COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0986-01
Bill No.: HB 240
Subject: Economic Development; Tax Credits
Type: Original
Date: January 30, 2009

Bill Summary: This proposal modifies provisions of the New Markets Tax Credit Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	($63,281)	($69,561)	($71,674) to ($12,571,674)
Total Estimated Net Effect on General Revenue Fund*	**($63,281)**	**($69,561)**	**($71,674) to ($12,571,674)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
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 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1**	**1**	**1**

☐ 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 2010	FY 2011	FY 2012
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 **Office of Administration - Budget and Planning (BAP)** state the proposal increases the cap on the New Markets Tax Credit Program from $15 million to $27.5 million. This proposal could therefore lower general and total state revenues up to $12.5 million. This program may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. DED may have such an estimate.

Officials from the **Department of Economic Development (DED)** state the increase in the cap for the New Markets Tax Credit would result in the need for an additional FTE (Economic Development Incentive Specialist III) to review the tax credit applications to make sure they meet the criteria of the program, draft and send the tax credit awards and ensure compliance with the program. Standard expenses and equipment for the FTE would also be necessary. These include one-time costs for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, professional development and travel.

In response to a similar proposal from this year (SB 136), DED mistakenly omitted the needed FTE in their response. DED assumes the cost for this additional FTE to be roughly $70,000 per year.

Officials from the **Department of Revenue** assume the proposal would not fiscally impact their agency.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown to what extent the tax credits have exceeded statutory limits. 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 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.

Oversight will range the fiscal impact of this proposal from $0 (no additional tax credits are issued above the current $12.5 million per year cap) to a negative $12.5 million (change in cap). The changes in this proposal would be effective in August 2009. Therefore, Oversight assumes the Department of Economic Development would be allowed to authorize additional qualified

ASSUMPTION (continued)

equity investments starting in FY 2010; however, under this program, taxpayers are not allowed tax credits for their investments in the first two years (seven percent in year three). Therefore, Oversight assumes additional credits may be issued and utilized in the third year after the effective date of this proposal, or FY 2012. 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.

Oversight assumes the extension of the time period for taxpayers to make qualified equity investments from FY 2010 to FY 2012 would not have a fiscal impact on the state within the time frame of this fiscal note. Taxpayers are given tax credits for qualified equity investments in the following amounts; zero percent for the first two years, seven percent for the third year, and eight percent for the next four years. Therefore, taxpayers making a qualified equity investment in FY 2011 (first extension year) would not receive a tax credit until FY 2013, which is beyond the scope of this note.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous four years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 81 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. Therefore, under this proposal, if $12,500,000 of additional credits are issued, Oversight would assume $10,375,000 (83 percent) of credits to be redeemed, reducing Total State Revenues.

This proposal may decrease Total State Revenues.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE			
Costs - DED			
Personal Service (1 FTE)	($35,803)	($44,252)	($45,580)
Fringe Benefits	($17,411)	($21,520)	($22,166)
Expense and equipment	($10,067)	($3,789)	($3,901)
Total Costs - DED	($63,281)	($69,561)	($71,647)
FTE Change - DED	1 FTE	1 FTE	1 FTE
Loss - tax credits from New Markets Tax Credit program - increased annual cap from $15 million to $27.5 million	$0	$0	$0 to ($12,500,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($63,281)**	**($69,561)**	**($71,674) TO ($12,571,674)**
Estimated Net FTE Change for General Revenue Fund	1 FTE	1 FTE	1 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 2010 (10 Mo.)	FY 2011	FY 2012
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the program could be positively fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

Under current law, the Department of Economic Development is required to limit the monetary amount of qualified equity investments to a level necessary to limit tax credit utilization to no more than fifteen million dollars annually. Following fiscal year 2010, no equity investments may be made unless reauthorization is provided by enactment of a general law by the General Assembly.

This act would require the department to limit the monetary amount of qualified equity investments to a level necessary to limit tax credit utilization to no more than twenty-seven million five hundred thousand dollars annually. The requirement for reauthorization by enactment of a general law by the General Assembly is moved back two fiscal years to fiscal years following fiscal year 2012.

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
Department of Economic Development
Office of Administration - Budget and Planning
Department of Insurance, Financial Institutions and Professional Registration

Mickey Wilson

Mickey Wilson, CPA
Director
January 30, 2009