

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1838-01
Bill No.: HB 698
Subject: Tax Credits; Economic Development; Economic Development Department
Type: Original
Date: February 27, 2013

Bill Summary: This proposal modifies a number of tax incentive programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	Unknown	Unknown	Unknown
Total Estimated Net Effect on General Revenue Fund	Unknown	Unknown	Unknown

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>Other</u> 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 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> 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

§ 32.115 Development

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Development tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Amount Issued	\$271,300	\$3,970,771	\$3,624,811
Amount Redeemed	\$1,589,618	\$1,001,142	\$3,856,648

Oversight assumes this part of the proposal changes the annual cap on the program from \$6 million to \$4 million starting July 1, 2014 (FY 2015). Oversight further assumes the new cap placed on this program is larger than the average amount currently issued (\$2,560,772); therefore, changing the cap on the program would not impact state revenue.

§ 32.115 Affordable Housing

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Affordable Housing tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Amount Issued	\$4,599,981	\$4,535,480	\$5,990,591
Amount Redeemed	\$11,647,956	\$4,880,798	\$5,629,466

Oversight assumes this part of the proposal changes the annual cap on the program from \$10 million to \$6 million starting July 1, 2014 (FY 2015). The three year average issuance of this credit is \$5,042,017. Therefore, since the new cap is larger than the issuance average, Oversight will assume changing the annual cap to \$6 million will not impact state revenues.

§ 100.850 BUILD

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the BUILD tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Amount Issued	\$9,765,144	\$10,150,244	\$9,084,677
Amount Redeemed	\$8,317,379	\$10,976,914	\$6,591,948

ASSUMPTION (continued)

Oversight assumes this part of the proposal changes the annual cap on the program from \$25 million to \$20 million starting January 1, 2014 (FY 2014). Oversight further assumes the new cap placed on this program is larger than the average amount currently issued (\$8,422,005); therefore, changing the cap on the program would not impact state revenue.

§ 135.352 Low Income Housing

According to the Tax Credit Analysis submitted by the Missouri Housing Development Commission regarding this program, the Low Income Housing tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Certificates Issued (#)	303	212	457
Projects (#)	35	26	42
Amount Authorized	\$149,068,200	\$102,960,000	\$171,894,310
Amount Issued	\$155,703,625	\$156,016,305	\$164,956,766
Amount Redeemed	\$142,141,458	\$143,055,387	\$164,208,547

Oversight notes this proposal would reduce the issuance of Missouri Low Income Housing Tax Credits to \$160 million annually. The three year average issuance of this credit is \$158,892,232. Therefore, since the new cap is larger than the issuance average, Oversight will assume changing the annual cap to \$160 million will not impact state revenues.

Oversight assumes this proposal prohibits the stacking of historic preservation tax credits with low-income housing tax credits. As a result, Oversight assumes this change could result in a reduced amount of tax credits being issued in future fiscal years. Oversight will reflect a projected increase in net revenues as Unknown.

§ 135.484 Neighborhood Preservation

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Neighborhood Preservation tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Certificates Issued (#)	202	97	41
Projects (#)	202	97	41
Amount Authorized	\$10,290,561	\$8,747,403	\$9,145,202
Amount Issued	\$5,987,555	\$2,431,678	\$969,307
Amount Redeemed	\$6,739,113	\$4,427,639	\$2,159,654

ASSUMPTION (continued)

Oversight assumes this part of the proposal changes the annual cap on the program from \$16 million to \$12 million. Oversight further assumes the new cap placed on this program is larger than the average amount currently issued (\$4,248,174); therefore, changing the cap on the program would not impact state revenue.

§ 135.535 Rebuilding Communities

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Rebuilding Communities tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Amount Issued	\$1,419,758	\$1,444,107	\$1,883,336
Amount Redeemed	\$1,553,894	\$1,277,135	\$1,388,190

Oversight assumes this part of the proposal changes the annual cap on the program from \$10 million to \$2 million starting January 1, 2014 (FY 2014). Oversight further assumes the new cap placed on this program is larger than the average amount currently issued (\$1,684,041); therefore, changing the cap on the program would not impact state revenue.

§ 135.679 Qualified Beef

Officials at the **Department of Agriculture** assume there is no fiscal impact from this proposal.

According to the Tax Credit Analysis submitted by the Department of Agriculture regarding this program, the Qualified Beef tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Amount Authorized	\$43,028	\$29,482	\$296,410
Amount Issued	\$43,028	\$29,482	\$296,410
Amount Redeemed	\$0	\$9,447	\$219,062

Oversight assumes this part of the proposal changes the annual cap on the program from \$3 million to \$1 million starting July 1, 2014 (FY 2015). Oversight assumes the new cap placed on this program is larger than the average amount currently issued (\$122,973); therefore, changing the cap on the program would not impact state revenue.

ASSUMPTION (continued)

§ 135.700 Wine and Grape

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Wine Producers and Grape Growers tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Amount Authorized	\$54,085	\$90,014	\$111,568
Amount Issued	\$54,085	\$90,014	\$104,522
Amount Redeemed	\$112,057	\$29,411	\$61,598

Oversight assumes this part of the proposal places a \$200,000 annual cap on this program starting July 1, 2014 (FY 2015). Oversight further assumes the new cap placed on this program is larger than the average amount currently issued (\$111,737); therefore, placing the cap on the program would not impact state revenue.

§ 135.710 Alternative Fuels

According to the Tax Credit Analysis submitted by the Department of Natural Resources regarding this program, the Alternative Fuels tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Amount Issued	\$0	\$87,925	\$91,365
Amount Redeemed	\$0	\$23,365	\$45,690

This tax credit sunset on August 28, 2012. **Oversight** assumes this part of the proposal extends the sunset until August 28, 2019. However, the provisions of this tax credit require that an applicant install the qualified alternative fuel vehicle prior to January 1, 2012, to receive the credit. Therefore, extending the sunset on this credit will not impact state revenue.

§ 135.750 Film Production

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Film tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Amount Issued	\$5,181,512	\$1,807,030	\$139,070
Amount Redeemed	\$1,925,158	\$1,563,218	\$4,839,217

Oversight assumes this part of the proposal changes the annual cap on the program from \$4.5

ASSUMPTION (continued)

million to \$3.5 million starting January 1, 2014 (FY 2014). Additionally, this credit was to sunset on November 28, 2013 but is being extended by this part of the proposal. Oversight assumes the new cap placed on this program is larger than the average amount currently issued (\$1,786,880); therefore, changing the cap on the program would not impact state revenue.

§ 135.967 Enhanced Enterprise Zone

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Enhanced Enterprise Zone tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Amount Authorized	\$17,361,344	\$6,567,776	\$19,169,945
Amount Issued	\$5,068,487	\$6,853,727	\$6,525,256
Amount Redeemed	\$2,916,392	\$4,000,689	\$7,324,093

Oversight assumes this part of the proposal changes the annual cap on the program from \$24 million to \$19 million starting January 1, 2014 (FY 2014). Oversight further assumes the new cap placed on this program is larger than the average amount currently issued (\$4,381,914); therefore, changing the cap on the program would not impact state revenue.

§ 135.1000 Limits on all tax credits

Oversight assumes this part of the proposal requires the Legislature to review all tax credits every five years beginning on January 1, 2014; therefore, the first review would be in 2019. Additionally, this part of the proposal states that tax credits' annual authorizations can be reduced in the future. Oversight notes the review would begin in 2019, which is outside the fiscal note period; therefore, for fiscal note purposes, this provision will not be shown as having an impact on state revenue.

§ 143.119 Self- Employed Health Insurance

According to the Tax Credit Analysis submitted by the Department of Revenue regarding this program, the Self-Employed Health Insurance tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Amount Redeemed	\$1,517,004	\$1,428,143	\$1,847,045

Oversight assumes this part of the proposal adds sunset language to this tax credit. Oversight further assumes the new sunset for this program is outside the scope of the fiscal note.

ASSUMPTION (continued)

§ 253.550 Historic Preservation

Officials at the **Department of Natural Resources** assume the State Historic Preservation Office is responsible for reviewing and approving rehabilitation work for the state historic preservation tax credit program. Any changes in the tax credit structure may have an impact on the number or rehabilitation projects the State Historic Preservation Office reviews and approves. However, the department would not anticipate a significant direct fiscal impact as a result of the changes made to the structure of the State Historic Preservation Tax Credit.

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Historic Preservation tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Certificates Issued (#)	219	161	178
Projects (#)	219	161	178
Amount Authorized	\$99,510,175	\$82,839,495	\$98,591,346
Amount Issued	\$107,229,218	\$116,244,410	\$105,272,651
Amount Redeemed	\$108,064,200	\$107,767,393	\$133,937,747

Oversight assumes this part of the proposal changes the annual cap on the program from \$140 million to \$120 million starting July 1, 2014 (FY 2015). Oversight further assumes the new cap placed on this program is larger than the three year average amount currently issued (\$109,582,093), therefore, changing the cap on the program would not impact state revenues.

§ 620.1881 Quality Jobs

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Quality Jobs tax credit program had the following activity;

	FY 2010	FY 2011	FY 2012
Certificates Issued (#)	38	44	49
Projects (#)	46	57	65
Amount Authorized	\$57,057,506	\$59,914,412	\$99,875,904
Amount Issued	\$14,863,017	\$28,098,496	\$37,749,051
Amount Redeemed	\$14,238,179	\$27,936,799	\$35,431,828

Oversight assumes this part of the proposal changes the annual cap on the program from \$80 million to \$70 million starting January 1, 2014 (FY 2014). Oversight further assumes the new cap placed on this program is larger than the average amount currently issued (\$19,160,737); therefore, changing the cap on the program would not impact state revenue.

ASSUMPTION (continued)

Bill as a Whole

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume that it is unknown how many insurance companies have chosen to participate in these programs and taken 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 by tax credits each year.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight further 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.

Officials at the **Department of Economic Development, Department of Revenue, and Office of Administration - Budget and Planning** did not respond to **Oversight's** request for a statement of fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE			
<u>Additional Revenue - prohibition of stacking credits §135.352</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

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 receive the tax credits may be impact.

FISCAL DESCRIPTION

This proposal modifies a number of tax incentive programs.

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 Agriculture

Department of Insurance, Financial Institutions and Professional Registration

Department of Natural Resources

Not Responding:

Office of Administration -

Division of Budget and Planning

Department of Economic Development

Department of Revenue



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