

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1393-02
Bill No.: SB 254
Subject: Agriculture and Animals; Business and Commerce; Tax Credits; Taxation and Revenue
Type: Original
Date: February 24, 2009

Bill Summary: This proposal creates a tax credit for qualifying milk production.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	(\$64,226)	(\$76,071)	(\$78,352)
Total Estimated Net Effect on General Revenue Fund*	(\$64,226)	(\$76,071)	(\$78,352)

* This proposal could allocate roughly \$54.6 million of unused tax credits to this new program in fiscal years 2011 and 2012.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1	1	1

☐ 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 2010	FY 2011	FY 2012
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal creates a tax credit for qualifying milk production. The tax credits shall be limited to \$25,000 per milk producer taxpayer per year. The total amount of tax credits available under this program is the sum of unissued tax credits under the program cap for each of the programs listed below. The table below lists the FY '08 issuance and the available balance for each tax credit program. Assuming that the amount of unissued tax credits under the listed programs is similar to that in FY '08, this proposal could lower general and total state revenues up to \$34.5 million (see below).

Program	Program Limits (\$ millions)	FY08 Issued (\$ millions)	FY08 Unissued (\$ millions)
1. Neighborhood Assistance Program 2. Affordable Housing Assistance 3. Development TOTAL	\$30.0	\$23.1	\$6.9
Distressed Areas Land Assemblage	\$10.0	\$10.0*	\$0
Neighborhood Preservation	\$16.0	\$6.4	\$9.6
Rebuilding Communities	\$10.0	\$1.7	\$8.3
New Markets	\$15.0	\$9.2**	\$5.8
Family Development Account	\$4.0	\$0.01	\$3.99
Total Available			\$34.5

* DED FY 2010 Estimate

** DED FY 2009 estimate

Officials from the **Department of Economic Development (DED)** state they anticipate an unknown impact as a result of the proposed legislation. The proposed legislation transfers unused credits from the following DED tax credit programs: Affordable Housing, Land Assemblage, Neighborhood Preservation, Rebuilding Communities, New Markets and Family Development Account. The credits are transferred to the Milk Production Tax Credit that will be administered by the Department of Agriculture. It would be difficult to determine the amount of tax credits that would be available to transfer to the new Milk Production Tax Credit but there

would be an impact because these credits would have been unused otherwise.

ASSUMPTION (continued)

Officials from the **Department of Agriculture (AGR)** assume one FTE Planner III and related Expense & Equipment is needed to monitor and report average milk prices in the top five states where milk is imported into Missouri, the average transportation costs of importing milk from the top five state where milk is imported into Missouri, and the cost of milk production in Missouri. In addition, the position will be responsible for determining availability, issuance, tracking, and reporting of any dairy tax credits which may be available under this section.

AGR assumes there will be no new costs associated with any tax credits issued under this program since only residual tax credit authorizations can be utilized. There is no additional tax credit authority created under this legislation. If all existing tax credit authority is utilized by existing programs there will no dairy tax credits available under this legislation.

AGR assumes the new FTE costs to total roughly \$90,000 per year.

Oversight has, for fiscal note purposes only, changed the starting salary for AGR's Planner III to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials from the **Office of Secretary of State (SOS)** state 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 SOS 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, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves 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 **Department of Revenue (DOR)** state their Personal Tax section would require one Revenue Processing Technician I (at \$25,380 annually) for every 6,000 additional credits claimed. DOR states their Corporate Tax section would need one Revenue Processing Technician I for every 5,200 additional returns verified as well as one Revenue Processing Technician I for every 2,080 pieces of additional correspondence generated. In summary, DOR

assumes the need for three additional FTE at a total cost to the General Revenue fund of \$115,843 in FY 2010, \$123,257 in FY 2011 and \$126,954 in FY 2012.

ASSUMPTION (continued)

Oversight assumes this proposal simply moves unused tax credits from one program to another and that the Department of Revenue has already reflected potential administrative costs in the fiscal note for the original programs. Therefore, Oversight will assume the Department of Revenue will be able to administer the changes set forth in this proposal with existing resources.

Oversight assumes the proposal would earmark any unused tax credits in eight other programs to be used in the new Milk producer tax credit program. According to DED's Tax Credit Analysis pages, the amount of tax credits annually available under the programs as well as the amounts issued in 2008 are:

Program	Section	Annual Cap	Issued in FY'08	Difference
Neighborhood Assistance	32.115	\$16 million	\$13.3 million	\$2.7 million
Affordable Housing	32.115	\$11 million	\$8.5 million	\$2.5 million
Development	32.115	\$6 million	\$1.3 million	\$4.7 million
Land Assemblage	99.1205	\$10 million	\$0	\$10 million
Neighborhood Preservation	135.484	\$16 million	\$6.4 million	\$9.6 million
Rebuilding Communities	135.535	\$8 million	\$1.7 million	\$6.2 million*
New Markets	135.680	\$15 million	\$0	\$15 million
Family Development	208.770	\$4 million	\$1.1 million	\$3.9 million
TOTALS		\$86 MILLION	\$31.3 MILLION	\$54.6 MILLION

* The first \$100,000 of unused Rebuilding Communities tax credits are already earmarked for the Accessible Home Tax Credit

Therefore, with redirecting the unused tax credits from the other eight programs to the new Milk Producers program, this could have increase tax credit issuances by \$54.6 million in FY 2008. Oversight does not have information regarding the tax credit issuance estimates for fiscal years

2010 through 2012.

ASSUMPTION (continued)

For budgeting purposes, Oversight assumes this proposal could reduce Total State Revenues by \$54.6 million each year. However, since **Oversight** has already reflected the potential loss of the various tax credit program of up to their annual limits, Oversight will assume this proposal does not increase the annual limits (total of \$86 million), and therefore, the fiscal impact of the proposal has already been reflected in prior fiscal notes. Therefore, even though this proposal will increase utilization of the tax credit program, Oversight will not reflect an additional loss of revenue to the General Revenue Fund. Oversight does not have information regarding the number of milk producers in Missouri that would qualify for this program, but the proposal limits the tax credits to \$25,000 per milk producer per year.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous four years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 81 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, under this proposal, if \$54,600,000 of credits are issued, Oversight would assume \$45,300,000 (83%) of credits to be redeemed, reducing Total State Revenues.

Since the tax credits for the new program are for all tax years beginning on or after January 1, 2010, **Oversight** will assume the first fiscal year in which the tax credits could be redeemed would be in FY 2011. Therefore, Oversight will not reflect a potential impact from the credits in FY 2010.

Oversight assumes there will some fiscal benefit resulting from this proposal; however, Oversight considers those benefits to be an indirect impact and have not reflected them on the fiscal note.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government

FY 2010
(10 Mo.)

FY 2011

FY 2012

GENERAL REVENUE

RS:LR:OD (12/02)

<u>Savings</u> - Neighborhood Assistance tax credit program (to new program)	\$0	\$0 to \$2,700,000	\$0 to \$2,700,000
<u>FISCAL IMPACT - State Government</u> (continued)	FY 2010 (10 Mo.)	FY 2011	FY 2012
<u>Savings</u> - Affordable Housing tax credit program (to new program)	\$0	\$0 to \$2,500,000	\$0 to \$2,500,000
<u>Savings</u> - Development tax credit program (to new program)	\$0	\$0 to \$4,700,000	\$0 to \$4,700,000
<u>Savings</u> - Land Assemblage tax credit program (to new program)	\$0	\$0 to \$10,000,000	\$0 to \$10,000,000
<u>Savings</u> - Neighborhood Preservation tax credit program (to new program)	\$0	\$0 to \$9,600,000	\$0 to \$9,600,000
<u>Savings</u> - Rebuilding Communities tax credit program (to new program)	\$0	\$0 to \$6,200,000	\$0 to \$6,200,000
<u>Savings</u> - New Markets tax credit program (to new program)	\$0	\$0 to \$15,000,000	\$0 to \$15,000,000
<u>Savings</u> - Family Development tax credit program (to new program)	\$0	\$0 to \$3,900,000	\$0 to \$3,900,000
<u>Costs</u> - Department of Agriculture			
Personal Service (1 FTE)	(\$37,204)	(\$45,984)	(\$47,363)
Fringe Benefits	(\$18,092)	(\$22,362)	(\$23,033)
Expense and Equipment	(\$8,930)	(\$7,725)	(\$7,956)
<u>Total Costs</u> - AGR	(\$64,226)	(\$76,071)	(\$78,352)
FTE Change - AGR	1 FTE	1 FTE	1 FTE
<u>Loss</u> - tax credits for Milk Producers (assigned unused tax credits from eight other programs as listed above)	\$0	\$0 to (\$54,600,000)	\$0 to (\$54,600,000)

**ESTIMATED NET EFFECT TO THE
 GENERAL REVENUE FUND**

	<u>(\$64,226)</u>	<u>(\$76,071)</u>	<u>(\$78,352)</u>
Estimated Net FTE Change for General Revenue Fund	1 FTE	1 FTE	1 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small milk producer businesses could benefit greatly from this proposal.

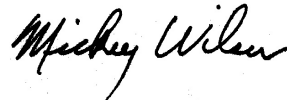
FISCAL DESCRIPTION

This act creates a state income and corporate franchise tax credit for qualifying milk production. Beginning January 1, 2010, and the first day of each month thereafter, the director of the Department of Agriculture must report and make public the announced production price of milk for the state of Missouri based upon a three factor formula. The tax credit will only be available when the announced production price for the state exceeds the average Federal Uniform Price for Missouri. The amount of the credit will be based upon the difference in the announced production price for the state and the average Federal Uniform Price per one hundred pounds of milk produced in any month the credit is available. The tax credit is non-refundable, non-transferrable and valid only against the state tax liability for the tax year of issuance. The amount of tax credits annually available to taxpayers for qualifying milk production will depend upon the amount of tax credits which remain unissued, as of a date certain each year, under certain existing tax credit programs. The milk producer tax credit sunsets two years from the effective date of the act unless re-authorized by the General Assembly.

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 Agriculture
Department of Economic Development
Office of Administration - Budget and Planning
Department of Revenue
Office of the Secretary of State

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
February 24, 2009