for the tax credit proposed.

DCI will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, DCI may need to request more expense and equipment appropriation through the budget process.

Oversight notes DCI assumes they could absorb the responsibilities of the tax credit created under this proposed legislation. If multiple pieces of legislation pass which warrant additional expense and equipment, DCI could require additional resources.

Oversight notes this proposed legislation establishes the Capitol Complex Tax Credit Act for which qualified donors of eligible monetary items and eligible artifact items could qualify for a tax credit to offset tax(es) due under Chapters 143 and 148, other than Withholding Tax(es) authorized under Section(s) 143.191 to 143.265. The tax credit program authorized would begin January 1, 2020. Qualified donors who make eligible monetary donations could qualify for a tax credit up to fifty percent (50%) of the amount donated while qualified donors who make eligible artifact donations could qualify for a tax credit up to thirty percent (30%) of the value of the

ASSUMPTION (continued)

artifact which would be determined by the Board of Public Buildings. Oversight notes the Board of Public Building consists of the Governor, the Attorney General and the Lieutenant Governor. Tax credits authorized for eligible monetary donations could be refunded or carried forward for four taxable periods. Tax credits authorized for eligible artifact donations are limited to the recipients state tax liability and may not be refunded but may be carried forward for four taxable periods.

The eligible monetary amounts donated by qualified donors would be deposited into the Capitol Complex Fund (in addition to the one percent fee established under Section 620.3200 of this proposed legislation). Oversight notes that no more than \$10 million may be authorized in tax credit(s) under by this proposed legislation each calendar year and the tax credits would be issued on a first-come, first-serve basis. Therefore, Oversight estimates the maximum deposits into the Capitol Complex Fund each year by means of eligible monetary donations to be \$20 million (\$10 million cap / 50% tax credit). Oversight notes the estimated deposits into the Capitol Complex Fund of \$20 million could be reduced by each eligible artifact donation, as tax credits awarded for such a donation do not warrant any deposit into the fund but shares the same \$10 million cap.

This proposed legislation provides that the Capitol Complex Fund shall be segregated into two separate accounts; a Rehabilitation and Renovation Account and a Maintenance Account. Oversight notes the proposed legislation states ninety percent (90%) of the revenues received from eligible monetary donations and fees collected pursuant to Section 620.3000 shall be deposited into the Rehabilitation and Renovation Account and seven and one-half percent (7.5%) percent shall be deposited into the Maintenance Account while the remaining two and one-half percent (2.5%) may be used for the purposes of soliciting donations to the fund, advertising and promoting the fund, and administrative costs of administering the fund. Oversight provides the following maximum estimated allocation of revenues generated by eligible monetary donations and the one percent fee established under Section 620.3000:

Capitol Complex Fund Allocation	Capitol Complex Fund	Rehabilitation and Renovation Account (90%)	Maintenance Account (7.5%)	Soliciting donations/Advertising and Promotion/Administration Costs and Hire Fund Raising Professionals (2.5%)
Section 620.3000	\$727,344	\$654,609	\$54,551	\$18,184
Section 620.3210	\$20,000,000	\$18,000,000	\$1,500,000	\$500,000
Total (DED FTE Not Included)	\$20,727,344	\$18,654,609	\$1,554,551	\$518,184
Less DED Admin. Cost	(\$84,856) credited from revenues in last column			
Total (DED FTE Included)	\$20,642,488	\$18,654,609	\$1,554,551	\$433,328

ASSUMPTION (continued)

Oversight notes, since the Capitol Complex Fund would be a Missouri Development Finance Board fund, outside of the State Treasurer's Office, there will be no impact to General Revenue (GR) or Total State Revenue (TSR).

Oversight estimates the reduction in revenues, specific to GR and TSR could amount up to \$10,000,000 which consists of the \$10 million cap established for the tax credit program.

Officials from the **Office of the Secretary of State (SOS)** state 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 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.

Officials from the **Joint Committee on Administrative Rules (JCAR)** assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

Oversight notes the **Governor's Office**, the **Lieutenant Governor's Office**, the **Missouri Department of Transportation**, the **Missouri State Treasurer's Office** and the **Missouri Attorney General's Office** have stated this proposed legislation would not have a direct fiscal impact on their respective organizations. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero fiscal impact in this fiscal note for these organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
GENERAL REVENUE FUND			
<u>Revenue Reduction</u> - Section 620.3210 - Tax Credit for eligible monetary donations to Capitol Complex Fund and eligible artifact donations to Board of Public Buildings p. 4	<u>Up to</u> (\$10,000,000)	<u>Up to</u> (\$10,000,000)	<u>Up to</u> (\$10,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Up to</u> (\$10,000,000)	<u>Up to</u> (\$10,000,000)	<u>Up to</u> (\$10,000,000)
CAPITOL COMPLEX FUND			
<u>Revenue Gain</u> - Section 620.3210 - Total value of donations made by donors for 50% tax credit. p. 4	Up to \$20,000,000	Up to \$20,000,000	Up to \$20,000,000
<u>Revenue Gain</u> - Section 620.3200 - 1% fee on all Historic Tax Credits to Capitol Complex Fund p. 3	Up to \$727,344	Up to \$727,344	Up to \$727,344
<u>Cost</u> - DED - Section 620.3210 - Administration of tax credit program paid from administration account p. 5			
Personal Service	\$0 to (\$43,173)	\$0 to (\$52,326)	\$0 to (\$52,849)
Fringe Benefits	\$0 to (\$23,938)	\$0 to (\$28,897)	\$0 to (\$29,071)
Equipment and Expenses	\$0 to (\$11,193)	\$0 to (\$2,602)	\$0 to (\$2,666)
<u>Total Cost</u>	<u>\$0 to (\$78,304)</u>	<u>\$0 to (\$83,825)</u>	<u>\$0 to (\$84,586)</u>
FTE Change - 0 to 1 FTE	0 to 1 FTE	0 to 1 FTE	0 to 1 FTE
ESTIMATED NET EFFECT ON THE CAPITOL COMPLEX FUND	<u>Up to</u> \$20,727,344	<u>Up to</u> \$20,727,344	<u>Up to</u> \$20,727,344
Estimated Net FTE Effect on the Capitol Complex Fund	0 - 1 FTE	0 - 1 FTE	0 - 1 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
<u>FISCAL IMPACT - Small Business</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

This proposed legislation could positively impact any small business that makes eligible monetary donations or eligible artifact donations as they may receive a tax credit that would reduce or eliminate the small business's tax liability. In addition, this proposed legislation could negatively impact any small business that receives Historic Tax Credits could be impacted as they would be required to pay the fee pursuant to Section 620.3200 of this proposed legislation.

FISCAL DESCRIPTION

The Capitol Complex Fund is authorized to receive any eligible monetary donation, as defined in the act, and shall be segregated into two accounts: a rehabilitation and renovation account, and a maintenance account. Ninety percent of the revenues deposited into the fund shall be placed in the rehabilitation and renovation account and seven and one-half percent of revenues deposited in the fund shall be placed in the maintenance account. The remaining two and one-half percent of the funds may be used for the purposes of fundraising, advertising, and administrative costs.

The choice of projects for which money is to be used, as well as the determination of the methods of carrying out the project and the procurement of goods and services, shall be made by the Commissioner of Administration. No moneys shall be released from the fund for any expense without the approval of the Commissioner of Administration.

For all taxable years beginning on or after January 1, 2020, any qualified donor, as defined in the act, shall be allowed a credit against any state income tax (except employer withheld taxes) or state taxes imposed on financial institutions for an amount equal to fifty percent of the monetary donation amount. Any amount of tax credit that exceeds the qualified donor's state income tax liability may be refunded or carried forward for the following four years.

For all taxable years beginning on or after January 1, 2020, a qualified donor shall be allowed a credit against any state income tax (except employer withheld taxes) or state taxes imposed on financial institutions for an amount equal to thirty percent of the value of the eligible artifact donation, as defined in the act. Any amount of tax credit that exceeds the donor's tax liability shall not be refunded for artifacts, but the credit may be carried forward for four subsequent years.

The Department of Economic Development shall not issue tax credits for donations to the Capitol Complex Fund in excess of \$10 million per year in the aggregate. Donations received in excess of the cap shall be placed in line for tax credits the following year. Alternatively, a donor may donate without receiving the credit or may request that their donation is returned.

FISCAL DESCRIPTION (continued)

Tax credits issued for donations under this act are not subject to any fee. Tax credits issued under this act may be assigned, transferred, sold, or otherwise conveyed.

This act shall sunset six years after August 28, 2020, unless reauthorized by the General Assembly. (Section 620.3210)

This act allows the Department to charge a fee in an amount not to exceed one percent of any tax credit issued to a recipient for the rehabilitation of historic structures under Chapter 253. Any revenues generated by such a fee shall be deposited in the Capitol Complex Fund. (Section 620.3200)

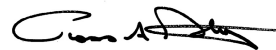
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Missouri Office of Administration - Division of Budget & Planning
Missouri Department of Economic Development
Missouri Department of Revenue
Missouri Office of Administration
Missouri Department of Commerce and Insurance
Missouri Secretary of State's Office
Joint Committee on Administrative Rules
Missouri Department of Transportation
Missouri State Treasurer's Office
Missouri Attorney General's Office
Governor's Office
Lieutenant Governor's Office



Julie Morff
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January 24, 2020



Ross Strobe
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January 24, 2020