

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1930H.011  
 Bill No.: HB 863  
 Subject: Bonds - General Obligation and Revenue; Political Subdivisions; Environmental Protection; Taxation and Revenue - Sales and Use; Tax Incentives  
 Type: Original  
 Date: January 30, 2023

Bill Summary: This proposal establishes requirements for municipal bonds receiving the green bond rating in this state.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue*	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0 to (Unknown)</b>	<b>\$0 to (Unknown)</b>	<b>\$0 to (Unknown)</b>

\*The interest on or income from green bonds would be exempt from Missouri income tax. Oversight assumes the potential impact to the state would not reach the \$250,000 threshold.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
<b>Total Estimated Net Effect on <u>Other State Funds</u></b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this proposal would allow municipalities to issue bonds for certain “green” projects. This proposal would also exempt all interest and income earned from the green bonds from Missouri income tax. B&P notes that per §143.121.2(2) the interest from municipal bonds are already exempt from Missouri income tax. Therefore, if this proposal leads to the issuance of additional municipal bonds than what would have otherwise been issued under general obligation bonds, then this proposal could result in an unknown reduction to GR. Therefore, B&P estimates that this proposal may reduce TSR and GR by \$0 to (Unknown).

B&P notes that it is unclear who would rate, certify, or validate a municipal bond as “green” under this proposal. Per §108.240, the state auditor is required to certify general obligation bonds, but not for “green” status.

B&P further notes that per subsection 4, if a review of a municipal bond determines that less than 85% of the revenues were used on a qualifying green project, the bonds would lose their tax-exempt status under this proposal. However, as noted above §143.121.2(2) already exempts municipal bonds from Missouri income taxes. Therefore, B&P assumes that even if the bonds lose their “green” status, the interest would remain exempt from taxation under §143.121.

Officials from the **Department of Revenue (DOR)** assume this proposal would allow for the issuance of municipal green bonds to support certain environmentally-friendly activities. The interest on or income from such bonds would be exempt from Missouri income tax (§108.371.3) although apparently not exempt from some or all of Missouri’s financial institution taxes.

This proposal refers to the municipal green bonds as being rated, certified, validated or reviewed but it is unclear who is to do this rating. If DOR is expected to do this, it is outside their area of expertise and they would need to hire additional FTE to handle this. The FTE needed is unknown at this time.

This provision is being placed in the statutes regarding general obligation bonds. However it is not clear if this will be a new type of general obligation bond. If this proposal allows municipalities to issue these green bonds in lieu of their general obligation bond, then no additional impact may be expected.

However, if this proposal encourages the creation of additional bonds, and these bonds are exempt from income tax, then this could result in an Unknown negative impact on general revenue. This proposal could result in a \$0 to Unknown negative impact to general revenue.

**Oversight** does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the B&P and DOR.

Officials from the **Department of Economic Development**, the **Office of the State Auditor**, the **Department of Natural Resources**, the **Missouri Department of Conservation**, the **Missouri Department of Transportation**, the **Department of Commerce and Insurance**, the **Office of the State Treasurer**, the **City of O’Fallon** and the **City of Springfield** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

**Oversight** only reflects the responses received from state agencies and political subdivisions; however, other cities and counties were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
<b>GENERAL REVENUE</b>			
<u>Loss – B&amp;P/DOR – of revenues from interest and income earned on green bonds being exempt from MO income taxes</u>	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>\$0 to (Unknown)</u></b>	<b><u>\$0 to (Unknown)</u></b>	<b><u>\$0 to (Unknown)</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This legislation governs green bonds which are a type of bond instrument where the proceeds are exclusively used to finance or re-finance eligible green projects.

An "eligible green project" is a project or activity that supports a positive environment impact that includes assets, investments and other related expenditures that relate to categories such as renewable energy, energy efficiency, pollution prevention and control, environmentally

sustainable management of living natural resources and land use, clean transportation, terrestrial and aquatic biodiversity, climate change adaptation, circular economy adapted products, sustainable water and wastewater management and green buildings, all as defined in the bill.

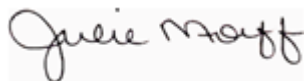
To be rated as a green bond in Missouri, at least 85% of the bond proceeds should be used for eligible green projects and interest on income from such bonds is exempt from income tax.

This bill provides that a municipality that issues a municipal green bond shall establish a green bond holder protection fund separate from the municipality's debt service reserve fund or an equivalent fund.

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

Office of Administration  
Budget and Planning  
Department of Revenue  
Department of Economic Development  
Office of the State Auditor  
Department of Natural Resources  
Missouri Department of Conservation  
Missouri Department of Transportation  
Department of Commerce and Insurance  
Office of the State Treasurer  
City of O'Fallon  
City of Springfield



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