

Historic Preservation Tax Credit Program

2019 WEBINAR



Department of Economic Development



Agenda

- SB590 Legislative Changes
- 2019 Rules
- 2019 Guidelines and Application
- Cost Certification Review
- Questions

Legislative Changes

Cap

Prior to August 28, 2018

- \$140M for projects \$275K and over

After effective date of legislation August 28, 2018

- \$90M with an additional \$30M solely for projects located in a qualified census tract. Applies only for projects \$275K and over
- One-time adjustment each fiscal if both \$90M and \$30M caps are exhausted – maximum amount of credits adjusted by the percentage increase in the CPI

Preliminary Application Review

- Additional documentation added for review/approval
 - A copy of all land use and building approvals reasonably necessary for the commencement of the project.
 - All applications receiving approval on or after July 1, 2019 shall submit evidence of project financing.

- Additional evaluation criteria for projects subject to cap
 - Overall Size and Quality of the Project
 - Level of Economic Distress
 - Net Fiscal Benefit
 - Input for Local Elected Officials

Final Application Review

Commencement of Rehabilitation

Prior to August 28, 2018

- 2 years from date of authorization letter and no less than 10% of estimated costs of rehab.

After effective date of legislation August 28, 2018

- 9 months from date of authorization letter and no less than 10% of estimated costs of rehab.

Final Application Review

Issuance Fee

Received Prior to August 28, 2018

- 2.5% Issuance Fee

Received on or After August 28, 2018

- 4% Issuance Fee

New Rules

Changes to Existing Definitions

Identity of Interest (IOI)

- Exists when:
 - Applicant has any financial interest in the other party
 - 1 or more of the officers, directors, stockholders, or partners of the applicant is also one of the above
 - When any officer, director, stockholder, or partner of the applicant has any financial interest whatsoever in the other party or has controlling interest in the management or operation of the other party
 - The other party advances any funds to the applicant
 - The other party provides and pays on behalf of the applicant the costs related to construction contract
 - The other party takes stock or any interest in the applicant as part of consideration to be paid
 - Any side deal, agreement, contract or undertaking entered into that alters, amends, or cancels any of the original documents submitted to DED at preliminary application
 - Any party involved in the project who owns the stock of another party involved in the project
 - Any party involved in the project has a stockholder, member, partner, officer, or director that is related by blood, adoption or marriage to one of the above of another party involved in the project.

Changes to Existing Definitions - Continued

Non-Qualified Rehabilitation Expenditures (Non-QREs)

- All costs included in total project costs that are not qualified rehabilitation expenditures, including, but not limited to, a list of non-qualified expenditures published in DED's program guidelines. Each project is held to the list effective on the date the complete application is submitted.

Qualified Rehabilitation Expenditures (QREs)

- Expenditures used as eligible basis to calculate tax credits, including, but not limited to, (1) QREs defined under section 47(c)(2)(A) of the Internal Revenue Code as amended, as determined by DED and (2) a list of QREs published in DED's program guidelines. Each project is held to the list effective on the date the complete application is submitted.

New Definitions

Inactive Project

- Pending or approved project in which applicant fails to communicate to DED for at least 9 months from the date DED sent the last correspondence to applicant regarding the project.

Incomplete Application

- An application received by DED that is not submitted in accordance with the instructions, guidelines, or regulations published on DED's website.

Phased Project

- A project in which the applications submitted to DED provided for the project to be completed and reviewed in more than one construction period.

Preliminary Application Review (\$275K or more in Credits)

- Cap of \$90 M + \$30 M for projects in qualified census tract
- Approval given to \$90 M cap followed by \$30 M cap
- 2 application cycles per state FY – published on DED’s website
 - FY 20 starts on June 3rd and October 1st and FY21 starts on or after April 1st and October 1st
- Incomplete applications will not be reviewed
- Priority is based on postmarked date (from oldest to newest)
 - Apply lottery process to applications postmarked on the same day

Preliminary Application Review (\$275K or more in Credits) - Continued

- Scoring criteria is used for review – total 100 points
- Applications are grouped into 3 tiers based on their scores
 - Tier 1 – 70 points and above
 - Tier 2 – 31-69 points
 - Tier 3 – 30 points and below
- Applications with the same score will go through lottery process to determine order submitted to SHPO
- Top-scoring applications will be forwarded to SHPO review
- Preliminary approval may be given upon receiving SHPO approval without conditions

Project Cost Eligibility Period

- Hard costs will be considered for eligibility if incurred on the **later** of:
 - (1) Six months prior to the application's preliminary approval
 - OR
 - (2) One month prior to the receipt of preliminary application
- Soft costs will be considered for eligibility if incurred on the **later** of:
 - (1) One year prior to the application's preliminary approval
 - OR
 - (2) Six months prior to the receipt of preliminary application
- All documents relating to project sources of funds, loan documents, invoices, receipts, or proofs of payment must be in applicant's name and authorized by applicant. Third party payor on behalf of applicant, whether reimbursed or not, will not be eligible for tax credits.

Phased Project

- To qualify for a phased project, applicant must:
 - apply for federal program as a phased project,
 - mimic state construction periods to federal phases ,
 - submit separate preliminary application for each construction period of the phased project together at the beginning of project.
- Each construction period is a standalone project and must meet all program requirements
- Costs incurred in scope of work identified in one construction period must be claimed within that construction period

Developer Fee

- The developer fee agreement must be:
 - in the form prescribed by DED provided on DED's website
 - Signed and notarized by both parties
 - Submitted to DED at the beginning of project before the later of:
 - (1) Initial closing on construction financing
 - OR
 - (2) Initial closing on federal historic tax credits, if applicable
- Maximum of developer fee is 12% (QREs minus all Identity Of Interest (IOI) fees minus developer fee)
- Any amendments must be justifiable
- Accrued fee must be paid within 5 years of final completion

Other Notes

- Final application is reviewed according to the rules and guidelines on the state FY of the preliminary application submission.
- If the actual amount of eligible credits is greater than the amount allocated to the project, applicant may apply for additional tax credits
 - Request for additional credits is considered new application for review purpose pursuant to statute
- Inactive projects may be administratively closed upon written notice from DED to applicant

Guidelines and Application

Preliminary Application

Applying for State and Federal Programs

Previous

- Submit 3 sets of state/federal application materials to DED who will forward to SHPO

New

- Submit **2** sets of state application materials directly to DED
- Submit 2 sets of federal application materials directly to SHPO, DNR

New Questions to Preliminary Application

Less than \$275K in Credits

- Square footage of building (before and after rehabilitation)
- Job classification for expected new job creation (excluding relocated jobs or construction jobs)
- Anticipated or secured tenants for leased property

\$275K or more in Credits

- Square footage of building (before and after rehabilitation)
- Job classification for expected new job creation (excluding relocated jobs or construction jobs)
- Anticipated or secured tenants for leased property
- Current assessed value of property
- Project narrative

New Information Requested for Preliminary Application Review

Less than \$275K in Credits

- Job Classification sheet, if creating new jobs
- Copy of land use and building approvals/permits

\$275K or more in Credits

- Job Classification sheet, if creating new jobs
- Copy of land use and building approvals/permits
- Documents showing the current assessed value or prior year's tax bill
- Copy of tax abatement application, an executed agreement with LCRA, if applicable

New Information Requested for Preliminary Application Review – Continued

\$275K or more in Credits

- HTC self-score sheet
 - Copy of projected budget
 - Proof of financial commitment for each source of funds
 - Federal Opportunity Zone Map showing the project's location within such zone
 - Qualified Census Tract Map showing the project's location within such tract
 - Copy of Census Tract's Overall Poverty Rate
 - Table demonstrating the building's average vacancy rate within 1 year prior to application submission
 - Signed letter of support from the chief elected officials or a resolution of support from legislative body of the municipality, if available
 - Firm commitment of financial incentives from local jurisdiction, if available

Application Scoring

Preliminary Application Evaluation and Scoring

There are Four Scoring Criteria – 100 Points

1. Overall Size and Quality of the Project
2. Level of Economic Distress
3. Net Fiscal Benefit
4. Input from Local Elected officials

Criterion A – Overall Size and Quality of the Project – Total Points Available: 35

A1. Leveraged Investment – 5 Points Available

- Total Project Investment / Tax Credit Request = Leveraged Investment Ratio

A2. Number of new Jobs to the State to be Created by the Project – 5 Points Available

A3. Average Wage for the New Jobs to be Created by the Project – 5 Points Available

- Equal to or Greater than the County Average Wage

A4. Potential Multiplier Effect of the Project Based on the Project's Industry – 5 Points Available

- Based on the IMPLAN model provided and based on the majority of activity in the building
- Multiplier uses the first two numbers of the NAICS code for the project's industry

A5. Financing Committed – 15 Points Available

- Weighted preference for applicants who have financing and/or equity in place and are ready to begin development
- Three financing types
 1. Private
 2. Public
 3. Other/Developer Equity

Criterion B – Level of Economic Distress – Total Points Available: 30

B1. Federal Opportunity Zone – 10 Points Available

- The project's census tract is designated as a Federal Opportunity Zone

B2. Qualified Census Tract – 3 Points Available

- The project's census tract is designated as a Qualified Census Tract
- A census tract with a poverty rate of 20% or higher

B3. The Project County's Level of Unemployment – 4 Points Available

- Weighted preference for projects that will create economic growth in distressed areas. This measure uses the unemployment rate of the county during the month currently available preceding the start of the application period.

B4. The Project Census Tract's Overall Poverty Rate – 3 Points Available

- Weighted preference for projects that will create economic growth in distressed areas
- This measure uses the poverty rate of the property's census tract

B5. Vacant Property – 10 Points Available

- Weighted preference for buildings that are underutilized or not occupied and will generate a greater catalytic impact upon completion of the rehabilitation
- Vacancy is measured over a one-year period ending on the date on which the application must be submitted

Criterion C – Net Fiscal Benefit – Total Points Available: 25

C1. Net Fiscal Benefit – 25 Points Available

- Weighted preference for projects with the greatest return on investment (ROI). DED Business and Community Solutions will conduct a cost benefit analysis based on the data provided in this section and award up to 25 points based on the ROI from the project to state and local governments.
- State Cost-Benefit Analysis – 15 Points Available
- Local Cost-Benefit Analysis – 10 Points Available

Note: These points are not self-scored by the applicant.

Criterion D – Input from Local Elected Officials – Total Points Available: 10

D1. Local Participation and Support – 10 Points Available

- Weighted preference for applicants who have received an indication of support from their local jurisdiction (municipality or township) or county.
- If the applicant is documenting an indication of local support
 - Include a letter supporting a Missouri Historic Preservation Tax Credit application for the project. The letter should be signed by the Mayor of the local jurisdiction, or the County Executive of the county where the project is located, and must be dated within six months of the date the application was submitted.

OR

- Include a resolution of support passed by the Legislative Body of the Municipality, or the County Commissioners of the county, where the project is located supporting the projects application for the Missouri Historic Preservation Tax Credit program. The resolution must be dated within one year of the date the application was submitted.

NOTE: Additional points will not be awarded for submitting multiple letters of support

Cost Certification

New Soft Costs Thresholds

- Developer Fee
 - Threshold is 12% of Total Project Costs less non-QREs, IOI fees, profit, overhead, and the developer fee itself
- Overhead (including general requirements)
 - Threshold is 4% of Total Eligible Project Costs less IOI fees, profit, and overhead
 - Will include the general requirement costs as part of the calculation
- Profit
 - Threshold is 6% of Total Eligible Project Costs less IOI fees, profit, and overhead
- Other Fees
 - Any other fees or recategorized fees that could be considered part of another fee will be further reviewed by DED and additional information may be required to determine eligibility

General Requirement Costs

- Items of general requirement costs that will be part of the overhead threshold include:
 - building permits
 - temporary sheds, construction trailers, toilets, tool storage, shops, walkways, fences, guardrails and medical or first aid facilities,
 - temporary heat, water, communications, light and power to job site for construction,
 - cleanup and rubbish disposal,
 - watchmen's wages, alarm or police monitoring, or other security costs to prevent theft and/or vandalism at the jobsite,
 - medical, first aid and related costs at the jobsite, including ice,
 - equipment rental

Total Project Costs Less Than \$250K (excluding acquisition)

- **Items Needed:**

- Invoices and proofs of payment compiled by a CPA that is licensed in the State of Missouri in the order of the EXP-Form
- EXP-Form may list expenses in date paid order or by category of expenditure
- Submit original EXP-Form and the original CPA's compilation letter in hard copy
- Invoices, executed construction contracts, change orders, architectural contract (if applicable), timesheets, or other contemporaneous documentation showing expenses were incurred
- Proofs of payment include copies of cancelled checks, bank statements, credit card statements. The bank and credit card statements must include the name of the payee on them.
- All sources of funds (including, but not limited to) loan documents, promissory notes, and deeds of trust (if applicable)

Total Project Costs \$250K or More (excluding acquisition)

- **Items Needed:**

- Original EXP-Form and original CPA's opinion letter in hard copy
- All proofs of payment in the form of cancelled checks, bank statements, title company disbursement reports, and/or credit card statements. The bank statements and credit card statements must include the name of the payee on them.
- Copies of executed construction contracts, change orders, and executed architectural contract (if applicable)
- All sources of funds (including, but not limited to) loan documents, promissory notes, and deeds of trust (if applicable)
- An excel version of the EXP-Form via email upon request during cost review

QREs and Non-QREs

- QREs may be found at:

[https://ded.mo.gov/sites/default/files/programs/program-documents/List%20of%20Qualified%20Expenditures%20\(mkt.%20version\).pdf](https://ded.mo.gov/sites/default/files/programs/program-documents/List%20of%20Qualified%20Expenditures%20(mkt.%20version).pdf)

- Non-QREs may be found at:

[https://ded.mo.gov/sites/default/files/programs/program-documents/List%20of%20Non-Qualified%20Expenditures%20\(mkt.%20version\).pdf](https://ded.mo.gov/sites/default/files/programs/program-documents/List%20of%20Non-Qualified%20Expenditures%20(mkt.%20version).pdf)

Questions?

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