COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4248-02
Bill No.: SB 927
Subject: Economic Development; Enterprise Zones; Parks and Recreation; Taxation and Revenue; Urban Redevelopment.
Type: Original
Date: February 15, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	$760,000 to Unknown	$760,000 to Unknown	$760,000 to Unknown
Total Estimated Net Effect on General Revenue Fund*	**$760,000 to UNKNOWN**	**$760,000 to UNKNOWN**	**$760,000 to UNKNOWN**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

*** This savings could be split between the General Revenue Fund and other state funds, including the County Stock Insurance Fund, which is distributed to local school districts.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government*	**$0**	**$0**	**$0**

*** This savings could be split between the General Revenue Fund and other state funds, including the County Stock Insurance Fund, which is distributed to local school districts.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Agriculture** and the **Missouri Housing Development Commission** each assume the proposal will not fiscally impact their respective agencies

Officials from the **Office of Administration - Budget and Planning (BAP)** assume savings from reduced tax credits could be realized by various state funds, including the county foreign insurance fund, which is distributed to local school districts.

BAP also stated the net general revenue of the state (after refunds) for FY 2005 was $6,711.4 million dollars. The estimate for FY 2006 is $7,039.8 million and for FY 2007 is $7,358.3 million.

Officials from the **Department of Natural Resources (DNR)** state that beginning in 2008, this proposal would limit the certain economic development tax credits in any fiscal year to 2.5% of general revenue. DNR assumes the proposal will not fiscally impact their agency.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state this legislation places limitations on the issuance and redemption of certain economic development tax credits.

DOR's Administrative Impact:

DOR's Corporate/Franchise Tax Section would require 1 Tax Processing Technician to track, monitor, and respond to correspondence regarding denied redemptions. DOR would need to be provided information from DED detailing total redemptions.

DOR's Personal Tax will require 1 Tax Processing Technician I in order to implement this legislation. This employee will be used for the tracking of carry forward credits and processing of these returns.

DOR's Customer Services (CA) states it is anticipated the redemption based on "available appropriations", found in Section 33.282.7(1), will create an impact on the customer service phone lines (both 7200 & 3505) regarding balance due notices and credit denial. CA will require 1 Tax Collection Technician I for every 15,000 additional calls a year. CA would also require 1 Tax Processing Technician I for every 4,800 additional contacts in the field offices, however, does not expect to receive this level of increased volume in the field offices, therefore, the department anticipates handling with existing "field" staff.

In summary, DOR assumes the need for 3 additional FTE Tax Processing Technicians (each at $22,992 annually) along with fringe benefits and expense and equipment. DOR assumes a cost of $110,435 in FY 2007, $113,098 in FY 2008 and $115,970 in FY 2009 to administer the proposal.

Officials from the **Department of Economic Development (DED)** state the legislation will have an unknown impact on General Revenue. GR would be increased by reducing the number of credits claimed but could be reduced by any positive economic benefit the state realizes from use of these credits. Three programs would be eliminated: Film Production, SBA Loan Guaranty and Wine and Grape. DED estimate the impact to be the following:

Film Production	FY07 redemption	$500,000 (per year)
SBA Loan Guaranty	FY07 redemption	$90,000 (per year)
Wine & Grape	FY07 redemption	$270,000 (per year)

DED states the proposal limits the amount of tax credit issuances and redemptions for certain tax credit programs. The limit is 2.5% of the net general revenue for the preceding fiscal year for issuance and the same amount for redemptions. Language also adds a provision that if a tax

ASSUMPTION (continued)

credit is denied and a return not processed due to lack of appropriations, the returns will be held and processed on July 1st. No credits can then be issued for any DED tax credit program until tax credits previously denied have been issued.

The bill also reduces the carry forward time frame on several programs, and if the program has a carry back provision, it is deleted. Depending on how this limitation on carry forward implemented would result in different impacts.

The CAPCO program could be affected as the carryforward provision is reduced from indefinitely to 5 years. The estimated redemption rate is over a 10 year period, as the language states they cannot redeem more than 10% of the tax credit per year. The program began in 1997, with 3 issuances in 1997, 1998 and 1999. There are only a few more years left in the redemption cycle for this program. We estimate redemptions as follows: FY07 = $13,500,000; FY08 = $8,500,000; and FY09 = $3,500,000. It is unclear if these redemptions would be allowed under the proposal.

In summary, DED assumes an unknown/unpredictable impact due to uncertainty of the application of the proposal.

Oversight assumes the deletion of the Wine Producers and Grape Growers, the Film, and the Loan Guarantee tax credit programs will result in savings to the General Revenue Fund. Based on the Tax Credit Analysis forms provided by the Department of Economic Development, the utilization of the three programs, and the estimate for the current fiscal year are;

	Redeemed FY'03	Redeemed FY'04	Redeemed FY'05	Estimate FY'06
Wine and Grape	$275,366	$260,397	$179,323	$270,000
Film	$122,087	$423,857	$322,079	$400,000
Loan Guarantee Fee	$0	$0	$11,224	$90,000
TOTALS	$397,453	$684,254	$512,626	$760,000

Oversight assumes the deletion of the three programs will result in savings of $270,000 (Wine and Grape), $400,000 (Film) and $90,000 (Loan Guarantee Fee).

Oversight assumes the limitation of the usage of the Historic Tax Preservation Program to only properties offered or used for business purposes (this bill excludes residential uses) will result in an unknown amount of savings to the state for the exclusion of residential properties in the futures. Oversight also assumes the new stipulation that properties may qualify for the Historic

ASSUMPTION (continued)

Tax Credit program once could also result in an unknown amount of savings to the state.

Oversight utilized the departments' Tax Credit Analysis reports to create the following charts showing the redemptions and then the issuance of the various tax credit programs considered 'economic development tax credits' per the bill;

	FY 2003 Redemptions	FY 2004 Redemptions	FY 2005 Redemptions	FY 2006 Redemption Estimate
Charcoal Producers	$120,837	$0	$384,609	$1,022,838
Wood Energy	$3,642,570	$1,205,443	$3,700,285	$3,800,000
Recycling Cellulose	$225,319	$429,480	$382,540	$382,540
New & Expanded Business Facility	$7,244,747	$7,826,417	$4,546,330	$6,321,454
Enterprise Zones	$13,767,273	$19,766,366	$25,294,754	$28,127,537
Historic Preservation	$43,153,986	$66,089,980	$74,532,355	$75,000,000
Brownfield remediation	$5,669,489	$16,101,975	$10,627,870	$12,000,000
Brownfield demolition	$0	$0	$0	$100,000
Brownfield jobs	$90,893	$2,134,891	$1,726,687	$1,700,000
TOTALS	$73,915,114	$113,554,552	$121,195,430	$128,454,369

	FY 2003 Issuances	FY 2004 Issuances	FY 2005 Issuances	FY 2006 Issuance (Est.)
Charcoal Producers	$420,354	$193,568	$146,606	$472,500
Wood Energy	$2,543,998	$2,728,651	$3,348,890	$3,500,000
Recycling Cellulose	$225,319	$429,480	$382,540	$382,540
New & Expanded Business Facility	$9,348,221	$8,702,349	$8,779,797	$7,023,838
Enterprise Zones	$43,987,082	$41,546,050	$39,066,024	$31,252,819
Historic Preservation	$89,214,177	$75,692,322	$80,213,374	$80,000,000
Brownfield remediation	$15,600,763	$4,250,346	$14,808,297	$15,000,000
Brownfield demolition	$0	$0	$0	$150,000
Brownfield jobs	$2,570,825	$1,246,525	$1,646,927	$1,700,000
TOTALS	$163,910,739	$134,789,291	$148,392,455	$139,481,697

ASSUMPTION (continued)

Using BAP's net general revenue amounts, **Oversight** assumes two and five tenths percent of the net general collections for last year, this year and next year to be;

Year	Net General Revenue	2.5%
FY 2005	$6,711,400,000	$167,785,000
FY 2006 (est.)	$7,039,800,000	$175,995,000
FY 2007 (est.)	$7,358,300,000	$183,957,500

Comparing these amounts to the combined redemptions as well as the combined issuances of the nine economic development tax credits, it appears that the redemption and issuance amounts are already lower than the new ceiling. Therefore, Oversight will assume the new ceiling of two and five tenths percent of the previous year's collections will not result in a savings to the state. The issuance and redemption amounts for Enterprise Zones will continue to decrease with the phase out of the program and the replacement by the Enhanced Enterprise Zone program. The new limitations place on the Historic Tax credit program in the bill should also reduce that programs issuances and corresponding redemptions.

Oversight will therefore assume the DOR will not need the additional FTE to implement the proposal. Oversight assumes the new ceiling could result in savings to the state in future years if the other tax credit programs would grow.

Oversight will also assume the removal of the carry-back provisions and the limitation of the carry-forward provisions on several tax credit programs could result in a savings to the state and will reflect the savings as $0 to Unknown.

This proposal will increase Total State Revenues.

FISCAL IMPACT - State Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
Savings - DED Deletion of the Wine and Grape tax credit program	$270,000	$270,000	$270,000
Savings - DED Deletion of the Film tax credit program	$400,000	$400,000	$400,000
Savings - DED Deletion of the Loan Guarantee Fee tax credit program	$90,000	$90,000	$90,000
Savings - DED changes to the Historic Preservation tax credit program	Unknown	Unknown	Unknown
Savings - Various Agencies Removal of carry-back provisions and limitations of carry-forwards to 5 years	$0 to Unknown	$0 to Unknown	$0 to Unknown
ESTIMATED NET EFFECT TO GENERAL REVENUE *	**$760,000 TO UNKNOWN**	**$760,000 TO UNKNOWN**	**$760,000 TO UNKNOWN**

*** This savings could be split between the General Revenue Fund and other state funds, including the County Stock Insurance Fund, which is distributed to local school districts.**

FISCAL IMPACT - Local Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that utilize tax credits under the various programs changed by the bill could be fiscally impacted by the proposal.

DESCRIPTION

The issuance and redemption of certain economic development tax credits in any fiscal year, beginning in fiscal year 2008, is limited to two and five tenths percent of the net general revenue of the state for the prior fiscal year. In any fiscal year, no tax credits shall be issued for a tax credit program listed under this act until all tax credits listed under this act that were denied in the preceding year, due to the limitation imposed by this act, have been issued. In any fiscal year, no tax credits shall be redeemed for a tax credit program listed under this act until all the tax credits listed under this act that were denied in the preceding year, due to the limitation imposed by this section, have been redeemed. Returns containing credits listed in this act will be processed on a first to file-first to be processed basis.

This act removes residential property from the definition of eligible property for the historic preservation tax credit and a taxpayer may only claim the credit once per eligible property. This act removes the carry back provisions for certain tax credits and limits certain carry forward provisions to five years. This act repeals the grape and wine production, film production and loan guarantee tax credit programs.

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 Economic Development
Department of Natural Resources
Office of Administration
Department of Agriculture

Mickey Wilson

Mickey Wilson, CPA

Director
February 15, 2006