COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1473-02
Bill No.: SB 379
Subject: Economic Development; Economic Development Department; Property, Real and Personal
Type: Original
Date: March 25, 2013

Bill Summary: This proposal modifies provisions relating to the Distressed Areas Land Assemblage Tax Credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	$0	$0 to ($30,000,000)	$0 to ($30,000,000)
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0 to ($30,000,000)**	**$0 to ($30,000,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

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.

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ 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 2014	FY 2015	FY 2016
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration - Budget and Planning** assume this proposal modifies the distressed areas land assemblage tax credit in the following ways:

- Adds expenses to the list of qualified acquisition costs.
- Changes the provision allowing acquisition costs to include costs incurred for up to twelve years after the acquisition of a project. The current limit is five years.
- Allows additional projects to be eligible for the tax credit.
- Increases the reimbursement amount for demolition costs from 50 percent to 100 percent.
- Increases the annual cap on the program from $20 million to $30 million.
- Establishes a new $95 million aggregate cap beginning August 28, 2013.
- Delays the program sunset from August 28, 2013 to August 28, 2019.

There is a $30 million annual cap and a new $95 million aggregate cap for the period of 8/28/13 through 8/28/2019, therefore general and total state revenues could be lowered. This proposal could be subject to the 18(e) calculation. This program may encourage 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 at the **Department of Economic Development** (**DED**) assume this proposal revises the Distressed Area Land Assemblage Tax Credit Act under Section 99.1205, which is administered by the DED's Division of Business and Community Services. The proposal revises several program definitions, the process and procedures for issuance of tax credits, and increases the annual cap of tax credits from $20 million to $30 million. The language is revised so that tax credits approved prior to August 28, 2013, would not count against the $95 million aggregate cap. The sunset date is extended from August 28, 2013, to August 28, 2019. The proposal may increase the tax credit issuance for the program; therefore, BCS assumes an unknown negative impact over $100,000 as a result of the proposal.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume it is unknown how many insurance companies will choose to participate in this program and take advantage of the Distressed Area Land Assemblage Tax Credit. 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 the tax credit each year.

ASSUMPTION (continued)

Oversight states according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Distressed Areas Land Assemblage tax credit program had the following activity;

	FY 2010	FY 2011	FY 2012
Certificates Issued (#)	3	1	2
Projects (#)	1	1	1
Amount Issued	$20,000,000	$7,980,875	$3,269,623
Amount Redeemed	$6,731,635	$13,534,347	$7,558,203

Oversight assumes this tax credit was to sunset on August 28, 2013 (FY 2014). This proposal extends the tax credit; therefore, Oversight will show a loss to state revenue for the credits that could be issued in FY 2015 and FY 2016. This proposal establishes a $30 million annual cap. Oversight will reflect a loss of revenue to the State as $0 to the annual cap.

In response to similar legislation filed this year (HB423), officials at the **Department of Revenue** assumed there was no fiscal impact from the proposal.

Oversight assumes the changes to an existing program in this proposal could have positive impacts on the state. However, Oversight considers these to be indirect impacts of the proposal and will not reflect them in the fiscal note.

FISCAL IMPACT - State Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE			
Revenue Reduction - extension of the distressed areas land assemblage credit	$0	$0 to ($30,000,000)	$0 to ($30,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0**	**$0 to ($30,000,000)**	**$0 to ($30,000,000)**

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 2014 (10 Mo.)	FY 2015	FY 2016
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit could be impacted.

FISCAL DESCRIPTION

This act modifies the Distressed Areas Land Assemblage Tax Credit Act.

Currently, an applicant for this tax credit is entitled to a tax credit in an amount equal to fifty percent of the applicant's acquisition costs, which includes among other things the cost of demolishing vacant buildings, and for a five-year period, one hundred percent of the applicant's interest costs. These acquisition costs include the reasonable costs of maintaining an eligible parcel of land for a five-year period after acquiring the parcel. This act extends the five-year time limitation on receiving a tax credit for maintenance costs and interest costs to twelve years. The applicant will be allowed to receive a tax credit equal to one hundred percent of the reasonable costs of demolition. Title insurance, surveying costs, and certain design costs are added to the types of eligible acquisition costs.

Currently, for a developer to be eligible for a tax credit under this program the redevelopment agreement between the developer and the municipal authority must prohibit the developer from redeveloping more than 75 percent of the area identified in the redevelopment plan. This act eliminates this restriction for projects in a specific type of redevelopment area.

This act allows parcels to be part of an eligible project if they are acquired on behalf of the applicant through affiliated companies controlled by the applicant. Parcels acquired before August 28, 2007, from a municipal authority will not be considered an eligible parcel.

Currently, project areas must contain at least fifty acres and the average number of parcels per acre in an area must be four or more. This act requires projects in specific areas to contain at least 150 acres and eliminates the four parcels per acre requirement for such projects. An eligible project cannot include a parcel acquired from a municipal authority.

This act also allows a developer applying for the tax credit to file for the credit on a quarterly basis, rather than annually.

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FISCAL DESCRIPTION (continued)

Currently, the aggregate amount of tax credits that may be authorized under the program is $95 million. This act allows for authorization of $95 million in tax credits after August 28, 2013. The cap on the amount of tax credits that can be issued under this program each year is increased from 20 million dollars to 30 million dollars.

The act divides the amount of tax credits that can be issued each year into two pools. If there is more than one applicant entitled to tax credits in that year, then half of the annual amount of money will go to projects in a specific type of redevelopment area and half for areas located in other project areas. If the Department of Economic Development does not issue tax credits equal to all of each pool of money by December 31st, the other kind of projects can get the remaining money in the other pool.

Currently, the Department of Economic Development is prohibited from authorizing tax credits under this program after August 28, 2013. This act extends the amount of time the department can authorize tax credits under this program until August 28, 2019.

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 Registration
Department of Revenue
Office of Administration
Budget and Planning

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Acting Director
March 25, 2013

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