COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0420-05
Bill No.: SCS for HCS for HB 222
Subject: Economic Development; Economic Development Department; Historic Preservation; Insurance - Medical; Tax Credits; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use
Type: Original
Date: May 15, 2013

Bill Summary: This proposal would modify provisions relating to tax credits and tax incentives.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	Up to $51,170,653	Up to $45,287,757	Up to $58,287,038
Total Estimated Net Effect on General Revenue Fund	**Up to $51,170,653**	**Up to $45,287,757**	**Up to $58,287,038**

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.

Full savings from the reduction in the Low Income Housing Tax Credit Program (estimated to be $84 million) will not be realized until FY 2021.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 32 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Conservation Commission	$0	$0	$0 or (More than $100,000)
Parks, and Soil & Water	$0	$0	$0 or (More than $100,000)
School District Trust	$0	$0	$0 or (More than $100,000)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0 or (More than $300,000)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**1 FTE**	**1 FTE**

☒ 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 2014	FY 2015	FY 2016
Local Government	**$0**	**$0**	**$0 or (More than $100,000)**

FISCAL ANALYSIS

ASSUMPTION

Section 67.2050 - Technology Business Facilities

Officials from the **Department of Revenue (DOR)** assume this proposal would authorize the governing body of any municipality to carry out technology business facility projects for economic development, accept grants from the federal and state governments for technology business facility project purposes, enter into such agreements as are not contrary to the laws of this state and which may be required as a condition of grants by the federal government or its agencies, and receive gifts and donations from private sources to be used for technology business facility project purposes.

The governing body of the municipality could enter into loan agreements, sell, lease, or mortgage to private persons, partnerships, or corporations any one or more of the components of a facility received, purchased, constructed, or extended by the municipality for development of a technology business facility project.

Transactions involving the lease or rental of any components of such project would be specifically exempted from the provisions of the local sales tax law.

Leasehold interests granted and held under this section would not be subject to property taxes.

ASSUMPTION (continued)

Any payments in lieu of taxes expected to be made by any lessee of the project would be applied in accordance with this section. The lessee could reimburse the municipality for its actual costs of administering the plan.

The county assessor would include the current assessed value of all property within the affected taxing entities in the aggregate valuation of assessed property, and such value would be used for the purpose of the local government debt limitation under the Constitution of Missouri.

The governing body of any municipality could sell or otherwise dispose of property, buildings, or plants acquired under this section to private persons or corporations for technology business facility project purposes upon approval by the governing body.

The provisions of this section could not be construed to allow political subdivisions to provide telecommunications services or telecommunications facilities to the extent they are currently prohibited from doing so.

This section would terminate on September 1, 2019.

Oversight did not receive any other responses specifically related to these provisions. Oversight notes this proposal would allow any municipality in the state - county, city, incorporated town, or village - to develop a technology business facility project, and assumes any reduction in state revenue from local government sales tax collection charges would be minimal.

Oversight further assumes any impact related to this proposal would be the result of some future action by a municipality and will not include any impact in this fiscal note.

Section 135.305, RSMo. - Wood Energy Tax Credits:

Officials from the **Department of Revenue** note this proposal would limit tax credits under this program to three million five hundred thousand dollars in any given fiscal year.

ASSUMPTION (continued)

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** noted in response to similar language in SCS for HCS #2 for HB 698, LR 1838-10, that redemptions for this program totaled $3.8 million in FY 2011, and $2.3 million in FY 2012. BAP officials assumed this provision would reduce General and Total State Revenues by similar amounts up to $3.5 million.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Natural Resources regarding this program, the Wood Energy Producer tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Amount Issued	$3,204,481	$3,269,364	$3,060,710
Amount Redeemed	$1,546,453	$3,818,378	$2,282,401

Oversight notes this tax credit was to expire on June 30, 2013 (FY 2013) and did not have an annual cap. This provision would extend the program and add an annual cap of $3.5 million. Oversight will reflect a revenue reduction to the State equal to the average amount issued over the last five years ($3,294,970).

Sections135.350 and 135.352, RSMo. - Low Income Housing Tax Credit:

Officials from the **Department of Revenue (DOR)** assume this proposal would limit tax credits authorized each fiscal year, and carryback and carryover of unused tax credits would be limited to two years.

The provisions would prohibit a taxpayer that receives state tax credits under the provisions of sections 253.545 to 253.559 from receiving tax credits under the provisions of sections 135.350 to 135.363 for the same project, if such project is not financed through tax exempt bond issuance.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** noted in response to similar language in SCS for HCS #2 for HB 698, LR 1838-10, this part of the proposal would limit authorizations for the two types of low-income housing credits to $55 million annually. During fiscal years 2010 - 2012, authorizations averaged $141.3 million. This provision would reduce authorizations by $86.3 million annually, but savings would take longer to accrue because of the lag between authorizations and redemptions. BAP officials estimated this provision would increase General and Total State Revenues.

ASSUMPTION (continued)

In response to similar language in SCS for HCS #2 for HB 698, LR 1838-10, officials from the **Department of Economic Development** (**DED**) deferred to the Missouri Housing Development Commission for an estimate of the impact.

Officials from the **Missouri Housing Development Commission** (**MHDC**) assumed similar language in SCS for HCS #2 for HB 698, LR 1838-10, would impose a fifty million dollar cap on the 9% Missouri Low Income Housing Tax Credit (MOLIHTC) beginning in FY 2014 and a five million dollar cap on the 4% MOLIHTC beginning in FY 2014. The state would see a significant reduction in the annual amount of MOLIHTC issued and redeemed as a result of this provision. However, because of the significant lag time between authorization, issuance and redemption of credits, it would take several years for the full impact of this change to be realized.

The projected savings is based on the federal allocation in the current year. The MOLIHTC is currently capped by the federal allocation of Low Income Housing Tax credit (LIHTC). In the current year, the estimated amount of the federal allocation is approximately $13.5 million over a 10 year period. In addition, current provisions cap the 4% MOLIHTC at $6 million over a 10 year period. This part of the proposal would cap both the 9% and 4% MOLIHTC at $55 million per year, beginning in FY 2014.

The MOLIHTC is a 10-year credit. The full impact associated with reductions in tax credit issuances and redemptions due to proposed changes in the previous version of the proposal would be phased-in.

There is no fiscal impact associated with MOLIHTC until they are redeemed. However because the MOLIHTC has a carry forward provision, it is impossible to predict with certainty the timing of future redemptions. Most of the impact from the changes in this proposal would be outside the fiscal period in question. MHDC assumes a two year lag time between initial authorization and issuances. See the table below.

ASSUMPTION (continued)

Fiscal Year	MO LIHTC Long-Range Impact (Savings to General Revenue)
2014	$0
2015	$0
2016	$14,000,000
2017	$28,000,000
2018	$42,000,000
2019	$56,000,000
2020	$70,000,000
2021	$84,000,000

Oversight notes according to the Tax Credit Analysis submitted by the Missouri Housing Development Commission regarding this program, the Low Income Housing tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Certificates Issued (#)	303	212	457
Projects (#)	35	26	42
Amount Authorized	$149,068,200	$102,960,000	$171,894,310
Amount Issued	$155,703,625	$156,016,305	$164,956,766
Amount Redeemed	$142,141,458	$143,055,387	$164,208,547

Oversight notes this part of the proposal would reduce the issuance of Missouri Low Income Housing Tax Credits. Oversight assumes the reduction would begin to have a fiscal impact in FY 2016 since projects approved after June 30, 2012 would not generally result in tax credits issued until after the end of FY 2015. MHDC estimated the impact based on a reduction of the tax credits to $110 million. This proposal would reduce the credits to $55 million. Oversight will reflect the increased revenue to the State as greater than the original estimate provided by the MHDC.

ASSUMPTION (continued)

Section 135.484, RSMo. - Neighborhood Preservation Tax Credits:

Officials from the **Department of Revenue** assume this proposal would authorize no tax credits on or after the effective date of this act. The provisions of this subsection could not be construed to limit or impair the Department's ability to issue tax credits authorized prior to the effective date of this act, or a taxpayer's ability to redeem such tax credits.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** noted in response to similar language in SCS for HCS #2 for HB 698, LR 1838-10, this part of the proposal would disallow further authorizations under this program. During fiscal years 2010 - 2012, authorizations averaged $9.4 million. This would reduce authorizations, but savings would take longer to accrue because of the lag between authorizations and redemptions. BAP officials assume this would increase General and Total State Revenues.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Neighborhood Preservation tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Certificates Issued (#)	202	97	41
Projects (#)	202	97	41
Amount Authorized	$10,290,561	$8,747,403	$9,145,202
Amount Issued	$5,987,555	$2,431,678	$969,307
Amount Redeemed	$6,739,113	$4,427,639	$2,159,654

Oversight assumes this part of the proposal would prohibit the authorization of additional credits after the effective date of this act. This program has an annual cap of $16 million dollars. Oversight will reflect the amount of increased revenue to the State equal to the average amount issued over the last five years ($4,248,174).

ASSUMPTION (continued)

Section 135.630, Pregnancy Resource Center:

Officials from the **Department of Revenue** assume this provision would limit the cumulative amount of tax credits claimed by all taxpayers contributing to pregnancy resource centers in any one fiscal year to $2.5 million.

Officials from the **Office of Administration - Division of Budget and Planning** (**BAP)** noted in response to similar language in SCS for HCS #2 for HB 698, LR 1838-10, that increasing the cap on this credit would reduce General and Total State Revenue by an additional $500,000.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Social Services regarding this program, the Pregnancy Resource Center tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Certificates Issued (#)	3,708	3,729	3,827
Amount Issued	$1,324,130	$1,795,230	$1,844,684
Amount Redeemed	$1,198,062	$1,103,384	$1,892,183

Oversight notes this credit was extended on March 29, 2013 by the signing of TAFP HCS for SS for SCS for SB Nos. 20, 15 & 19. That proposal included an annual cap of $2 million. This proposal would raise the cap to $2.5 million; therefore, Oversight will indicate a revenue reduction for credits that could be issued in FY 2014, FY 2015 and FY 2016. Oversight will reflect a loss of revenue to the state from $0 to the additional $500,000 in the cap.

Sections 135.1550 to 135.1775, RSMo. - Missouri Export Incentive Act:

Officials from the **Department of Revenue (DOR)** assume this proposal would create the Missouri Export Incentive Act. Beginning July 1, 2013, the proposal would entitle a freight forwarder to claim an air export tax credit for the shipment of cargo on a qualifying outbound flight equal to $0.40 per chargeable kilo. To receive benefits under the program, a freight forwarder would file an application with DED within 120 calendar days of the date of shipment.

The Department of Economic Development (DED) would index, and the Secretary of State would publish in the Missouri Register, the amount of air export tax credits for each year depending upon fluctuations in the cost of fuel for over-the-road transportation.

ASSUMPTION (continued)

The aggregate amount of credits authorized could not exceed $60 million, and the annual amount of credits issued could not exceed $7.5 million for each fiscal year beginning on or after July 1, 2013. No tax credits could be authorized for this program after June 30, 2021. Any tax credits authorized on or before June 30, 2021, but not issued, could be issued until all authorized tax credits have been issued.

The Department could create rules to implement the program, and the program would sunset eight years after the effective date of this act unless reauthorized by the General Assembly.

DOR officials assumed the Personal Tax Division would need one additional Revenue Processing Technician I ($25,884) per 6,000 tax credits processed, and the Corporate Tax Division would need one additional Revenue Processing Technician I ($25,884) per 6,000 tax credits redeemed.

Oversight assumes the DOR Personal and Corporate Tax Divisions could absorb the responsibilities of this tax credit with existing resources. If unanticipated additional costs are incurred or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assumed that similar language in SCS for HCS #2 for HB 698, LR 1838-10, would authorize the Missouri Export Incentive Act, which would make qualifying freight forwarders eligible to receive air export tax credits based on the weight of specified cargo shipments. The total amount of credits available is $60 million, which is the aggregate total allocated for the eight year duration of the program. This proposal could therefore reduce General and Total State Revenues by that amount. This proposal could also encourage other economic activity. BAP cannot estimate the induced revenues.

ASSUMPTION (continued)

Officials from the **Department of Economic Development (DED)** assumed similar language in SCS for HCS #2 for HB 698, LR 1838-10, would create the Air Export Tax Credit, which would allow an air export tax credit to freight forwarders for a shipment of cargo on a qualifying outbound flight from the St. Louis airport. The air export tax credit has an aggregate cap of $60 million with a fiscal year cap of $7.5 million. Tax credits would be based on 40 cents per chargeable kilo on a shipment of cargo. These credits could be transferred or sold and they have a 6-year carry forward provision. This proposal would require DED to establish procedures to allow freight forwarders to receive air export tax credits within twenty business days of the filing date of the application; the freight forwarder would be required to file within 120 days of shipment. The program automatically sunsets eight years after the effective date, unless reauthorized by the General Assembly.

DED officials assumed a negative fiscal impact in excess of $100,000; however this negative impact would be offset by an unknown positive economic benefit as a result of the increase in economic activity as a result of the program. DED officials assumed two additional employees would be required to administer the program due to the anticipated amount of administration involved. The employees would be Economic Development Incentive Specialist III ($41,016) and responsible for reviewing and approving the applications for the program to determine eligibility, establishing procedures, reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards, and ensuring compliance with the program. The estimated FTE cost for FY 2014 is $60,868.

Oversight assumes the creation of this program could have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in the fiscal note.

Oversight notes that in previous versions of this proposal, DED indicated they would need one FTE to administer the program. Oversight will include one additional employee for this program.

ASSUMPTION (continued)

In response to similar provisions in SCS for HCS #2 for HB 698, LR 1838-10, officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** assumed an unknown reduction of premium tax revenues as a result of the creation of the Missouri Export Incentive Act is possible. Premium tax revenue is split 50/50 between General Revenue Fund and the 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.

DIFP officials assumed the Department would require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Oversight is not able to estimate the reduction in premium revenues, if any, which would result from the creation of the new tax credit program, and will not include an impact for this potential revenue reduction.

Oversight also assumes the Department of Insurance, Financial Institutions, and Professional Registration could absorb the minimal additional cost to implement this program with existing resources.

ASSUMPTION (continued)

Section 143.119 - Self Employed Health Insurance Tax Credit:

In response to similar provisions in SCS for HCS #2 for HB 698, LR 1838-10, officials from the **Office of Administration - Division of Budget and Planning (BAP)** assumed this part of the proposal would eliminate this tax credit program. During fiscal years 2010 - 2012 redemptions for this program averaged $1.6 million but the program has grown to over $1.8 million. Therefore, this provision would increase General and Total State Revenue.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Revenue regarding this program, the Self Employed Health Insurance tax credit program had the following activity;

	FY 2010	FY 2011	FY 2012
Amount Redeemed	$1,517,004	$1,428,143	$1,847,045

Oversight assumes the termination of this tax credit would prohibit the issuance of additional credits upon the effective date of this proposal. This program does not have an annual cap. Oversight will reflect the amount of increased revenue to the State equal to the average amount issued over the last five years ($1,512,185).

Section 144.810 - Data Storage Centers

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assumed a previous version of this proposal would not result in additional costs or savings to their organization.

BAP officials noted the proposal would define the following data center projects:

* Expanding facility - $5 million investment within 12 months, and 5 new jobs within 24 months.

* New facility - a new facility that does not replace an existing facility, with investment of $37 million and the creation of 30 new jobs over 36 months.

ASSUMPTION (continued)

This proposal would provide a state and local sales tax exemption for electrical energy, gas, water, other utilities, machinery, equipment, computers, and construction materials used in a new data center. The amount of any exemption provided under this subsection could not exceed the projected net fiscal benefit to the state over a period of ten years.

This proposal would also provide a state and local sales tax exemption for electrical energy, gas, water, other utilities, machinery, equipment, computers, and construction materials used by expanding data storage centers, to the extent the amount of new inputs exceed current input levels. The amount of any exemption provided under this subsection could not exceed the projected net fiscal benefit to the state over a period of ten years.

This proposal would not impact current General and Total State Revenues but future revenues may be forgone. BAP officials assume this program could encourage other economic activity, but stated that they do not have data to estimate the induced revenues. BAP officials assume the Department of Economic Development may have such an estimate.

Officials from the **Department of Economic Development (DED**) assumed a previous version of this proposal would create state and local sales and use tax exemptions for data storage center facilities. The data storage centers facility projects which seek a tax exemption would be required to submit a project plan to DED, and DED would be responsible for certifying the tax exemption in coordination with the Department of Revenue. Exemptions would be limited to the projected net fiscal benefit to the state over a period of ten years, as determined by DED. The proposed legislation would also require random audits to ensure compliance with the intent the data storage centers indicated in their project plan.

DED is unable to determine the exact impact the proposed legislation would have on Total State Revenue and therefore anticipates an unknown impact.

DED would be responsible for determining eligibility for the exemption approval process and the compliance and auditing functions, and anticipates the need for one additional FTE Economic Development Incentive Specialist III. The new employee would be responsible for reviewing project plan applications to make sure they meet the criteria of the program, and conducting random audits to ensure compliance with the program.

ASSUMPTION (continued)

The DED response included one additional FTE; with the applicable benefits and expense and equipment the estimated cost was $60,868 for FY 2012, $66,246 for FY 2015, and $66,965 for FY 2016.

Oversight assumes there would be a limited number of entities eligible for this sales and use tax exemption and that DED could absorb the additional workload with existing resources. If this proposal created an unanticipated increase in the DED workload, or if multiple proposals were implemented which created a substantial increase in the DED workload, resources could be requested through the budget process.

Officials from the **Department of Revenue (DOR)** assume this proposal would exempt all electrical energy, gas, water and other utilities including telecommunication and internet services used in a new data storage center, all machinery, equipment and computers used in any new or expanding data storage center, and all sales at retail of tangible personal property and materials for constructing any new or expanding data storage center from sales and use tax.

An expanding data center project could also be exempt from sales and use tax with the same criteria as a new data storage center.

Entities would be required to submit a plan to the Department of Economic Development (DED) to determine eligibility, and DED would certify the project to DOR. DOR would then issue an exemption certificate to the taxpayer.

The project taxpayers would enter into an agreement with DED providing for repayment penalties in the event the data storage center project fails to comply with any of the requirements of this program.

DOR would, upon receipt of adequate proof of the amount of sales taxes paid since the first day of the 36-month period, issue a refund of taxes paid but eligible for exemption to any applicable project taxpayer, and would issue a certificate of exemption to any applicable project taxpayer for ongoing costs.

DED and DOR would create rules for this program.

ASSUMPTION (continued)

DOR would credit any amounts remitted by the project taxpayers to the fund to which the sales and use taxes exempted would have otherwise been credited.

The Departments of Economic Development and Revenue would conduct random audits. No recipient of an exemption pursuant to this section would be eligible for benefits under any existing business recruitment tax credit program.

The Department and OA - ITSD (DOR) would need to make programming changes to various tax systems.

Fiscal impact

DOR officials assume this proposal would reduce state revenues.

Administrative impact

DOR officials assume that Collections & Tax Assistance (CATA) would require one additional FTE Revenue Processing Technician I (Range 10, Step L) per 15,000 additional contacts annually to the registration section, with CARES equipment and agent license, and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 4,800 additional contacts annually to the tax assistance offices, with CARES equipment and agent license.

In addition, DOR officials assume Sales Tax would require one additional FTE (not specified) to complete amended returns and process the refunds, and one additional FTE Revenue Processing Technician I (Range 10, Step L) for completion of amended returns and processing refunds.

The DOR response included three additional employees, and with the related benefits, equipment and expense the cost estimate totaled $123,042 for FY 2014, $122,613 for FY 215, and $123,903 for FY 2016.

Oversight assumes there would be a limited number of entities eligible for this sales and use tax exemption and that DOR could absorb the additional workload with existing resources. If this proposal created a significant unanticipated increase in the DOR workload, or if multiple proposals were implemented, resources could be requested through the budget process.

ASSUMPTION (continued)

IT impact

DOR officials assume the IT cost to implement this proposal would be $77,038 based on 2,848 hours of programming to change DOR systems.

Oversight will include the DOR estimate of IT cost in the fiscal note.

Oversight notes that this proposal would require a minimum $2 million investment in a new data storage facility within thirty-six months and the creation of two new jobs, or a minimum $1 million investment in an expanding data storage facility within twelve months and the creation of one new job. The proposed project would require approval by the Department of Economic Development (DED) which would conditionally certify the project to the Department of Revenue (DOR). Upon completion of the project, DED would certify the project eligibility to DOR, and DOR would refund the sales tax paid on the project.

If the proposal became effective August 28, 2013, construction could begin late in FY 2014 and would likely not be completed until late in FY 2015. Refunds would not likely be certified and paid to project owners until FY 2016.

ASSUMPTION (continued)

Oversight is not aware of any existing or planned projects which could qualify for the program, but if one large new facility project was completed in time for a refund to be paid in FY 2016, the sales tax amounts could be computed as follows. Oversight has calculated the potential revenue reduction based on an investment of $37 million investment which would fully qualify for the exemption, as shown below.

Entity	*Sales Tax Rate*	*Sales Tax*
General Revenue Fund	*3%*	*$1,110,000*
Conservation Commission Fund	*1/8%*	*$46,250*
School District Trust Fund	*1%*	*$370,000*
Parks, Soil & Water Funds	*1/10%*	*$37,000*
Local Governments	*Average 2.5%*	*$925,000*

For fiscal note purposes only, **Oversight** will indicate an impact for the General Revenue Fund for this proposal of $0 (no project qualifies for the exemption) to a revenue reduction of More than $100,000 (one or more projects qualify for the exemption) for FY 2016, and a range of $0 or a revenue reduction of More than $100,000 for other state funds which receive sales tax revenues, and for local governments.

Section 253.550, Historic Preservation Tax Credits

Officials from the **Department of Revenue** noted this provision would limit tax credits in this program under subsections 3 and 8 to forty-five million dollars, increased by any amount of tax credits for which approval was rescinded. That limitation would not apply to applications for projects to receive less than two hundred seventy five thousand dollars in tax credits.

After the effective date of this act, no more than one hundred and twenty-five thousand dollars in tax credits could be issued for rehabilitation of an eligible property which is a nonincome producing single family, owner occupied residential property which is either a certified historic structure or a structure in a certified historic district.

ASSUMPTION (continued)

After July 1, 2013, the Department of Economic Development could not approve applications for projects to receive less than two hundred seventy five thousand dollars in tax credits which, in the aggregate, exceed five million dollars, increased by any amount of tax credits for which approval was rescinded.

In response to similar provisions in SS SCS SB 120, LR 722-15, officials from the **Office of Administration - Division of Budget and Planning (BAP)** assumed this part of the proposal would limit these authorizations to $45 million, of which $5 million would reserved for micro projects. During Fiscal Years 2010-2012, authorizations averaged $93.6 million. This would reduce authorizations by $48.6 million annually, but savings would take longer to accrue because of the lag between authorizations and redemptions. BAP assumed the provision would result in increases to General and Total State Revenues.

In response to similar provisions in SS SCS SB 120, LR 722-15, officials from the **Department of Economic Development (DED)** assumed this part of the proposal would revise the Historic Preservation Tax Credit program by reducing the cap from $140 million per year to $45 million per year beginning July 1, 2013. This part of the proposal would also restrict eligible costs to those costs that have been incurred and paid prior to the issuance of the tax credit. This part of the proposal would prohibit projects receiving Low Income Housing tax credits from also receiving Historic Preservation Tax Credits (Stacking).

There would also be a $5 million cap placed on small projects receiving less than $275,000 in tax credits. Finally, if the amount of tax credits exceeds the liability for the year, then the tax credits could be carried back to the preceding year and carried forward for the succeeding two years or until the full credit is issued. The proposal would require DED to propose rules for the program.

Historically, the estimated amount of tax credits authorized per fiscal year for the Historic Preservation tax credit program is approximately $100 million. DED assumes the proposed revisions to the Historic tax credit program would have a positive impact on Total State Revenues from Unknown up to $55 million. DED assumes a positive economic impact over $100,000 as a result of the lower cap for the program beginning in FY2014.

In response to similar provisions in SS SCS SB 120, LR 722-15, officials from the **Department of Natural Resources (DNR)** assumed the State Historic Preservation Office is responsible for reviewing and approving rehabilitation work for the state historic preservation tax credit program. Any changes in the tax credit structure could have an impact on the number of rehabilitation projects the State Historic Preservation Office reviews and approves. The

ASSUMPTION (continued)

department would not anticipate a significant direct fiscal impact as a result of the changes made to the structure of the State Historic Preservation Tax Credit.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Historic Preservation tax credit program had the following activity:

	FY 2010	FY 2011	FY 2012
Certificates Issued (#)	219	161	178
Projects (#)	219	161	178
Amount Authorized	$99,510,175	$82,839,495	$98,591,346
Amount Issued	$107,229,218	$116,244,410	$105,272,651
Amount Redeemed	$108,064,200	$107,767,393	$133,937,747

Oversight will show the revenue increase to the state as the estimate given by DED of up to $55 million.

Sections 348.273 and 348.274, RSMo. - Missouri Angel Investment Incentive Act:

In response to similar provisions in SCS for HCS #2 for HB 698, LR 1838-10, officials from the **Office of Administration - Division of Budget and Planning (BAP)** assumed this part of the proposal would create the Missouri Angel Investment Incentive Act. The total amount of tax credits available for this program would be $6 million. This proposal could therefore lower General and Total State Revenues by that amount. This program may encourage other economic activity, but BAP does not have data to estimate the induced revenues.

In response to similar provisions in SCS for HCS #2 for HB 698, LR 1838-10, officials from the **Department of Economic Development (DED)** assumed this part of the proposal would create the Missouri Angel Investment Incentive Act effective January 1, 2014. The Division of Business and Community Services (BCS) would be responsible for maintaining compliance. DED officials assumed BCS would require one additional FTE, an Economic Development Incentive Specialist III ($41,016), to administer the Missouri Angel Investment Incentive Act.

Oversight notes in response to similar legislation filed last year, HB 1593, DED assumed they could absorb the impact of this part of the proposal with existing resources. Therefore, Oversight assumes that DED would not need the Economic Development Incentive Specialist III. If unanticipated costs are incurred or if multiple proposals are implemented that increase the DED workload, resources could be requested through the budget process.

ASSUMPTION (continued)

In response to similar provisions in SCS for HCS #2 for HB 698, LR 1838-10, officials from the **Department of Revenue (DOR)** assumed the Personal Tax Division would need one Revenue Processing Technician I ($25,884) per 4,000 tax credits claimed and one Revenue Processing Technician I ($25,884) per 2,400 pieces of correspondence. The Corporate Tax Division would need one Revenue Processing Technician I ($25,884) per 4,000 tax credits redeemed.

Oversight assumes DOR's Personal Tax Division and Corporate Tax Division could absorb the responsibilities of this tax credit with existing resources. Should DOR experience sufficient additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

Oversight assumes the Angel Investment Incentive Act would begin on January 1, 2014; therefore, the credits would not affect the State until 2014 tax returns are filed beginning in January 2015, (FY 2015). Oversight will indicate a revenue reduction from $0 to $6 million for FY 2015 and FY 2016 for this program.

Oversight assumes the creation of this new program could have a positive economic impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in this fiscal note.

Section 447.708, RSMo. - Brownfield Tax Credits:

In response to similar provisions in SCS for HCS #2 for HB 698, LR 1838-10, officials from the **Office of Administration - Division of Budget and Planning (BAP)** assumed this part of the proposal would limit Brownfield authorizations to $20 million. During fiscal years 2010 - 2012 the authorizations were $10.2 million. Therefore, this would have little impact on General and Total State Revenue.

In response to similar provisions in SCS for HCS #2 for HB 698, LR 1838-10, officials from the **Department of Economic Development (DED)** assumed beginning July 1, 2013, the Brownfield Remediation Tax Credit program would be capped at $20 million per fiscal year. The Brownfield Jobs tax credit would be eliminated saving $1.6 million.

ASSUMPTION (continued)

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Brownfield Remediation tax credit programs had the following activity;

	FY 2010	FY 2011	FY 2012
Amount Issued	$13,978,902	$18,410,524	$7,717,895
Amount Redeemed	$17,590,273	$11,432,109	$16,967,400

Oversight assumes this part of the proposal places a new $20 million cap on this credit. Oversight also assumes it halts the issuance of Brownfield Jobs/Investment credits (which have a three year average of $1,888,614). Oversight will reflect an annual savings for the Jobs/Investment program. However, since the three year issuance average of the Remediation program ($13,369,107) is less than then new $20 million cap, Oversight will assume no fiscal impact from the cap.

Section 1 - Infrastructure

These provisions would eliminate any local responsibility for infrastructure upgrade requirements associated with the export incentive program, and would require the Department of Natural Resources to conduct a study of the impact the export incentive program would have on stormwater drainage.

Oversight assumes the part of the proposal concerning upgrading infrastructure would not have a fiscal impact. Oversight assumes the part of the proposal requiring a water study by the Department of Natural Resources (DNR) may have an impact but it is difficult to determine the exact cost. Due to time constraints and a lack of a response from DNR, Oversight will range the fiscal impact to DNR from $0 to an Unknown cost.

Bill as a whole responses

Officials from the **Office of the Secretary of State (SOS)** assume 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 Secretary of State's Office 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, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess

ASSUMPTION (continued)

of what our office can sustain with our core budget. Therefore, we reserve 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.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

In response to a previous version of this proposal, officials from the **City of Columbia** stated that the city does not have any active data storage projects and could not provide an estimate of the fiscal impact.

Officials from the **City of Kansas City** assume the City could have revenue losses for varying terms, but assumes those losses would be offset by increases in other revenues.

Officials from the **City of St. Louis** assumed a previous version of the proposal would have a very positive effect on their organization.

Officials from **St. Louis County** assumed any loss from a previous version of this proposal would not be great but stated they can not define their sales tax revenue to this level of detail.

In response to a previous version of this proposal, officials from the **Francis Howell School District** and the **Parkway School District** assumed the proposal would result in an unknown reduction in sales tax revenues.

FISCAL IMPACT - State Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE FUND			
Additional revenue - DED			
Reduction of Low Income Housing			
Tax Credit cap			Greater than
Section 135.352	$0	$0	$14,000,000
Additional Revenue			
Prohibition against stacking credits			
Section 135.352.8	Unknown	Unknown	Unknown
Additional Revenue - stopping of tax credits			
§ 135.484 - Neighborhood Pres	$4,248,174	$4,248,174	$4,248,174
§ 143.119 - Self Employed	$1,512,185	$1,512,185	$1,512,185
§ 447.708 - Brownfield Jobs	$1,888,614	$1,888,614	$1,888,614
Total Additional Revenue	$7,648,973	$7,648,973	$7,648,973
Additional Revenue - DED			
Reduction of Historic Preservation Tax			
Credit cap	Up to	Up to	Up to
Section 253.550	$55,000,000	$55,000,000	$55,000,000
Cost - DOR			
IT cost	($122,482)	$0	$0
Costs - DNR			
Stormwater study	$0 or		
Section 1	(Unknown)	$0	$0
Cost - DED			
Salaries	($34,180)	($41,426)	($41,840)
Benefits	($17,345)	($21,022)	($21,232)
Equipment and expense	($9,343)	($3,798)	($3,893)
Total cost	($60,868)	($66,246)	($66,965)
FTE Change - DED	1 FTE	1 FTE	1 FTE

FISCAL IMPACT - State Government (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
Revenue reduction - DNR Extension of Wood Energy Tax Credit program Section 135.305	($3,294,970)	($3,294,970)	($3,294,970)
Revenue reduction - DOS Increase in Pregnancy Resource Tax Credit cap Section 135.630	$0 to ($500,000)	$0 to ($500,000)	$0 to ($500,000)
Revenue reduction - DED Export Incentive Tax Credit program Section 135.1550	(Up to $7,500,000)	(Up to $7,500,000)	(Up to $7,500,000)
Revenue reduction - DED Angel Investment Tax Credit program Section 348.272	$0	(Up to $6,000,000)	(Up to $6,000,000)
Revenue Reduction- sales tax exemption Section 144.810 RSMo	$0	$0	$0 or (More than $100,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**Up to $51,170,653**	**Up to $45,287,757**	**Up to $58,287,038**
Estimated Net FTE Effect on General Revenue Fund	1 FTE	1 FTE	1 FTE

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.

FISCAL IMPACT - State Government (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
CONSERVATION COMMISSION FUND			
Revenue Reduction- sales tax exemption Section 144.810 RSMo	$0	$0	$0 or (More than $100,000)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**$0**	**$0**	**$0 or (More than $100,000)**
PARKS, AND SOIL & WATER FUND			
Revenue Reduction- sales tax exemption Section 144.810 RSMo	$0	$0	$0 or (More than $100,000)
ESTIMATED NET EFFECT ON PARKS, AND SOIL & WATER FUND	**$0**	**$0**	**$0 or (More than $100,000)**
SCHOOL DISTRICT TRUST FUND			
Revenue Reduction- sales tax exemption Section 144.810 RSMo	$0	$0	$0 or (More than $100,000)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**$0**	**$0**	**$0 or (More than $100,000)**

FISCAL IMPACT - Local Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
LOCAL GOVERNMENTS			
Revenue Reduction - sales tax exemption Section 144.810 RSMo	$0	$0	$0 or (More than $100,000)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**$0**	**$0**	**$0 or (More than $100,000)**

FISCAL IMPACT - Small Business

Small businesses which could use a technology business facility sponsored by a municipality or which could qualify for the sales tax exemptions would have a fiscal impact.

FISCAL DESCRIPTION

Technology business facilities

This proposal would allow the governing body of any municipality to enter into loan agreements, or sell, lease, or mortgage municipal property to private entities for the development of a technology business facility project. Qualified municipalities include counties, cities, incorporated towns, villages, or municipal utility boards.. Transactions involving the lease or rental of such properties would be exempt from state and local sales taxes and any leasehold interests on such properties would not be subject to property taxes. The proposal would allow municipalities to sell or otherwise dispose of municipal property to private entities for technology business facility projects provided that the terms and methods utilized reasonably protect the economic well being of the municipality. Any private entity which transfers property to the municipality for purposes of a technology business facility project could reserve the right to request that the municipality transfer such property back to the entity at no cost.

FISCAL DESCRIPTION (continued)

Server farms and data storage facilities

Beginning August 28, 2013, this proposal would authorize state and local sales and use tax exemption on items related to new data storage centers and server farm facilities including electrical energy, gas, water, and other utilities including telecommunications and Internet services; machinery, equipment, and computers; and retail sales of tangible personal property and materials for the purposes of constructing, repairing, or remodeling a new data storage center and server farm facility.

A new facility project sponsor wishing to utilize these exemptions would be required to submit a notice of intent and a project plan to the Department of Economic Development, which would identify each known constructing and operating taxpayer for the project. The Department would determine whether the project is eligible for exemption by verifying that the proposed new facility would invest at least $5 million within 36 consecutive months, and would notify the project sponsor when the project has the department's conditional approval.

The proposal would also authorize similar state and local sales tax exemptions for expanding facilities including utility costs which, on an annual basis, exceed the amount used in the existing or replaced facility prior to the expansion; machinery, equipment, and computers if the cost, on an annual basis, exceeds the average of the previous three years' expenditures used in the existing or replaced facility prior to the expansion; and retail sales of tangible personal property and materials for the purposes of constructing, repairing, or remodeling an expanding facility.

An expanding facility project wishing to utilize these exemptions would be required to submit an expanding project plan to the Department of Economic Development which would identify each known constructing and operating taxpayer. The Department would determine whether the project is eligible for the exemptions by verifying that an expanding facility would invest at least $1 million within 12 consecutive months.

A project that does not meet the minimum investment or new job requirements may still be eligible for the exemptions in this program, as long as the exemptions for such project do not exceed the projected net fiscal benefit to the state over a period of ten years. In addition, the commencement of the exemption period may be delayed up to twenty-four months at the option of the operating taxpayer.

FISCAL DESCRIPTION (continued)

The Departments of Economic Development and Revenue would cooperate in conducting random audits to make certain that the intent of these provisions is followed.

The program would terminate on September 1, 2019, but the termination of the program would not limit or in any way impair the exemption for any project approved prior to the termination of this section.

Low-Income Housing Tax Credits

This proposal would modify provisions relating to low-income housing tax credits. A fifty million dollar fiscal year cap for authorizations of 9% low-income housing tax credits would be established, beginning in FY 2014. Authorizations of 4% low-income housing tax credits would be capped at five million dollars each fiscal beginning FY 2014. The stacking of state 9% low-income housing tax credits with state historic preservation tax credits for the same project would be prohibited. The carry-back for low-income housing tax credits would be reduced from three years to two years. The carry-forward would be reduced from ten years to two years.

Neighborhood Preservation Act Tax Credits

Currently, there is a $16 million per year cap on tax credits authorized under the neighborhood preservation act. The proposal would prohibit new authorizations of the tax credit after the effective date of the act.

Pregnancy Resource Center Tax Credits

This proposal would increased the annual cap for tax credits claimed by all taxpayers contributing to pregnancy resource centers in any one fiscal year to $2.5 million.

FISCAL DESCRIPTION (continued)

Missouri Export Incentive Act

This proposal would create the Missouri Export Incentive Act. For all fiscal years beginning on or after July 1, 2013, this act would authorize air export tax credits for freight forwarders in an amount equal to forty cents per chargeable kilo shipped on a qualifying outbound flight from an airport. The Department of Economic Development would adjust tax credit amounts based on fluctuations in fuel costs for over-the-road transportation. In order to receive air export tax credits, freight forwarders would file an application with the Department containing the master airway bill for the shipment withing 120 days of the flight. The proposal would require the Department to establish procedures to allow freight forwarders to receive air export tax credits within twenty business days of the departure of the qualifying flight.

The amount of air export tax credits which could be authorized each fiscal year is $7.5 million. If, in any given year, more tax credits are authorized than may be issued, the amount in excess of the cap on issuance would be carried forward for issuance in the following year. The authorization of air export tax credits would be prohibited after June 30, 2021, but the act allows for the subsequent issuance of any tax credits which are authorized prior to such date.

All tax credits provided under the act would be refundable.

Self-employed Health Insurance Tax Credit

Currently, self employed taxpayers who are unable to deduct health insurance premiums on their federal income taxes are allowed a refundable tax credit against their state income tax liability. The proposal would eliminate the tax credit as of December 31, 2013.

FISCAL DESCRIPTION (continued)

Historic Preservation Tax Credits

This proposal would modify provisions of law relating to historic preservation tax credits. Under current law, the Department of Economic Development is prohibited from issuing more than one hundred forty million dollars in historic preservation tax credits in any fiscal year for projects which will receive more than two hundred and seventy-five thousand dollars in tax credits. Beginning fiscal year 2014, and each fiscal year thereafter, this proposal would prohibit the Department of Economic Development from approving a total amount of more than forty-five million dollars in historic preservation tax credits increased by the amount of any rescissions of approved applications for such tax credits. Projects which would receive less than two hundred seventy-five thousand dollars in tax credits will be subject to a five million dollar fiscal year cap.

This proposal would prohibit the Department from issuing more than one hundred twenty-five thousand dollars in historic preservation tax credits per project for non-income producing residential rehabilitation projects.

Applicants for projects that, as of the effective date of the act, have received approval from the Department of Economic Development, incurred certain levels of expenses, or received certification from the state historical preservation officer would not be subject to the new limitations on tax credit issuance, but would be subject to the current law limitations on tax credit issuance.

Currently, historic preservation tax credits can be carried back three years and carried forward ten years. Tax credits issued after the effective date of the act could be carried back one year and forward two years. The stacking of state historic preservation tax credits with state 9% low-income housing tax credits is prohibited.

Brownfield Remediation Tax Credits

The proposal would prohibit the authorization of more than $20 million in Brownfield Remediation tax credits in any fiscal year beginning FY 2014.

FISCAL DESCRIPTION (continued)

This proposal includes an emergency clause for provisions relating to Low-income Housing Tax Credits, Neighborhood Preservation Tax Credits, the Missouri Export Incentive Act, Historic Preservation Tax Credits, and Brownfield Remediation Tax Credits.

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 the Secretary of State
Joint Committee on Administrative Rules
Office of Administration - Division of Budget and Planning
Department of Economic Development
Department of Revenue
St. Louis County
City of Columbia
City of Kansas City
Francis Howell School District
Parkway School District

Ross Strope
Acting Director
May 15, 2013

SS:LR:OD