COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1170H.02I
Bill No.: HB 610
Subject: Economic Development; Department of Economic Development; Urban Redevelopment
Type: Original
Date: February 24, 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*	($392,079)	Up to ($100,506,727)	Up to ($102,502,450)
Total Estimated Net Effect on General Revenue	**($392,079)**	**Up to ($100,506,727)**	**Up to ($102,502,450)**

*Oversight reflects a potential impact up to the maximum cap and adjusted by CPI. Additionally, the amounts reflect additional 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 Other 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 All 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	3 FTE	3 FTE	3 FTE
General Revenue Fund - DOR	0 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**3 FTE**	**4 FTE**	**4 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

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

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

For tax years beginning January 1, 2026, an applicant may receive a tax credit of 25% qualified conversion expenditures with respect to a qualified converted building. The tax credit can be 30% with respect to upper floor housing located in a qualified Missouri main street district. Credits are transferable and sellable, and can be carried back 3 years and carried forward 10 years.

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.

25% of credits available shall be authorized solely for projects located in a qualified Missouri main street district. If the total amount of reserved credits has been authorized, projects located in a qualified Missouri main street district may receive tax credits from the remaining unreserved amount of tax credits.

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 to administer this program.

Oversight notes officials from the DED 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 an impact for 3 FTE (Senior Economic Development Specialists $83,784) for DED in the fiscal note, effective FY 2026.

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 or 30% of qualified conversion expenditures with respect to upper floor housing incurred for converting nonresidential real property from office use to predominantly, or more than 50% of the gross square footage for, residential use and may also included retail or other commercial uses. 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. However, this bill doesn't exclude projects participating in the Missouri Downtown and Rural Economic Stimulus Act (MODESA). Therefore, MODESA participants receiving local TIF funding may also receive tax credits from this program.

Tax credits related to this act shall not exceed $50 million for buildings under 750K square feet, and shall not exceed $50M for buildings over 750K square feet in any fiscal year. 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, 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. Tax credits authorized for qualified converted buildings of more than 750,000 square feet shall not count toward the annual tax credit cap, provided that no more than $50 million in tax credits shall be authorized for such buildings in a given fiscal year.

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. DED will have 30 days to review the application and notify the applicant in writing whether it's been approved or denied. DED must evaluate and weigh applications based on scoring rubrics with a maximum of 100 points: 1) A maximum of 25 points for projects located in an Opportunity Zone, Qualified Census Tract, Enhanced Enterprise Zone, or Disadvantaged Community; 2) a maximum of 20 points for the project's building gross square footage; 3) a maximum of 15 points for the length of time a project's building has been vacant; 4) a maximum of 20 points for the number of temporary or permanent jobs created; and 5) a maximum of 20 points for the total project's cost. Applications with a score less than 70 points will receive a notice of denial from DED. Approved credits won't be counted toward total credits awarded to a project because the award is related to the project's score.

All approved applications receiving approval shall submit 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. For phased projects, applicant's will submit a cost certification. for each project phase, including expenses related to each phase. After the approval of the cost certification of work completed for each phase, DED will issue 80% of the tax credits approved for that phase.

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. Therefore, with the two provisions in subsection 4, the total fiscal impact is $100M to TSR.

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, or 30% of qualified conversion expenditures with respect to upper floor housing located in a qualified Missouri main street district. The Department of Economic Development (DED) is given primary authority over this program.

The credits under this program 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 99.720.4(1) sets a cap of $50 million annually for these projects. Section 99.720.4(2) goes on to allow buildings of more than 750,000 square feet to also qualify for credits of up to $50 million. Therefore, this proposal can be expected to lower general revenue by up to $100 million annually.

Section 99.720.6 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. This proposal is not clear in what it means by the maximum number of credits issued as it appears to have 2 separate caps. For fiscal note purposes, DOR assumes it only increases if both caps are met.

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	($100,000,000)
FY 2028	($102,000,000)

This proposal creates two new tax credits that would require twos 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 99.720.4(1) sets a cap of $50 million annually for these projects. Section 99.720.4(2) goes on to allow buildings of more than 750,000 square feet to also qualify for credits of up to $50 million. Lastly, Section 99.720.6 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 2026, and for purpose of this fiscal note, adjusted maximum cap of $100 million in combined tax credits with CPI in FY 2027.

In response to the similar proposal, SB 35-2025, 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.

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE			
Costs – DOR FTE Section(s) Section 99.720.4(1) & 99.720 4(2)(p.8)			
Personnel Service	$0	($37,760)	($38,516)
Fringe Benefits	$0	($30,926)	($31,229)
Expense & Equipment	$0	($13,463)	($582)
Total Costs – DOR p.8	$0	($82,149)	($70,327)
FTE Change	0 FTE	1 FTE	1 FTE
Costs – DED Section(s) Section 99.720.4(1) & 99.720 4(2) (p.11)			
Personnel Service	($209,460)	($256,379)	($261,507)
Fringe Benefits	($123,432)	($150,133)	($152,188)
Expense & Equipment	($59,187)	($18,066)	($18,428)
Total Costs – DED p.3	($392,079)	($424,578)	($432,123)
FTE Change	3 FTE	3 FTE	3 FTE
Costs – Section 99.720.4(1) Tax Credit (p.8)	$0	Up to ($50,000,000)	Up to ($51,000,000)
Costs – Section 99.720 4 (2) Tax Credit (p.8)	$0	Up to ($50,000,000)	Up to ($51,000,000)

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($392,079)**	**Up to ($100,506,727)**	**Up to ($102,502,450)**
Estimated Net FTE Change on General Revenue	3 FTE	4 FTE	4 FTE

FISCAL IMPACT – Local Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
	$0	**$0**	**$0**

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, a taxpayer may submit an application to the Department of Economic Development to claim a credit against his or her state tax liability:

(1) Equal to 25% of qualified conversion expenditures, as defined in the bill, incurred for converting nonresidential property from office use to residential, retail, or other commercial use;

(2) or (2) Equal to 30% of qualified conversion expenditures with respect to upper floor housing, as defined in the bill, incurred for converting nonresidential property from office use to residential, retail, or other commercial use.

The tax credits will be refundable, but may be carried back three years or carried forward 10 years. The total amount of tax credits must not exceed $50 million in any fiscal year, and may also be transferred, sold, or assigned, as specified in the bill.

Of the maximum amount of available tax credits 25% must be solely for projects located in a qualified Missouri main street district, as defined in the bill. If the total amount of tax credits reserved for this purpose has already been authorized, projects located in a qualified Missouri main street district may receive tax credits from the remaining unreserved credits.

If the maximum amount of allowable tax credits is authorized in any given fiscal year, such maximum allowable amount will be increased by the percentage increase in inflation. Tax credits authorized for qualified converted buildings of more than 750,000 square feet will not count toward the maximum amount of annual tax credits, provided that no more than $50 million in tax credits are authorized for such buildings in a given fiscal year.

A taxpayer must apply to the Department of Economic Development to receive tax credits. Applications must be prioritized in order of submission, and must include the following:

(1) Proof of ownership or site control, as specified in the bill;

(2) Floor plans of the existing structure, architectural plans, and where applicable, plans of the proposed conversion of the structure, as well as proposed additions;

(3) Estimated cost of conversion;

(4) Anticipated total costs of the project;

(5) Actual basis of the property, as shown by proof of actual acquisition costs;

(6) Anticipated labor costs;

(7) Estimated project start date;

(8) Estimated project completion date;

(9) Proof that the property is an eligible property;

(10) Copy of all land use and building approvals reasonably necessary for the commencement of the project; and

(11) Any other information that the Department may reasonably require to review the project for approval.

If the Department determines that a taxpayer has failed to comply with these requirements, the taxpayer will be allowed 30 days to submit additional evidence to remedy the failure.

The Department must evaluate and weight applications according to a scoring rubric, as provided in the bill, based on the following categories:

(1) Projects located in an Opportunity Zone, Qualified Census Tract, Enhanced Enterprise Zone, or a Disadvantaged Community;

(2) Gross building square footage;

(3) Jobs created; and

(4) Project cost.

All taxpayers with approved applications must submit, within 120 days following the award of tax credits, evidence of the taxpayer's capacity to finance the costs and expenses for the conversion of the eligible property. If the Department determines that a taxpayer has failed to comply with the listed requirements, the taxpayer must be allowed 30 days to submit additional evidence to remedy the failure. Approved applications must commence conversion within 12 months of the date of approval from the Department. To receive a tax credit, a taxpayer with an approved application must apply for final approval from the Department, which will determine the final amount of qualified conversion expenditures and whether the completed rehabilitation meets all requirements.

The final application must demonstrate that the taxpayer has:

(1) Substantially converted a qualified converted building; and

(2) Presented satisfactory evidence of any qualified conversion expenditures for the structure, as determined by the Department; and

(3) Turned over any other information reasonably requested by the Department.

On an annual basis, the Department must determine the overall economic impact resulting from the rehabilitation of eligible property.

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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February 24, 2025

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