COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0775-01
Bill No.: HB 197
Subject: Cities, Towns and Villages; Economic Development.
Type: Original
Date: January 29, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
	(Minimal)	(Minimal)	(Minimal)
Total Estimated Net Effect on General Revenue Fund	**(Minimal)**	**(Minimal)**	**(Minimal)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Insurance** assume this proposal would not fiscally impact their agency.

Officials from the **Department of Revenue (DOR)** state they do not anticipate a significant increase in the number of new credits filed. Therefore, DOR will not request additional FTE at this time.

However, if DOR is incorrect in this assumption, they will need one Tax Processing Tech I for every 10,000 additional credits claimed by this legislation. DOR will monitor the credit and if FTE are needed, the request will be made through the normal budgetary system.

DOR defers to the Department of Economic Development or the Office of Administration - Budget and Planning for a revenue impact estimate.

Officials from the **Department of Economic Development (DED)** failed to respond to our request for fiscal impact.

ASSUMPTION (continued)

However, in response to similar legislation from last year, DED, stated this proposal appears to have no fiscal impact on DED. It only redistributes credits that already exist.

Oversight assumes the changes made to the Neighborhood Preservation tax credit program will not change the annual cap of $16 million, or $8 million each for the qualifying areas and the eligible areas. According to DED, in calendar year 2001, the entire pot of $8 million in credits for eligible areas was claimed while only $2.6 million of the $8 million in credits for qualifying areas was claimed. The fiscal note prepared for the enabling legislation for this program reflected a loss of state funds of $0 to ($16 million) annually starting in FY 2001. Therefore, while this proposal may result in an increased utilization of the Neighborhood Preservation tax credit program, Oversight assumes the cap on the program has not changed from the $16 million reflected in the fiscal note for SB 20 in 1999, and therefore, assume no additional fiscal impact from the changes in this program.

Oversight assumes the proposal also changes the definition of "distressed communities" in Section 135.530. This definition is used by various programs under DED, including CAPCO, Tax Credit for Contributions to Innovation Centers, Credit for New or Expanded Business Facilities as well as others. While some of these programs are capped, the New or Expanding Business Facility tax credit is not capped. A business in a newly created distressed community would be allowed a larger tax credit for expanding an existing business or creating a new business facility than they would if they were not in the newly defined distressed community. Companies not in a distressed communities are allowed the credit, but at a lower per-employee and per-capital rate. With DED's assumption that expanding the definition of distressed communities would have no impact (or certainly negligible) on the amount of tax credits utilized, Oversight assumes this proposal would have a minimal fiscal impact on the General Revenue Fund.

Oversight assumes this proposal may result in the increased utilization of some of the various tax credit programs that use the definition of distressed communities, however, many of the programs are capped, therefore, Oversight has already reflected the potential losses to the General Revenue fund in previous fiscal notes.

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
Loss - Expansion of definition of "distressed community"	(Minimal)	(Minimal)	(Minimal)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**(Minimal)**	**(Minimal)**	**(Minimal)**

FISCAL IMPACT - Local Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit may be fiscally impacted by this legislation.

DESCRIPTION

Relating to the Rebuilding Communities and Neighborhood Preservation Act, this proposal:

(1) Changes the definitions of "eligible residence", "new residence", "project" and “qualifying residence”.

(2) Increases the tax credit amount from 15% to 20% for eligible costs associated with a new residence in a distressed community or within a census block group, or for multiple unit condominiums. The proposal does not change the dollar value of the tax credit, which cannot exceed $40,000 per new residence in any 10-year period;

DESCRIPTION (continued)

(3) Limits the tax credits available for the rehabilitation and construction of residences in distressed communities and census blocks to $1.5 million per project for those commenced after August 28, 2003. Under current law, of the $16 million in community improvement tax credits allowed, $8 million are to be allocated for "eligible residence" programs and $8 million for "qualifying residence" programs. The proposal states that if, by October 1 of the calendar year, the Director of the Department of Economic Development has issued all $8 million of the credits allowed for one of these programs and has not issued the entire $8 million allowance for the other program, the director is required to reallocate 70% of any unused tax credits from the program which has not reached its $8 million cap to the one which has. The reallocated credits will be given to taxpayers who have applied for, but have not received, tax credits in that same year and who are engaged in projects in the area where the tax credit cap has been met for that same year. The maximum reallocated tax credit for any project may not exceed $500,000; and

(4) Allows one application for tax credits to be submitted to the department for preliminary approval in the case of projects involving the new construction, rehabilitation, or substantial rehabilitation of more than one residence. Tax credits will be awarded upon final approval of an application and presentation of acceptable proof that substantial construction of each individual residence has been completed, rather than delaying issuance of the tax credits until the entire project is substantially complete.

Relating to tax credits for investment in or relocating a business to a distressed community, the proposal:

(1) Reduces the population requirement for a United States census block group or contiguous group of block groups within a metropolitan statistical area from 2,500 to 500 for an area to be a "distressed community"; and

(2) Expands the definition of a "distressed community" to include areas within metropolitan statistical areas that are designated as either a federal empowerment zone, a federal enhanced enterprise community, or state enterprise zones designated prior to January 1, 1986, but will not include the
expansion of those zones done after March 16, 1988.

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 Revenue
Department of Insurance

NOT RESPONDING: Department of Economic Development

Mickey Wilson

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Director
January 29, 2003