

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1326-01
Bill No.: SB 259
Subject: Agriculture and Animals; Banks and Financial Institutions; Economic Development; Environmental Protection; Insurance- General; Taxation and Revenue - General; Tax Credits; Urban Redevelopment
Type: Original
Date: March 22, 2011

Bill Summary: This proposal subjects certain tax credit programs to sunsets.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	\$0	\$0	\$46,275,393
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$46,275,393

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
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 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Budget and Planning (BAP)** assume the proposed legislation should not result in additional costs or savings to BAP.

This proposal provides sunsets for various programs as in the table below. To the extent these proposals are not extended, general and total state revenues will increase. Associated economic activity may decrease but BAP cannot estimate the potential loss of induced revenues as a result of this proposal.

Tax Credit	Sunset	FY 10 Redemptions (\$million)
Bank Franchise	8/28/2013	2.0
Bank for S Corp	8/28/2013	1.8
Exam Fee	8/28/2013	5.2
MO Health Insurance Pool	8/28/2013	7.9
MO Life & Health Insurance Guaranty	8/28/2013	0.0
Property & Casualty Insurance Guaranty	8/28/2013	.06
Brownfield Remediation	8/28/2015	17.6
Neighborhood Preservation	8/28/2015	6.7
BUILD	8/28/2015	8.3
Business Facility	8/28/2015	2.8
Development	8/28/2015	1.6
Enhanced Enterprise Zone	8/28/2015	2.9
MDFB Bond Guarantee	8/28/2015	0.0
MDFB Infrastructure Development Contribution	8/28/2015	14.0
Missouri Quality Jobs Act	8/28/2015	14.2

Family Farm Breeding Livestock	8/28/2015	.1
Agricultural Product Utilization	8/28/2015	.1
New Generation Cooperative	8/28/2015	3.3
Neighborhood Assistance	8/28/2015	10.1
Historic Preservation	8/28/2017	108.1
Domestic Violence Shelter	8/28/2017	.8
Maternity Home	8/28/2017	.8
Pregnancy Resource Center	8/28/2017	1.2
Shared Car	8/28/2017	.1
Youth Opportunities	8/28/2017	4.4
Total		355.5

Officials at the **Department of Economic Development** (DED) assume this proposed legislation would sunset the following tax credits administered by DED: Neighborhood Assistance Program (32.115), Development Tax Credit (32.115); New Business Facility (135.150); Youth Opportunities (135.460); Neighborhood Preservation (135.487), Enhanced Enterprise Zone (135.967), Historic Preservation (253.559), Brownfield Remediation and Brownfield Jobs & Investment (447.708), and Missouri Quality Jobs (620.1881).

DED assumes an unknown positive fiscal impact over \$100,000 as a result of the proposed legislation. DED anticipates a positive fiscal impact as a result of sun setting these programs, however, the exact amount of the positive impact is unknown due to the uncertainty as to the amount of tax credits that would otherwise be authorized and subsequently redeemed under the eliminated programs in any subsequent fiscal year. This anticipated positive fiscal impact based on the sunset of programs, would be offset by an unknown negative fiscal impact with respect to those programs that require or result in a net positive fiscal impact to the state in order for the benefit or tax credit to be issued. Such programs would include Enhanced Enterprise Zone, Brownfield and Missouri Quality Jobs. If such programs were allowed to sunset, the positive fiscal impact resulting from the programs would no longer be realized, thereby resulting in an unknown negative fiscal impact to offset the unknown positive fiscal impact as a result of the programs' elimination.

ASSUMPTION (continued)

This positive fiscal impact is shown below based on estimates of the range of potential positive fiscal impact, with the high end of the range represented by the applicable program cap and the low end represented by the average annual authorizations of tax credits under the applicable programs for fiscal years 2007 through 2009. This range reflects the fact although in any fiscal years there is the potential for tax credit authorizations under these programs up to the applicable cap, the actual authorizations are often less than the cap amount.

Program Eliminated	Savings Based on Average Authorizations (FY07-FY09)	Maximum Savings Based on Current Statutory Cap
Neighborhood Assistance	\$15,652,748	\$16,000,000
Development Tax Credit	\$1,450,000	\$6,000,000
New Business Facility	\$4,581,994	Unknown (program uncapped)
Youth Opportunities	\$5,641,665	\$6,000,000
Neighborhood Preservation	\$14,126,322	\$16,000,000
Enhanced Enterprise Zone	\$7,023,970	\$24,000,000
Historic Preservation	\$170,114,756	\$140,000,000 (FY11)
Brownfield	\$22,348,784	Unknown (program uncapped)
Quality Jobs	\$21,993,492	\$80,000,000
TOTAL SAVINGS	\$262,933,732	\$288,000,000

DED assumes that tax credits previously authorized or issued under any program with a carry forward provision would continue to be redeemed under these programs, notwithstanding the sunset on the agency's authority to authorize new tax credits.

Officials at the **Department of Revenue (DOR)** assume the department will need to make programming changes to various tax systems. The department's response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at \$4,240, which is 160 FTE hours.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

ASSUMPTION (continued)

Officials at the **Department of Health and Senior Services** assume this bill would sunset the Shared Care Tax Credit Program established in Section 660.055, RSMo, effective August 28, 2017 (six years after August 28, 2011). In FY 2101, there were 246 claimants who redeemed \$106,068 from this tax credit.

Officials at the **Department of Agriculture, Department of Insurance, Financial Institutions and Professional Registration, Department of Natural Resources** and the **Department of Social Services** assume that there is no fiscal impact from this proposal.

Oversight assumes the following tax credits do not have an annual cap or a program cap. In FY 2010, these programs issued tax credits totaling \$39,670,275 and \$18,001,714 of those credits were redeemed. This proposal would prohibit the issuance of any further tax credits under these programs after August 28, 2013:

- Bank Franchise - section 148.064
- Bank TC for S Corp - section 143.471
- Exam Fee - section 148.400
- Property and Casualty Insurance Guaranty - section 375.774
- Life and Health Insurance Guaranty - section 376.745
- Health Insurance Pool - section 376.975

Oversight assumes any income to the state from tax credits not issued and the taxes being collected will start in September of 2013. However, since it is possible for the agency to issue all of the tax credits before this proposal prohibits any more being issued, Oversight will only show the savings in FY 2014. Oversight assumes the future claiming of the tax credits will remain constant over the upcoming fiscal years. Oversight for the fiscal note is showing the amount of increased revenue to the State as being equal to the average amount issued over the last five years.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under these programs after August 28, 2015:

- Brownfield Remediation - section 447.708
- Neighborhood Preservation Act - section 135.487
- BUILD - section 100.850
- Business Facility - section 135.150
- Development Tax Credit - section 32.115
- Enhanced Enterprise Zone - section 135.967
- MDFB Bond Guarantee -section 100.297

ASSUMPTION (continued)

MDFB Infrastructure - section 100.286
Missouri Quality Jobs - section 620.1881
Family Farm Breeding Livestock Loan Program - section 348.505
Agricultural Product Utilization Contributor - section 348.430
New Generation Cooperative Incentive - section 348.432
Low-Income Housing- section 135.352

Oversight assumes that several of these programs have annual or program caps. The caps on these programs is greater than \$234,300,000. In FY 2010, these programs issued tax credits totaling \$256,119,974 and \$213,893,710 of those credits were redeemed. Oversight assumes any income to the state from tax credits not issued and the taxes being collected is outside the fiscal note period. Taxes will start being collected in FY 2016.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under these programs after August 28, 2017:

Historic Preservation
Domestic Violence Shelter
Maternity Home
Shared Care
Youth Opportunities

Oversight assumes that several of these programs have annual or program caps. The caps on these programs is greater than \$140,000,000. In FY 2010, these programs issued tax credits totaling \$113,858,090 and \$114,126,844 of those credits were redeemed. Oversight assumes any income to the state from tax credits not issued and the taxes being collected is outside the fiscal note period. Taxes will start being collected in FY 2018.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE			
<u>Revenue</u> - stopping of the tax credits and collection of the taxes owed			
Bank Franchise	\$0	\$0	\$2,209,248
Bank TC for S Corp	\$0	\$0	\$1,507,338
Exam Fee	\$0	\$0	\$10,987,629
Property & Casualty Insurance	\$0	\$0	\$4,591,780
Life & Health Insurance Guaranty	\$0	\$0	\$17,984,670
Health Insurance Pool	<u>\$0</u>	<u>\$0</u>	<u>\$8,994,728</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>\$0</u>	<u>\$46,275,393</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
	<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

This act subjects the following tax credit programs to two-year sunset provisions:

- 1) The Bank Franchise Tax Credit;
- 2) The Bank Tax Credit for S-Corporations;
- 3) The Examination Fee Tax Credit;
- 4) The Missouri Health Insurance Pool Tax Credit;
- 5) The Missouri Life and Health Insurance Guaranty Tax Credit; and
- 6) The Property and Casualty Insurance Guaranty Tax Credit.

The following tax credit programs will be subject to four-year sunset provisions:

- 1) The Brownfield Remediation Tax Credit;
- 2) The Neighborhood Preservation Tax Credit;
- 3) The BUILD Tax Credit;

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FISCAL DESCRIPTION (continued)

- 4) The Business Facility Tax Credit;
- 5) The Development Tax Credit;
- 6) The Enhanced Enterprise Zone Tax Credit;
- 7) The MDFB Bond Guarantee Tax Credit;
- 8) The MDFB Infrastructure Development Contribution Tax Credit;
- 9) The Missouri Quality Jobs Act;
- 10) The Family Farm Breeding Livestock Tax Credit;
- 11) The Agricultural Product Utilization Tax Credit;
- 12) The New Generation Cooperative Tax Credit; and
- 13) The Neighborhood Assistance Tax Credit.

The following tax credit programs will be subject to six-year sunset provisions:

- 1) The Historic Preservation Tax Credit;
- 2) The Low-Income Housing Tax Credit;
- 3) The Domestic Violence Shelter Tax Credit;
- 4) The Maternity Home Tax Credit;
- 5) The Shared Care Tax Credit; and
- 6) The Youth Opportunities Tax Credit.

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

Budget and Planning
Department of Agriculture
Department of Economic Development
Department of Health and Senior Services
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Department of Revenue
Department of Social Services



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