

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1838-05
Bill No.: HCS for HB 698
Subject: Tax Credits; Economic Development; Economic Development Department
Type: Original
Date: April 3, 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	(\$274,695) to Unknown	(\$274,695) to Unknown
Total Estimated Net Effect on General Revenue Fund	Unknown	(\$274,695) to Unknown	(\$274,695) to Unknown

Notes:

The Film Production Tax credit has an annual cap that could raise the above stated revenue reduction by no more than \$1,713,120 per year.

The reduction in the annual cap for Low Income Housing Tax Credits (\$135.352) could result in savings starting in FY 2017 (\$6.7 million) that could incrementally increase to \$33.5 million in FY 2021.

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 12 pages.

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

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

§ 100.850 BUILD

Officials at the **Missouri Development Finance Board (MDFB)** assume authorizations of BUILD are amortized over 15 years. The cumulative amount of all project amortization is maintained in a Cap schedule to ensure that in a given year issuances do not exceed \$25 million as per current statute. The Cap schedule contains both actual amortization for projects that have received Board approval, as well as estimated amortization for projects that have received preliminary approval letters from the Department of Economic Development. Currently, in some future years, the cumulative amount of both the actual amortization and the estimated amortization exceeds \$20 million.

The current proposal could prevent the Board from approving some of the DED recommended projects to stay under the proposed reduced cap, and prevent DED from using the program for additional projects unless current estimated projects do not move forward or are withdrawn.

Oversight states that 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

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

Officials at the **Missouri Housing Development Commission (MHDC)** assume this proposal caps annual authorizations for the 9% MOLIHTC (\$125 million) and the 4% MOLIHTC (\$3 million) starting in FY 15. The proposal directs the General Assembly to review those caps every five years. The table below reflects the savings to General Revenue from FY 15 to FY 20 from the new caps in the proposed language. MHDC assumes the current FY allocation as a base for estimating the savings - for FY 13 MHDC has \$13.5 million for the 9% MOLIHTC and \$6 million for the 4% MOLIHTC for a total of \$19.5 million available for authorizations. MHDC also assumes the estimated savings for the MOLIHTC would begin in FY 17 taking into account the lag time between authorization, issuances and redemptions.

ASSUMPTION (continued)

Fiscal Year	MOLIHTC
2015	\$0
2016	\$0
2017	\$6,700,000
2018	\$13,400,000
2019	\$20,100,000
2020	\$26,800,000
2021	\$33,500,000

Oversight states that 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 both Missouri Low Income Housing Tax Credits to a combined \$128 million annually. The three year average issuance of this credit is \$158,892,232. Oversight assumes the amount of increased revenue to the State as equal to the difference between the average amount issued over the last five years and the new cap could be up to \$30,892,232. However, due to the lag time between awarding of projects, construction, and finally issuance of credits, Oversight will use MHDC's estimated timing (\$0 in Fiscal Years 2014, 2015, and 2016) of impact for the fiscal note.

Oversight assumes subsection 135.352.10 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.

ASSUMPTION (continued)

§ 135.484 Neighborhood Preservation

Oversight notes 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

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

Oversight notes 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.

ASSUMPTION (continued)

§ 135.679 Qualified Beef

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

Oversight notes 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.

§ 135.700 Wine and Grape

Oversight notes 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.

ASSUMPTION (continued)

§ 135.710 Alternative Fuels

Oversight notes 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 sunsets on August 28, 2014. **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

Oversight notes 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 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. However, extending the program beyond November 28, 2013 could impact the state in FY 2015 and FY 2016. Oversight will reflect a potential loss of state revenue from this program of the tax credit issuance average.

§ 135.967 Enhanced Enterprise Zone

Oversight notes 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

ASSUMPTION (continued)

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

Oversight notes 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 repeals the issuance of additional credits on December 31, 2013. This program does not have an annual cap. Oversight will reflect the amount of increased revenue to the State equal to the average amount issued over the last five years (\$1,512,185) starting in FY 2015.

§§ 253.545, 253.550 and 253.559 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.

ASSUMPTION (continued)

Oversight notes 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 combined annual cap on this program's two credits to \$135 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.

Oversight assumes this proposal allows for a fee to be required with the preliminary application. The money collected from the fee is to be used for the administration of this program. Oversight will reflect in the note the receipt and spending of the fee according to this proposal.

§ 620.1881 Quality Jobs

Oversight notes 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

In response to a previous version of this proposal, officials at the **Department of Economic Development** assume that creating or reducing the caps on tax credits would have an unknown fiscal impact.

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.

In response to a previous version of this proposal, officials at the **Office of Administration - Budget and Planning (BAP)** assume this proposal modifies various tax credit programs. These changes may impact associated economic activity; BAP cannot estimate these revenue impacts. These changes may also be subject to the calculation in Article X, Section 18(e). Some of the changes may impact General and Total State Revenue.

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

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE			
<u>Additional Revenue</u> - Lowering of the cap on Low Income Housing §135.352**	\$0	\$0	\$0
<u>Additional Revenue</u> - prohibition of stacking credits §135.352.10	Unknown	Unknown	Unknown
<u>Additional Revenue</u> - repeal of the self-employed tax credit §143.119	\$0	\$1,512,185	\$1,512,185
<u>Additional Revenue</u> - collection of the fee for filing a preliminary application § 253.559.11	Unknown	Unknown	Unknown
<u>Cost</u> - administration processing of preliminary application for the historic preservation tax credit § 253.559.11	(Unknown)	(Unknown)	(Unknown)
<u>Revenue Loss</u> - extension of the Film Tax Credits § 135.750*	<u>\$0</u>	<u>(\$1,786,880)</u>	<u>(\$1,786,880)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>Unknown</u>	<u>(\$274,695) to Unknown</u>	<u>(\$274,695) to 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.

*** This credit has an annual cap that could raise the above stated revenue reduction to no more than \$3,500,000 per year.**

**** Note: the reduction in the annual cap for Low Income Housing Tax Credits (§135.352) could result in savings starting in FY 2017 (\$6.7 million) and incrementally increase to \$33.5 million in FY 2021.**

<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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 Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Department of Revenue
Missouri Development Finance Board
Missouri Housing Development Commission
Office of Administration -
Division of Budget and Planning



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April 3, 2013