

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1838-10
Bill No.: SCS for HCS #2 for HB 698
Subject: Economic Development; Economic Development Department; Historic Preservation; Insurance -Medical; Tax Credits; Taxation and Revenue -Income; Taxation and Revenue - Sales and Use
Type: Original
Date: April 29, 2013

Bill Summary: This proposal modifies provisions relating to tax credits and tax incentives.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	Up to \$51,170,653	Up to \$45,287,757	Up to \$58,287,038
Total Estimated Net Effect on General Revenue Fund	Up to \$51,170,653	Up to \$45,287,757	Up to \$58,287,038

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Conservation Commission	\$0	\$0	\$0 or (More than \$100,000)
Parks, Soil & Water	\$0	\$0	\$0 or (More than \$100,000)
School District	\$0	\$0	\$0 or (More than \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0 or (More than \$300,000)

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.

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 23 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
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

☒ 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 or (More than \$100,000)

FISCAL ANALYSIS

ASSUMPTION

§ 67.2050 - Technology Business Facilities

Officials from the **Department of Revenue (DOR)** assumed this part of the proposal would specifically exempt transactions involving the lease or rental of any components of a project from local sales tax law. In addition, leasehold interests would not be subject to property tax. Payments in lieu of taxes expected to be made by any lessee of the project would be applied in a specified manner.

The governing body could dispose of property, buildings, or plants to private persons or corporations upon approval by the governing body. A private person or corporation that transfers property to the municipality for a technology business facility project at no charge would retain the right to have the municipality transfer the property back to the person or corporation at no cost. The DOR response did not indicate any fiscal impact to their organization.

Oversight did not receive any other responses specifically related to these provisions. Oversight notes that this proposal would allow any municipality in the state - county, city, incorporated town, or village - to develop a technology business facility project, and assumes that any reduction in state revenue from local government sales tax collection charges would be minimal.

Oversight further assumes that any impact related to this part of the proposal would be the result of some future action by a municipality and will not include any impact in this fiscal note.

§ 135.305 Wood Energy Producer

Officials at the **Office of Administration - Budget and Planning (BAP)** assume redemptions for this program totaled \$3.8 million in FY11, and \$2.3 million in FY12. This will reduce General and Total State Revenues by similar amounts up to \$3.5 million.

According to the Tax Credit Analysis submitted by the Department of Natural Resources regarding this program, the Wood Energy Producer tax credit program had the following activity;

	FY 2010	FY 2011	FY 2012
Amount Issued	\$3,204,481	\$3,269,364	\$3,060,710
Amount Redeemed	\$1,546,453	\$3,818,378	\$2,282,401

Oversight assumes this tax credit was to expire on June 30, 2013 (FY 2013) and did not have an annual cap. This part of the proposal extends this credit and adds an annual cap of \$3.5 million annually. Oversight will reflect the amount of reduced revenue to the State as equal to the average amount issued over the last five years (\$3,294,970).

ASSUMPTION (continued)

§§ 135.350 and 135.352 - Low Income Housing Tax Credit

Officials at **BAP** assume this part of the proposal limits authorizations for the two types of low-income housing credits to \$55 million annually. During fiscal years 2010 - 2012, authorizations averaged \$141.3 million. This will reduce authorizations by \$86.3 million annually, but savings will take longer to accrue because of the lag between authorizations and redemptions. BAP estimates this will increase General and Total State Revenues.

Officials at the **Department of Economic Development (DED)** defer to the Missouri Housing Development Commission for impact.

Officials at the **Missouri Housing Development Commission (MHDC)** assumed this part of the proposal imposes a fifty million dollar cap on the 9% MOLIHTC beginning in FY 2014 and a five million dollar cap on the 4% MOLIHTC beginning in FY 2014. The state will see a significant reduction in the annual amount of MOLIHTC issued and redeemed as a result of this provision. However, because of the significant lag time between authorization, issuance and redemption of credits, it will take several years for the full impact of this change to be realized.

The projected savings is based on the federal allocation in the current year. The MOLIHTC is capped by the federal allocation of LIHTC. In the current year, the estimated amount of the federal allocation is approximately \$13.5 million over a 10 year period. In addition, Missouri statutes cap the 4% MOLIHTC at \$6 million over a 10 year period. This part of the proposal caps both the 9% and 4% MOLIHTC at \$55 million per year, beginning in FY 2014.

There is no fiscal impact associated with MOLIHTCs until they are redeemed. However because the MOLIHTC has a carry forward provision, it is impossible to predict with certainty the timing of future redemptions. Most of the impact from the changes in this proposal will be experienced outside of the fiscal note period in question. MHDC assumes a two year lag time between initial authorization and issuances. See the table listed below.

The MOLIHTC is a 10-year credit, the full impact associated with reductions in tax credit issuances and redemptions due to proposed changes in the previous version of the proposal would be phased-in.

ASSUMPTION (continued)

Fiscal Year	MO LIHTC Long-Range Impact (Savings to General Revenue)
2014	\$0
2015	\$0
2016	\$14,000,000
2017	\$28,000,000
2018	\$42,000,000
2019	\$56,000,000
2020	\$70,000,000
2021	\$84,000,000

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 part of the proposal would reduce the issuance of Missouri Low Income Housing Tax Credits. Oversight assumes that the reduction would begin to have a fiscal impact in FY 2016 since projects approved after June 30, 2012 would not generally result in tax credits issued until after the end of FY 2015. MHDC estimated the impact based on a reduction of the tax credits to \$110 million. This proposal reduces the credits to \$55 million. Oversight will reflect the increased revenue to the State as greater than the original estimate provided by the MHDC.

ASSUMPTION (continued)

Oversight assumes this part of the proposal prohibits the stacking of historic preservation tax credits with low-income housing tax credits. 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 Tax Credit

Officials at **BAP** assume this part of the proposal disallows further authorization under this program. During fiscal years 2010 - 2012, authorizations averaged \$9.4 million. This will reduce authorizations, but savings will take longer to accrue because of the lag between authorizations and redemptions. BAP estimates this will increase General and Total State Revenues.

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 prohibits the authorization of additional credits after the effective date of this act. This program has an annual cap of \$16 million dollars. Oversight will reflect the amount of increased revenue to the State equal to the average amount issued over the last five years (\$4,248,174).

§ 135.630 Pregnancy Resource Center

Officials at the **BAP** assume increasing the cap on the this credit will reduce General and Total State Revenue by an additional \$500,000.

According to the Tax Credit Analysis submitted by the Department of Social Services regarding this program, the Pregnancy Resource Center tax credit program had the following activity;

	FY 2010	FY 2011	FY 2012
Certificates Issued (#)	3,708	3,729	3,827
Amount Issued	\$1,324,130	\$1,795,230	\$1,844,684
Amount Redeemed	\$1,198,062	\$1,103,384	\$1,892,183

ASSUMPTION (continued)

Oversight assumes this credit was extended on March 29, 2013 by the signing of TAFP HCS for SS for SCS for SB Nos. 20, 15 & 19. This proposal had an annual cap of \$2 million. This proposal raises the cap to \$2.5 million and therefore Oversight will show a loss to state revenue for the credits that may be issued in FY 14, FY 15 and FY 16. Oversight will reflect a loss of revenue to the State as \$0 to the additional \$500,000 in the cap.

§§ 135.1550, 135.1555, 135.1560, 135.1565, 135.1570 and 135.1575 - Missouri Air Export Tax Credit

Officials at **BAP** assume this part of the proposal authorizes the Missouri Export Incentive Act, which would make qualifying freight forwarders eligible to receive air export tax credits based on the weight of specified cargo shipments. The total amount of credits available is \$60 million, which is the aggregate total allocated for the eight year duration of the program. This proposal could therefore reduce General and Total State Revenues by that amount. This proposal may also encourage other economic activity. BAP cannot estimate the induced revenues.

Officials at the **DED** assume this part of the proposal establishes the Air Export Tax Credit which allows an air export tax credit to freight forwarders for a shipment of cargo on a qualifying outbound flight from the St. Louis airport. The air export tax credit has an aggregate cap of \$60 million with a fiscal year cap of \$7.5 million. Tax credits are based on 40 cents per chargeable kilo on a shipment of cargo. These credits may be transferred, sold and they have a 6-year carry forward provision. This proposal requires DED to establish procedures to allow freight forwarders to receive air export tax credits within twenty business days of the date of the filing of the application, which the freight forwarder must file within 120 days of shipment. The program automatically sunsets eight years after the effective date, unless reauthorized by the General Assembly.

DED assumes a negative fiscal impact in excess of \$100,000; however this negative impact would be offset by an unknown positive economic benefit as a result of the increase in economic activity as a result of the program. DED would require two additional FTE to administer the program due to the anticipated amount of administration involved. The FTE would be an Economic Development Incentive Specialist III (\$41,016) and be responsible for reviewing and approving the applications for the program to determine eligibility, establishing procedures, reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards, and ensuring compliance with the program. The estimated FTE cost for FY 2014 is \$60,868.

Oversight assumes the creation of this program could have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in the fiscal note.

ASSUMPTION (continued)

Oversight assumes that in previous versions of this proposal, DED indicated they would need one FTE to administer the program. The fiscal note will reflect the need for one FTE.

Officials at **DOR** assume the Personal Tax Division will need one Revenue Processing Technician I (\$25,884) per 6,000 tax credits processed. The Corporate Tax Division will need one Revenue Processing Technician I (\$25,884) per 6,000 tax credits redeemed.

Oversight assumes DOR's Personal and Corporate Tax Divisions could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** assume an unknown reduction of premium tax revenues as a result of the creation of the Missouri Export Incentive Act is possible. 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.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Officials at the **Missouri Department of Transportation** did not respond to Oversight's request for fiscal impact.

§ 143.119 - Self Employed Health Insurance Tax Credit

Officials at **BAP** assume this part of the proposal eliminates this credit. During fiscal years 2010 - 2012 redemptions for this program averaged \$1.6 million but the program has grown to over \$1.8 million. Therefore, this will increase General and Total State Revenue.

ASSUMPTION (continued)

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 upon the effective date of this proposal. 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).

§ 144.810 - Data Storage Center

Officials from **BAP** assume this part of the proposal would provide a state and local sales tax exemption for electrical energy, gas, water, other utilities, machinery, equipment, computers, and construction materials used in a new data center. The amount of any exemption provided under this subsection could not exceed the projected net fiscal benefit to the state over a period of ten years.

This part of the proposal would also provide a state and local sales tax exemption for electrical energy, gas, water, other utilities, machinery, equipment, computers, and construction materials used by expanding data storage centers, to the extent the amount of new inputs exceed current input levels. The amount of any exemption provided under this subsection could not exceed the projected net fiscal benefit to the state over a period of ten years.

This part of the proposal lowers the necessary job creation thresholds for projects to be eligible for sales tax benefits. This may increase participation in the programs. Because the exemptions shall not exceed the projected net fiscal benefit to the state over a period of ten years, this proposal will not impact current General and Total State Revenues but future revenues may be forgone. BAP officials assume this program could encourage other economic activity, but stated that they do not have data to estimate the induced revenues. BAP officials assume DED may have such an estimate.

In response to similar legislation filed this year, SB 120, officials from the **DED** assume this part of the proposal would create state and local sales and use tax exemptions for data storage center facilities. Exemptions would be limited to the projected net fiscal benefit to the state over a period of ten years, as determined by DED. This proposal would also require random audits to ensure compliance with the intent the data storage centers indicated in their project plan.

DED is unable to determine the exact impact this proposal would have on Total State Revenue and therefore anticipates an unknown impact.

ASSUMPTION (continued)

DED would be responsible for determining eligibility for the exemption approval process and the compliance and auditing functions, and anticipates the need for one additional FTE Economic Development Incentive Specialist III. The new employee would be responsible for reviewing project plan applications to make sure they meet the criteria of the program, and conducting random audits to ensure compliance with the program. The estimated FTE cost for FY 2014 is \$60,868.

Oversight assumes there would be a limited number of entities eligible for this sales and use tax exemption and that DED could absorb the additional workload with existing resources. If this proposal created an unanticipated increase in the DED workload, or if multiple proposals were implemented which created a substantial increase in the DED workload, resources could be requested through the budget process.

In response to similar legislation filed this year, SB 120, officials at the **Department of Natural Resources (DNR)** assume that adding additional sales tax exemptions would decrease the amount of funding available in the Parks and Soils Sales Tax Funds. These funds have been used for the acquisition and development, maintenance and operation of state parks and historic sites and to assist agricultural landowners through voluntary programs.

Officials at **DOR** assume that Collections & Tax Assistance (CATA) would require one additional FTE Revenue Processing Technician I (\$25,884) per 24,000 additional contacts annually to the registration section, with CARES equipment and agent license, and one additional FTE Revenue Processing Technician I (\$25,884) per 4,800 additional contacts annually to the tax assistance offices, with CARES equipment and agent license.

In addition, DOR assume the Sales Tax Division would require one Revenue Processing Technician I (\$25,884) to manage data storage refunds and exemptions.

Oversight assumes there would be a limited number of entities eligible for this sales and use tax exemption and that DOR could absorb the additional workload with existing resources. If this proposal created a significant unanticipated increase in the DOR workload, or if multiple proposals were implemented, resources could be requested through the appropriation process.

In response to similar legislation filed this year, SB 120, officials from **St. Louis County** assume that any loss from this part of the proposal would not be great but stated they can not define their sales tax revenue to this level of detail.

In response to similar legislation filed this year, SB 120, officials from the **City of Columbia** stated that the city does not have any active data storage projects and could not provide an estimate of the fiscal impact.

ASSUMPTION (continued)

In response to similar legislation filed this year, SB 120, officials from the **City of Kansas City** stated they were unable to determine the fiscal impact of this proposal, but revenue growth is assumed to exist through increased economic activity in the city. City officials assumed there would be no net losses. While the City would lose sales and/or property tax revenues, depending on the nature of the project, those losses would be offset in their entirety (or exceeded) by increases in other revenues.

In response to similar legislation filed this year, SB 120, officials at the **Special School District** assumed this would have an indirect negative impact on the District. Increases in tax credits reduce funding available for public school districts. To the extent that tax abatements or other property tax reductions occur in St. Louis County related to storage facility provisions, this proposal could have a direct negative impact on the District.

In response to similar legislation filed this year, SB 120, officials from the **Francis Howell School District** and the **Parkway School District** assumed this proposal would result in an unknown reduction in sales tax revenues.

Oversight notes that this proposal would require a minimum \$37 million investment in a new facility within thirty-six months, or a minimum \$1 million investment in an expanding facility within twenty-four months. The proposed project would require approval by DED which would conditionally certify the project to DOR. Upon completion of the project, DED would certify the project eligibility to DOR, and DOR would refund the sales tax paid on the project.

If the proposal became effective August 28, 2013, construction could begin late in FY 2014 and would likely not be completed until late in FY 2015. Refunds would not likely be certified and paid to project owners until FY 2016.

Oversight is not aware of any existing or planned projects which could qualify for the program, but if one new facility project was completed in time for a refund to be paid in FY 2016, the sales tax amounts could be computed as follows. For fiscal note purposes, Oversight assumes the entire \$37 million investment would qualify for the exemption and has calculated the potential impact below.

ASSUMPTION (continued)

Entity	Sales Tax Rate	Sales Tax
General Revenue Fund	3%	\$1,110,000
Conservation Commission Fund	1/8%	\$46,250
School District Trust Fund	1%	\$370,000
Parks, Soil & Water Funds	1/10%	\$37,000
Local Governments	Average 2.5%	\$925,000

Oversight will indicate a fiscal impact for the General Revenue Fund for this proposal of \$0 (no project qualifies for the exemption) or a revenue reduction of More than \$1,000,000 (one or more projects qualify for the exemption) for FY 2016, and a range of \$0 or a revenue reduction of More than \$100,000 for other state funds which receive sales tax revenues, and for local governments.

§§ 253.500, 253.557 and 253.559 - Historic Preservation Tax Credit

In response to a similar proposal filed this year, SB 120, officials at the **BAP** assumed this part of the proposal limits these authorizations to \$45 million, of which \$5 million is reserved for micro projects. During Fiscal Years 2010-2012, authorizations averaged \$93.6 million. This will reduce authorizations by \$48.6 million annually, but savings will take longer to accrue because of the lag between authorizations and redemptions. BAP estimates the increases to General and Total State Revenues

Officials at the **DED** assumed this part of the proposal revises the Historic Preservation Tax Credit program by reducing the cap from \$140 million per year to \$45 million per year beginning July 1, 2013. This part of the proposal also restricts eligible costs to those costs that have been incurred and paid prior to the issuance of the tax credit. This part of the proposal prohibits projects receiving Low Income Housing tax credits from also receiving Historic Preservation Tax Credits. There is a \$5 million cap placed on projects receiving less than \$275,000 in tax credits. Finally, if the amount of tax credits exceeds the liability for the year, then the tax credits may be carried back to the preceding year and carried forward for the succeeding two years or until the full credit is issued. The proposal also requires DED to propose rules for the program.

Historically, the estimated amount of tax credits authorized per fiscal year for the Historic Preservation tax credit program is approximately \$100 million. DED assumes the proposed revisions to the Historic tax credit program will have a positive impact on Total State Revenues from Unknown up to \$55 million. DED assumes a positive economic impact over \$100,000 as a

ASSUMPTION (continued)

result of the lower cap for the program beginning in FY2014.

In response to similar legislation filed this year, SB 120, officials at the **DNR** 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. 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 proposal reduces the cap on this credit to \$45 million. Oversight will show the increase revenue to the state as the estimate given by DED of \$55 million.

§§ 348.273 and 348.274 - Missouri Angel Investment Incentive Act

Officials at **BAP** assumed this part of the proposal creates the Missouri Angel Investment Incentive Act. The total amount of tax credits available for this program is \$6 million. This proposal could therefore lower General and Total State Revenues by that amount. This program may encourage other economic activity, but BAP does not have data to estimate the induced revenues.

Officials at **DED** assumed this part of the proposal creates the Missouri Angel Investment Incentive Act effective January 1, 2014. BCS would be responsible for maintaining compliance annually. DED would require one FTE, an Economic Development Incentive Specialist III (\$41,016), to administer the Missouri Angel Investment Incentive Act.

Oversight assumes that in response to similar legislation filed last year, HB 1593, DED assumed they could absorb the impact of this part of the proposal with existing resources. Therefore, Oversight assumes that DED would not need the Economic Development Incentive Specialist III.

ASSUMPTION (continued)

Officials at **DOR** assume the Personal Tax Division will need one Revenue Processing Technician I (\$25,884) per 4,000 tax credits claimed and one Revenue Processing Technician I (425,884) per 2,400 pieces of correspondence. The Corporate Tax Division would need one Revenue Processing Technician I (\$25,884) per 4,000 tax credits redeemed.

Oversight assumes DOR's Personal Tax Division and Corporate Tax Division could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

Oversight assumes the Angel Investment Incentive Act is to begin on January 1, 2014, and therefore, the credits will not affect the State until the tax filings of FY 2015.

Oversight assumes the creation of this new program may have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in this fiscal note.

§ 447.708 - Brownfield Tax Credits

Officials at the **BAP** assumed this part of the proposal limits the Brownfield authorizations to \$20 million. During fiscal years 2010 - 2012 the authorizations were \$10.2 million. Therefore, this will have little impact on General and Total State Revenue.

Officials at the **DED** assume beginning July 1, 2013, the Brownfield Remediation Tax Credit program is capped at \$20 million per fiscal year. The Brownfield Jobs tax credit is eliminated saving \$1.6 million.

The Brownfield Redevelopment tax credit program is the umbrella program for Brownfield Jobs and Investment and Brownfield Remediation. The amounts authorized and issued below are for the combined programs. According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Brownfield Redevelopment tax credit programs had the following activity;

	FY 2010	FY 2011	FY 2012
Amount Issued	\$15,882,806	\$21,789,264	\$8,101,093
Amount Redeemed	\$19,240,495	\$13,052,493	\$18,628,028

Oversight assumes this part of the proposal places a new \$20 million cap on this credit. In the last five years, the average amount of credits issued annually has been \$18,416,301. Since this new cap is larger than the average amount currently issued, placing the cap on the program would not impact state revenue.

ASSUMPTION (continued)

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

	FY 2010	FY 2011	FY 2012
Amount Issued	\$1,903,904	\$3,378,740	\$383,198
Amount Redeemed	\$1,650,222	\$1,620,384	\$1,660,626

Oversight assumes this part of the proposal eliminates the Brownfield Jobs tax credit. Oversight will reflect increased revenue to the State equal to the average amount issued over the last three years (\$1,888,614).

Section 1 Infrastructure and Water Study

Officials at the **BAP** assume this part of the proposal provides that no political subdivision shall be responsible for costs for upgrades for infrastructure necessary because of the freight forwarders program, but does not specify who is actually responsible. If these costs fall to the state, additional appropriations may be required. Further, this amendment requires DNR to do a water study; DNR may be able to provide a cost estimate.

Oversight assumes the part of the proposal concerning upgrading infrastructure would not have a fiscal impact. Oversight assumes the part of the proposal requiring a water study by the Department of Natural Resources (DNR) may have an impact but it is difficult to determine the exact cost. Due to time constraints and a lack of a response from DNR, Oversight will range the fiscal impact to DNR from \$0 to an Unknown cost in FY 2014.

Bill as a Whole

BAP notes that this proposal makes changes to various tax credits, which may impact the calculation in Article X, Section 18e. These changes will also impact associated economic activity; BAP cannot estimate these revenue impacts.

Officials at the **Department of Agriculture** and the **Joint Committee on Administrative Rules** each assume there is no fiscal impact to their organization from this proposal.

DOR assumes this proposal would require form changes and computer programming of the various tax systems at a cost of \$122,482 for 4,528 FTE hours.

Officials at the **University of Missouri** assume an unknown impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain

ASSUMPTION (continued)

amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2014	FY 2015	FY 2016
GENERAL REVENUE			
<u>Additional Revenue</u> - reduction of the low income housing annual cap (§ 135.352)	\$0	\$0	Greater than \$14,000,000
<u>Additional Revenue</u> - prohibition against stacking credits (§ 135.352)	Unknown	Unknown	Unknown
<u>Additional Revenue</u> - stopping of tax credits			
§ 135.484 - Neighborhood Pres	\$4,248,174	\$4,248,174	\$4,248,174
§ 143.119 - Self Employed	\$1,512,185	\$1,512,185	\$1,512,185
§ 447.708 - Brownfield Jobs	<u>\$1,888,614</u>	<u>\$1,888,614</u>	<u>\$1,888,614</u>
<u>Total Additional Revenue</u>	\$7,648,973	\$7,648,973	\$7,648,973
<u>Additional Revenue</u> - reduction of the Historic Preservation tax credits (§ 253.550)	Unknown up to \$55,000,000	Unknown up to \$55,000,000	Unknown up to \$55,000,000
<u>Cost</u> - Department of Revenue computer programming updates	(\$122,482)	\$0	\$0
<u>Cost</u> - Department of Economic Development (§ 135.1550)			
Personal Service	(\$34,180)	(\$41,426)	(\$41,840)
Fringe Benefits	(\$17,345)	(\$21,022)	(\$21,232)
Equipment and Expense	<u>(\$9,343)</u>	<u>(\$3,798)</u>	<u>(\$3,893)</u>
<u>Total Cost</u> - DED	(\$60,868)	(\$66,246)	(\$66,965)
FTE Change - DED	1 FTE	1 FTE	1 FTE
<u>Revenue Reduction</u> - extension of the wood energy tax credit (§ 135.305)	(\$3,294,970)	(\$3,294,970)	(\$3,294,970)
<u>Revenue Reduction</u> - increase of the Pregnancy Resource cap (§135.630)	\$0 to (\$500,000)	\$0 to (\$500,000)	\$0 to (\$500,000)
<u>Revenue Reduction</u> - creation of the air export tax credit (§ 135.1550)	(\$0 to \$7,500,000)	(\$0 to \$7,500,000)	(\$0 to \$7,500,000)

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2014	FY 2015	FY 2016
<u>Revenue Reduction</u> - data storage sales tax exemption (§ 144.810)	\$0	\$0	\$0 or (More than \$1,000,000)
<u>Costs</u> - Department of Natural Resources Comprehensive water study (section 1)	\$0 or (Unknown)	\$0	\$0
<u>Revenue Reduction</u> - creation of Angel Investment Incentive Act (§ 348.273)	\$0	\$0 to (\$6,000,000)	\$0 to (\$6,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>Up to</u> <u>\$51,170,653</u>	<u>Up to</u> <u>\$45,287,757</u>	<u>Up to</u> <u>\$58,287,038</u>
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE
CONSERVATION COMMISSION FUND			
<u>Revenue Reduction</u> - data storage sales tax exemption (§144.810)	\$0	\$0	\$0 or (More than \$100,000)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0 or (More than \$100,000)</u>
PARKS, AND SOIL & WATER FUND			
<u>Revenue Reduction</u> - data storage sales tax exemption Section (§144.810)	\$0	\$0	\$0 or (More than \$100,000)
ESTIMATED NET EFFECT ON PARKS, AND SOIL & WATER FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0 or (More than \$100,000)</u>

FISCAL IMPACT - State Government FY 2014 FY 2015 FY 2016
 (continued)

SCHOOL DISTRICT TRUST FUND

<u>Revenue Reduction</u> - data storage sales			\$0 or (More
tax exemption (§144.810)	<u>\$0</u>	<u>\$0</u>	<u>than \$100,000)</u>

ESTIMATED NET EFFECT ON			\$0 or (More
SCHOOL DISTRICT TRUST FUND	<u>\$0</u>	<u>\$0</u>	<u>than \$100,000)</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 FY 2015 FY 2016

LOCAL GOVERNMENTS

<u>Revenue Reduction</u> - data storage sales			\$0 or (More
tax exemption (§144.810)	<u>\$0</u>	<u>\$0</u>	<u>than \$100,000)</u>

ESTIMATED NET EFFECT ON			\$0 or (More
LOCAL GOVERNMENTS	<u>\$0</u>	<u>\$0</u>	<u>than \$100,000)</u>

FISCAL IMPACT - Small Business

Small businesses that receive these credits could be impacted.

FISCAL DESCRIPTION

This proposal modifies provisions relating to taxation and economic incentives.

Data Storage Centers Tax Incentives - §§ 67.2050 & 144.810 - This proposal allows the governing body of any municipality to enter into loan agreements, or sell, lease, or mortgage municipal property to private entities for the development of a technology business facility project. Municipalities include utility boards of counties, cities, towns or villages. Transactions involving the lease or rental of such properties will be exempt from state and local sales taxes and any leasehold interests on such properties will not be subject to property taxes. The act

FISCAL DESCRIPTION (continued)

allows municipalities to sell or otherwise dispose of municipal property to private entities for technology business facility projects provided that the terms and methods utilized reasonably protect the economic well being of the municipality. Any private entity which transfers property to the municipality for purposes of a technology business facility project will reserve the right to request that the municipality transfer such property back to the entity at no cost.

This proposal provides state and local sales and use tax exemptions for all machinery, equipment, computers, electrical energy, gas, water and other utilities, including telecommunication and internet services, used in new data storage center facilities. The act also provides a state and local sales and use tax exemption for purchases of tangible personal property for the construction of a new data storage center facility. In order to receive the sales tax exemption provided for new data storage center facilities, an application must be made to the Department of Economic Development for certification. Such application must show that the project will result in at least thirty-seven million dollars of new facility investment and create at least thirty new jobs with wages of at least 150 percent of the county average wage over a three year period. A project may be approved even though the investment and job creation requirements are not met if exemptions do not exceed the project fiscal benefit to the state over ten years.

This proposal also creates a state and local sales and use tax exemption for existing data storage center facilities for all machinery, equipment, computers, electrical energy, gas, water and other utilities, including telecommunication and internet services. The exemption will only apply to the increase in expenditures for utilities over the previous year's expenditures. The exemptions for tangible property will be available only on the increase in expenditures over the average of the previous three years expenditures. In order to receive the sales tax exemption provided for existing data storage center facilities, an application must be made to the Department of Economic Development for certification. Such application must show that the project will result in at least five million dollars of new facility investment over a one year period and create at least five new jobs with wages of at least 150 percent of the county average wage over a two year period. A project may be approved even though the investment and job creation requirements are not met if exemptions do not exceed the project fiscal benefit to the state over ten years.

The Department of Economic Development and the Department of Revenue are authorized to conduct random audits to ensure compliance with the requirements for state and local sales and use tax exemptions authorized under the act.

The data storage centers tax incentive will expire on September 1, 2019. The expiration will not impair any agreements or exemptions granted before the expiration.

FISCAL DESCRIPTION (continued)

Low-Income Housing Tax Credits - §§ 135.350 & 135.352 - This act modifies provisions relating to low-income housing tax credits. A fifty million dollar fiscal year cap for authorizations of 9% low-income housing tax credits is established, beginning FY 2014. Authorizations of 4% low-income housing tax credits are capped at five million dollars each fiscal beginning FY 2014. The stacking of state 9% low-income housing tax credits with state historic preservation tax credits for the same project is prohibited. The carry-back for low-income housing tax credits is reduced from three years to two years. The carry-forward is reduced from ten years to two years.

Neighborhood Preservation Act - § 135.484 - Currently, there is a \$16 million per year cap on tax credits authorized under the neighborhood preservation act. The act prohibits authorization of the tax credit after the effective date of the act.

Missouri Export Incentive Act - §§ 135.1550 to 135.1575 - This act creates the Missouri Export Incentive Act. For all fiscal years beginning on or after July 1, 2013, this act authorizes air export tax credits for freight forwarders in an amount equal to forty cents per chargeable kilo shipped on a qualifying outbound flight from an airport. The Department of Economic Development is required to adjust the tax credit amounts based upon fluctuations in fuel costs for over-the-road transportation. In order to receive air export tax credits, freight forwarders must file an application with the Department containing the master airway bill for the shipment within 120 days of the flight. The act requires the Department to establish procedures to allow freight forwarders to receive air export tax credits within twenty business days of the departure of the qualifying flight.

The amount of air export tax credits which may be authorized each fiscal year is \$7.5 million. If, in any given year, more tax credits are authorized than may be issued, the amount in excess of the cap on issuance will be carried forward for issuance in the following year. The authorization of air export tax credits is prohibited after June 30, 2021, but the act allows for the subsequent issuance of any tax credits which are authorized prior to such date.

All tax credits provided under the act are refundable.

Self-employed Health Insurance Tax Credit - § 143.119 - Current, self employed taxpayers who are unable to deduct health insurance premiums on their federal income taxes are allowed a refundable tax credit against their state income tax liability. This act eliminates the tax credit as of December 31, 2013.

Historic Preservation - §§ 253.550, 253.557 & 253.559 - This act modifies provisions of law relating to historic preservation tax credits. Under current law, the Department of Economic Development is prohibited from issuing more than one hundred forty million dollars in historic

FISCAL DESCRIPTION (continued)

preservation tax credits in any fiscal year for projects which will receive more than two hundred and seventy-five thousand dollars in tax credits. Beginning fiscal year 2014, and each fiscal year thereafter, this act would prohibit the Department of Economic Development from approving a total amount of more than forty-five million dollars in historic preservation tax credits increased by the amount of any rescissions of approved applications for such tax credits. Projects which would receive less than two hundred seventy-five thousand dollars in tax credits will be subject to a five million dollar fiscal year cap.

This act prohibits the Department from issuing more than one hundred twenty-five thousand dollars in historic preservation tax credits per project for non-income producing residential rehabilitation projects.

Applicants for projects that, as of the effective date of the act, have received approval from the Department of Economic Development, incurred certain levels of expenses, or received certification from the state historical preservation officer will not be subject to the new limitations on tax credit issuance, but will be subject to the current law limitations on tax credit issuance.

Currently, historic preservation tax credits can be carried back three years and carried forward ten years. Tax credits issued after the effective date of the act can be carried backwards one year and forward two years. The stacking of state historic preservation tax credits with state 9% low-income housing tax credits is prohibited.

Brownfield Remediation Tax Credits - § 447.708 - The act prohibits more than \$20 million in Brownfield Remediation tax credits being authorized in any fiscal year beginning FY 2014.

This proposal contains an emergency clause for provisions relating to low-income housing tax credits, neighborhood preservation tax credits, the Missouri Export Incentive Act, historic preservation tax credits, and brownfield remediation tax credits.

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

City of Columbia
City of Kansas City
Department of Agriculture
Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Department of Revenue
Joint Committee on Administrative Rules
Missouri Housing Development Commission
Office of Administration
 Budget and Planning
Office of the Secretary of State
Parkway School District
Special School District
University of Missouri



Ross Strope
Acting Director
April 29, 2013