

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5460-02  
Bill No.: HCS for HB 2400  
Subject: Housing; Banks and Financial Institutions; Tax Credits  
Type: Original  
Date: April 23, 2010

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Bill Summary: This proposal allows linked deposits for eligible homeowners seeking a home loan for a down payment on a home.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
General Revenue	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0 to (Unknown)</b>	<b>\$0 to (Unknown)</b>	<b>\$0 to (Unknown)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** assume the State Treasurer and the Department of Revenue should provide estimates of Total State Revenue and General Revenue losses that should result from the lender home loan interest earnings net-income tax deductions that would be required by this proposal.

In response to a previous version of this proposal, officials from the **Office of the State Treasurer** assumed the proposal would not have a fiscal impact to their agency.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** assume the proposal would not fiscally impact their agency.

Information on the Office of the State Treasurer's web site states 'the Missouri Linked Deposit Program partners with lending institutions to provide low-interest loans to help create and retain jobs, expand the economy and strengthen communities statewide. By reducing the interest rate on certain loans that borrowers can use to improve their businesses, the program helps qualified lenders from Missouri better serve Missouri-based companies and agricultural operations. The program also provides funds for local governments to serve the interests of their constituents. Using the program allows lenders to lower the interest rates to the borrower by about 2-3 percent.'

Other linked deposit programs already offered by the Office of the State Treasurer include:

- |                                |                       |
|--------------------------------|-----------------------|
| • Small Business Program       | \$110 million         |
| • Job Enhancement Program      | \$220 million         |
| • Alternative Energy Program   | approved case-by-case |
| • Agriculture Program          | \$330 million         |
| • Local Governments Program    | approved case-by-case |
| • Multi-Family Housing Program | \$20 million          |

Officials from the **Department of Revenue (DOR)** state their response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's motor vehicle legacy systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at \$13,356.

ASSUMPTION (continued)

**Oversight** assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

DOR also assumed the need for one Revenue Processing Technician I at \$25,380 for every 19,000 manual reviews, one Revenue Processing Technician per 2,400 pieces of correspondence and two temporary tax employees for key-entry.

In summary, DOR assumes the potential need for two FTE and two temporary employees totaling roughly \$145,000 per year in addition to the necessary ITSD changes.

**Oversight** assumes that not enough eligible lending institutions will be included in the program to reach the number of manual reviews and correspondence stated by DOR to warrant the need for additional FTE.

**Oversight** will assume a potential unknown loss of income to the State from the net income deduction described in Section 30.875.4. Oversight will range this fiscal impact from \$0 (no tax deduction earned/taken) to an unknown amount since the proposal does not specify a annual limit. If \$25 million in linked deposits are used for home loans, and the eligible lending institutions collect 4% in interest, this would equate to roughly \$1.0 million annually in interest collected. At a 7 percent tax rate, this would equate to roughly \$70,000 in tax revenue not collected by the state. Oversight will assume the tax deduction will result in a reduction to General Revenue. Oversight assumes the \$25 million limit to the linked deposit program is an aggregate cap.

**Oversight** assumes this program would result in some positive fiscal benefit to the state; however, Oversight considers those benefits to be indirect and have not included them in this fiscal note.

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

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
<b>GENERAL REVENUE</b>			
<u>Loss</u> - net income deduction for interest earned on linked deposit loans used for home loans	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b>\$0 TO <u>(UNKNOWN)</u></b>	<b>\$0 TO <u>(UNKNOWN)</u></b>	<b>\$0 TO <u>(UNKNOWN)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This bill changes the laws regarding the Linked Deposit Loan Program by allowing an eligible homeowner purchasing a single-family dwelling to receive a linked deposit loan for the down payment on the home in an amount of up to 10% of the purchase price of the home, not to exceed \$10,000.

The State Treasurer is authorized up to an additional \$25 million to be utilized for these loans. Any eligible lending institution making a home loan cannot sell the loan and will receive a tax net income deduction on any interest earned. The homeowner must repay the loan within five years.

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

Office of the State Treasurer  
Office of Administration - Budget and Planning  
Department of Revenue  
Department of Insurance, Financial Institutions and Professional Registration

A handwritten signature in black ink that reads "Mickey Wilson". The signature is fluid and cursive, with the first name "Mickey" and last name "Wilson" clearly distinguishable.

Mickey Wilson, CPA  
Director  
April 23, 2010