COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2472-01
Bill No.: HB 991
Subject: Economic Development; Taxation and Revenue
Type: Original
Date: May 2, 2007

Bill Summary: This proposal enacts the Distressed Areas Land Assemblage Tax Credit Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	($66,426)	($80,703 to $12,080,703)	($83,122 to $12,083,122)
Total Estimated Net Effect on General Revenue Fund*	**($66,426)**	**($80,703 to $12,080,703)**	**($83,122 to $12,083,122)**

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

*** 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
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**1 FTE**	**1 FTE**

☐ 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
Local Government*	**$0**	**$0**	**$0**

*** 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

Officials from the **Department of Economic Development (DED)** state the Distressed Areas Land Assemblage Tax Credit Act authorizes $12 million per year in tax credits with a $100 million cap. DED assumes these credits will generate positive economic benefit to the state but, the response to this fiscal note only shows the cost of the credits.

DED assumes the need for one person (Economic Development Incentive Specialist III at $46,776 annually) and expenses to administer the Distressed Areas Land Assemblage Tax Credit Act. DED assumes the Distressed Area Land Assemblage Tax Credit will generate an unknown amount of positive economic benefits to GR and Missouri. In summary, DED assumes the cost of roughly $95,000 annually for the FTE plus the loss of $12 million in tax credits annually.

Oversight has, for fiscal note purposes only, changed the starting salary for DED's Economic Development Incentive Specialist III position 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. Oversight also assumes DED will not require additional floor space for the one FTE, and therefore has removed that anticipated expense from DED's estimate.

In response to another proposal from this year, officials from the **Office of Administration - Budget and Planning (BAP)** stated that the proposal creates the Distressed Areas Land Assemblage Tax Credit program. The program provides for a 50% tax credit on acquisition costs and 100% on interest costs incurred on an eligible parcel of land for a period of five years. The tax credits may be carried forward for six consecutive years or until the credit is fully used, whichever occurs first. The total aggregate amount of tax credits authorized under this program shall not exceed $100 million dollars and the proposal sets an annual cap of $12 million dollars for the program. This proposal could therefore lower general and 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.

Officials from the **Department of Revenue (DOR)** state Section 99.1200 establishes a new tax credit with carry-forward provisions. Personal Tax would require 1 Tax Processing Technician I for every 6,000 credits claimed.

ASSUMPTION (continued)

Due to the Statewide Information Technology Consolidation, the department's response to a 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 5 existing CIT III for 2 months and an additional 2 CIT III for 1 month at a rate of $50,232.

In summary, DOR assumes the need for an additional FTE Tax Processing Tech I (at $23,916 annually) at a total cost of roughly $40,000 per year.

Oversight assumes DOR will not require an additional FTE to administer this proposal.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the "Distressed Areas Land Assemblage Tax Credit Act." The department can not estimate how much would be lost in premium tax revenue as a result of tax credits. Credits cannot exceed total tax liability and may be carried forward up to six succeeding years. Credits may transfer, sell or assign the 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 by these tax credits each year.

DIFP will require minimal contract computer programming to add this credit to the premium tax database and should be able to 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.

ASSUMPTION (continued)

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 compared the total tax credit issuances 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 this proposal could result in some economic benefits for the state. However, Oversight assumes these benefits would be considered indirect and have not reflected them in the fiscal note.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
Costs - DED			
Personal Service	($33,753)	($41,719)	($42,970)
Fringe Benefits	($15,277)	($18,882)	($19,448)
Expense and Equipment	($17,396)	($20,102)	($20,704)
Total Costs - DED	($66,426)	($80,703)	($83,122)
FTE Change - DED	1 FTE	1 FTE	1 FTE
Loss - tax credits for Distressed Areas Land Assemblage Tax Credit Act	$0	$0 to ($12,000,000)	$0 to ($12,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($66,426)**	**($80,703 to $12,080,703)**	**($83,122 to $12,083,122)**
Estimated Net FTE Change for General Revenue Fund	1 FTE	1 FTE	1 FTE

Note: The fiscal note 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

Small businesses that qualify for the new tax credit program established in this proposal could be fiscally impacted.

FISCAL DESCRIPTION

This bill establishes the Distressed Areas Land Assemblage Tax Credit Act which authorizes, beginning January 1, 2008, a tax credit equal to 50% of the costs and 100% of the interest incurred for the acquisition of an eligible parcel of land. Eligible parcels must be located within an eligible project area and must be acquired before the applicant begins condemnation proceedings. Parcels acquired by the applicant from a municipal authority are not included. Applicants can receive these credits for up to five years after the land's acquisition and can be used to offset the applicant's income tax, corporate franchise tax, or financial institutions tax. The tax credit may be carried forward for up to six years or sold.

No more than $12 million tax credits can be issued annually, and no more than $100 million can be issued for the life of the program. If applications for the tax credit exceed $12 million in any given year, the Department of Economic Development can issue the entire amount to one applicant if there is only one eligible applicant or on a pro rata basis to all the eligible applicants. Any eligible amount which is not issued because of the $12 million annual limit will be carried forward and reserved for the benefit of the applicant in future years.

Eligible project areas must meet the following requirements:

(1) In cities or villages with fewer than 75,000 residents, the area must include at least 30 acres and 75 acres for all other cities and counties. Individual parcels which do not constitute eligible parcels may be included within the area's boundaries;

(2) At least 80% of the area must be located within a Missouri qualified census tract area as designated by the United States Department of Housing and Urban Development;

(3) In cities or villages with fewer than 75,000 residents, at least 20 acres of the area must consist of eligible parcels. For all other cities and counties, the requirement is 50 acres. In either case, the parcels are not required to be contiguous;

(4) In cities or villages with fewer than 75,000 residents, the average number of parcels per acre must be at least two and one-half and four for all other cities; and

(5) For all cities and counties, less than 5% of the acreage within the area's boundaries must consist of owner-occupied residences which the applicant has identified for acquisition.

For cities and villages with fewer than 50,000 residents, these requirements can be modified or waived if deemed necessary by the department.

FISCAL DESCRIPTION (continued)

An applicant is any person or company which has incurred acquisition costs for land which meets the requirements described for an eligible project area and who has been appointed or selected by a municipal authority as a redeveloper to redevelop an urban renewal area, a redevelopment area that includes all of an eligible project area, or whose redevelopment plan or redevelopment area has been approved or adopted under a Missouri economic incentive act.

The provisions of the bill will expire six 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 Insurance, Financial Institutions and Professional Development
Department of Revenue
Office of Administration - Budget and Planning
Office of the Secretary of State

Mickey Wilson

Mickey Wilson, CPA
Director
May 2, 2007