

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5266-01
Bill No.: HB 1501
Subject: Tax Credits; Economic Development; Department of Economic Development;
Property, Real and Personal
Type: Original
Date: February 3, 2014

Bill Summary: This proposal changes the laws regarding the Distressed Area Land
Assemblage Tax Credit Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0 to (\$16,000,000)	\$0 to (\$16,000,000)	\$0 to (\$16,000,000)
Total Estimated Net Effect on General Revenue Fund	\$0 to (\$16,000,000)	\$0 to (\$16,000,000)	\$0 to (\$16,000,000)

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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
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 2015	FY 2016	FY 2017
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal would not fiscally impact BAP. 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, including the old penitentiary in Jefferson City (Cole County).

- Reduces the \$95 million aggregate cap to \$48 million.

- Changes the sunset from August 28, 2013 to August 28, 2020.

This tax credit program expired on August 28, 2013. There is a \$20 million annual cap and a \$48 million aggregate cap, therefore General and Total State Revenues could be lowered by \$0 to (\$20 million) annually, up to \$48 million in the aggregate. BAP notes that the three-year average amount authorized under this tax credit program was \$7.25 million. This program may encourage other economic activity, but Budget and Planning does not have data to estimate the induced revenues.

Officials at the **Department of Corrections**, the **Department of Revenue**, the **Joint Committee on Administrative Rules** and the **Office of Administration's Division of Facilities Management, Design and Construction** each assume there is no fiscal impact to their respective agencies from this proposal.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state 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 act. The department has no means to arrive at a reasonable estimate of loss in premium tax revenue as a result of 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 throughout 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.

ASSUMPTION (continued)

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

	FY 2011	FY 2012	FY 2013
Certificates Issued (#)	1	2	3
Projects (#)	1	0	1
Amount Authorized	\$7,980,875	\$3,269,623	\$10,508,459
Amount Issued	\$7,980,875	\$3,269,623	\$10,508,459
Amount Redeemed	\$13,534,347	\$7,558,203	\$1,651,415

Oversight assumes this tax credit was to sunset on August 28, 2013 (FY 2014). This part of the proposal extends the tax credit; therefore, Oversight will show a loss to state revenue for the credits starting in FY 2015. This proposal places a new aggregate cap on the program of \$48 million but maintains the yearly \$20 million cap. Oversight will reflect a loss of revenue to the State as \$0 to \$16 million a year (\$48 million averaged over the three fiscal note years).

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 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.

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

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
<u>Revenue Reduction</u> - Distressed Area	\$0 to	\$0 to	\$0 to
Land Assemblage tax credit §99.1205	<u>(\$16,000,000)</u>	<u>(\$16,000,000)</u>	<u>(\$16,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0 to <u>(\$16,000,000)</u>	\$0 to <u>(\$16,000,000)</u>	\$0 to <u>(\$16,000,000)</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.

<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses eligible for this tax credit may be positively impacted.

FISCAL DESCRIPTION

This bill changes the laws regarding the Distressed Areas Land Assemblage Tax Credit. The bill revises the definition of "acquisition costs" to include engineering, site and redevelopment area planning of eligible parcels. Acquisition costs include maintenance costs for 12 years instead of five years.

The bill revises the definition of "eligible parcel" to exclude parcels acquired by the applicant from a municipal authority prior to August 28, 2007.

The bill revises the definition of an "eligible project area" to include a redevelopment area as defined under the Real Property Tax Increment Allocation Redevelopment Act and the area within one quarter mile of the former Missouri State Prison in Jefferson City. An applicant is required to own at least 50 acres of eligible parcels within an eligible project area, excluding any parcels acquired from a municipal authority.

The bill revises the definition of "interest costs" to exclude loans for acquisition costs including, interest, loan fees, and closing costs associated with the refinancing of the loans. The bill allows an applicant to receive a tax credit for acquisition and interest costs of an eligible parcel for 12 years instead of five years. An applicant is allowed to file for the tax credit quarterly instead of annually.

The aggregate program cap authorized is \$48 million. The bill establishes a process for allocating the annual \$20 million in tax credits depending upon the number of eligible applicants. The bill requires an applicant that seeks to continue to receive tax credits to make quarterly reports to the Department affirming that they are still eligible and the progress towards meeting deadlines for commencement of work and completion of the project.

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 Corrections
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Division of Facilities Management, Design and Construction
Office of the Secretary of State

Not Responding

Department of Economic Development

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Director
February 3, 2014



Ross Strobe
Assistant Director
February 3, 2014