

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3643H.011
 Bill No.: HB 1725
 Subject: Bonds - General Obligation and Revenue; Political Subdivisions; Environmental Protection; Taxation and Revenue - Sales and Use; Tax Incentives
 Type: Original
 Date: February 5, 2024

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue*	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on General Revenue	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

*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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on FTE	0	0	0

- 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.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§108.371 – Municipal Green Bonds

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 Section 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 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 Section 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 Section 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 (Section 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 DOR’s area of expertise, and DOR 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 **Kansas City** assume this legislation would have a negative fiscal impact of an indeterminate amount.

Oversight has requested additional information from Kansas City regarding their response. Oversight received a limited number of responses from cities and counties related to the fiscal impact of this proposal. Oversight has presented this fiscal note on the best current information available. Upon the receipt of this information, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note if needed.

Officials from the **Department of Commerce and Insurance**, the **Department of Economic Development**, the **Department of Natural Resources**, the **Missouri Department of Agriculture**, the **Missouri Department of Conservation**, the **Missouri Department of Transportation**, the **Office of the State Treasurer** and the **Office of the State Auditor** 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 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
<u>Loss – B&P/DOR – of revenues from interest and income earned on green bonds being exempt from MO income taxes §108.371</u>	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

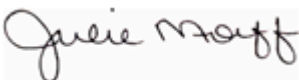
Under the provisions of this bill, to be rated as a green bond, at least 85% of the bond proceeds should be used for eligible green projects and interest on income from such bonds is exempt from income tax.

An "eligible green project" is a project or activity that supports a positive environmental 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. 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.

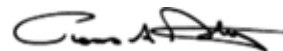
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Budget and Planning
Department of Revenue
Kansas City
Department of Commerce and Insurance
Department of Economic Development
Department of Natural Resources
Missouri Department of Agriculture
Missouri Department of Conservation
Missouri Department of Transportation
Office of the State Treasurer
Office of the State Auditor



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February 5, 2024



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February 5, 2024