

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2399-02  
Bill No.: HCS for HB 995  
Subject: Economic Development; Revenue Department; Taxation and Revenue  
Type: Original  
Date: March 29, 2007

---

Bill Summary: This proposal establishes the regional economic development initiative to provide tax credits in certain situations to promote economic growth.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
General Revenue	(\$59,632)	(\$90,700 to \$12,090,700)	(\$110,392 to \$12,110,392)
<b>Total Estimated Net Effect on General Revenue Fund*</b>	<b>(\$59,632)</b>	<b>(\$90,700 to \$12,090,700)</b>	<b>(\$110,392 to \$12,110,392)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\* The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	1 FTE	2 FTEs	2 FTEs
<b>Total Estimated Net Effect on FTE</b>	<b>1 FTE</b>	<b>2 FTEs</b>	<b>2 FTEs</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
<b>Local Government*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**\* The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

---

## **FISCAL ANALYSIS**

---

### ASSUMPTION

In response to a previous version of this proposal, officials from the **Office of Administration - Budget and Planning (BAP)** stated the legislation allows regional economic development organizations to apply to the Department of Economic Development for the authority to issue tax credits within their region provided they supply the Department with the necessary information. No such application may be authorized for more than two million dollars in tax credits and there is a true-up mechanism in the legislation for any project that does not expend funds consistent with the tax credits issued or a project that has not been completed; in such a case an amount equal to the tax credits issued shall be repaid. The tax credits issued shall be in an amount equal to fifty percent of any contributions made to the organization, they may be carried forward up to five years and they are sellable and transferable. The cap for the proposed program is set at twelve million dollars annually or thirty-six million dollars cumulatively.

The proposal allows for twelve million dollars annually for this program. This proposal could therefore lower general and total state revenues by that amount. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

In response to a previous version of this proposal, officials from the **Department of Revenue (DOR)** stated this legislation establishes a new tax credit with carry-forward provisions. DOR's Personal Tax section would require 1 Tax Processing Technician I for every 6,000 credits claimed.

Due to the Statewide Information Technology Consolidation, DOR's response to the proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed to and Finally Passed, the OA-IT costs shown will be requested through appropriations by OA-IT.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 4 existing CIT III for 2 months and an additional 2 CIT III for 1 month at a cost of \$41,860.

DOR assumes a cost to the General Revenue fund of roughly \$40,000 annually for the additional FTE.

ASSUMPTION (continued)

In response to a previous version of this proposal, officials from the **Department of Economic Development (DED)** stated this bill creates a new tax credit program called the "Regional Economic Development Initiative" which is to be administered by DED. A regional ED organization (nonprofit) is formed and any contribution they take in to develop and promote ED growth as outlined in the bill would receive a 50% tax credit. The ED organization must submit an application to DED who is required to approve and accept the application. The ED Organization is required to submit documentation of funds raised and expended, and provide quarterly reports. The program has a cumulative cap of \$36 million or \$12 million/year for 3 years -- 5-year carry forward, transferable. Applications are capped at \$2 million in tax credits.

DED assumed total State Revenue impacted by \$36 million or \$12 million for three years. This could potentially be a high volume paperwork program. DED anticipates the need for 1.5 FTE -- one Economic Development Incentive Specialist III and one Support Staff person to administer the program. DED assumes the credits issued could be offset by some positive but unknown economic benefits. No benefits are projected in this fiscal note.

DED assumed the cost of the two additional FTE to total roughly \$140,000 per year.

**Oversight** assumes DED could administer the program with one additional FTE (Economic Development Incentive Specialist III). Oversight has, for fiscal note purposes only, changed the starting salary for DOR's Tax Processing Tech I and DED's Economic Development Incentive Specialist III to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Floor space expense has been taken out of DOR's and DED's estimates, as Oversight assumes additional floor space will not be required for one additional FTE for each agency.

In response to a previous version of this proposal, officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** stated it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. Premium tax revenue is split 50/50 between General Revenue and 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 through out 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 tax credits each year.

ASSUMPTION (continued)

DIFP 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, the department may need to request more expense and equipment appropriation through the budget process.

Officials from the **Office of the Secretary of State (SOS)** note that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office 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 Secretary of State's office for Administrative Rules is less than \$2,500. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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** has ranged the fiscal impact of the regional economic development initiative from \$0 (no additional tax credits will be redeemed) to a \$12 million loss to the general revenue fund. The credits are for taxable years beginning on or after January 1, 2008, therefore, Oversight assumes the tax credits could not be utilized until the returns are filed for calendar year 2008, which would be in FY 2009. Since the credits will not be utilized until FY 2009 at the earliest, Oversight assumes the Department of Revenue would not need an additional FTE until January 1, 2009, or six months remaining in FY 2009.

**Oversight** compared the total tax credit issuances for all programs relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, under this proposal, if \$12,000,000 of additional credits are issued, Oversight would assume \$9,960,000 (83%) of credits to be redeemed, reducing Total State Revenues.

**Oversight** assumes there would be some positive economic benefit to the state as a result of the changes in this proposal, however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

ASSUMPTION (continued)

**This proposal could reduce Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
<b>GENERAL REVENUE FUND</b>			
<u>Costs - DOR</u>			
Personal Service	\$0	(\$11,343)	(\$23,367)
Fringe Benefits	\$0	(\$5,134)	(\$10,576)
Expense and Equipment	<u>\$0</u>	<u>(\$518)</u>	<u>(\$533)</u>
<u>Total Costs - DOR</u>	\$0	(\$16,995)	(\$34,476)
FTE Change DOR	0 FTE	1 FTE	1 FTE
<u>Costs - DED</u>			
Personal Service	(\$33,753)	(\$41,719)	(\$42,971)
Fringe Benefits	(\$15,277)	(\$18,882)	(\$19,449)
Expense and Equipment	<u>(\$10,602)</u>	<u>(\$13,104)</u>	<u>(\$13,496)</u>
<u>Total Costs - DED</u>	(\$59,632)	(\$73,705)	(\$75,916)
FTE Change - DED	1 FTE	1 FTE	1 FTE
<u>Loss - DED</u>			
Tax credit of 50% of contribution to a regional economic development organization	\$0	\$0 to <u>(\$12,000,000)</u>	\$0 to <u>(\$12,000,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$59,632)</u></b>	<b><u>(\$90,700 to \$12,090,700)</u></b>	<b><u>(\$110,392 to \$12,110,392)</u></b>
Estimated Net FTE Change for General Revenue Fund	1 FTE	2 FTE	2 FTE

**Note: This does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.**

FISCAL IMPACT - Local Government

FY 2008  
(10 Mo.)

FY 2009

FY 2010

\$0

\$0

\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal establishes a Regional Economic Development Initiative to promote individual and business investments in economic development within a region through contributions to regional economic development organizations. A regional economic development organization is any legally formed and locally recognized nonprofit organization representing multiple cities or counties with the goal of promoting economic growth for its respective area.

Beginning January 1, 2008, taxpayers will be eligible to receive a tax credit equal to 50% of any amount contributed to a regional economic development organization if the organization's plan has been approved by the Department of Economic Development. In order to receive the tax credit, contributions must be made during the department-approved fundraising time period.

No more than \$12 million of tax credits can be authorized annually, and no more than \$36 million can be authorized for the life of the program. The tax credit can be used to offset a taxpayer's income tax; corporate franchise tax; financial institutions tax; or bridge, express, and public utilities tax. The tax can be carried forward for five years or sold.

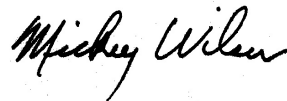
The organization is required to submit an application to the department for tax credit authorization. The requirements of the application, eligible activities, and considerations the department must take into account when reviewing applications are specified. The organization must submit quarterly reports detailing its expenditure and the progress of its project. Within six months of the end of the project, the organization must report its results and submit an audit to the department. If the funds have not been expended in accordance with the approved application or if the project has not been completed, the organization must repay the department an amount equal to the tax credits issued.

The provisions of the bill will expire three years from the effective date.

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 Administration  
Department of Insurance, Financial Institutions and Professional Registration  
Office of the Secretary of State

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
March 29, 2007