COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1605-01
Bill No.: SB 274
Subject: Office of Administration; Economic Development; Revenue Department; Tax Credits
Type: Original
Date: February 10, 2009

Bill Summary: This proposal modifies provisions of the Missouri Development Finance Board development fund contribution tax credit program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	$0 to $21,000,000	$0 to $21,000,000	$0 to $21,000,000
Total Estimated Net Effect on General Revenue Fund*	**$0 to $21,000,000**	**$0 to $21,000,000**	**$0 to $21,000,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

Note: This does not reflect the possibility that some of the tax credits could have been utilized by insurance companies against insurance premium taxes. If this occurred, the loss in tax revenue would have be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
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 2010	FY 2011	FY 2012
Local Government*	**$0**	**$0**	**$0**

Note: This does not reflect the possibility that some of the tax credits could have been utilized by insurance companies against insurance premium taxes. If this occurred, the loss in tax revenue would have be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal modifies a provision of the Missouri Development Finance Board development fund contribution tax credit program. It removes the stipulation that the cap on the tax credit program could be exceeded upon joint agreement by the Commissioner of Administration, director of the Department of Economic Development and the director of Department of Revenue. The bill effectively places a hard cap of $10 million or 5% of the average General Revenue growth in the preceding three fiscal years, whichever is greater. The language in the bill does not specify whether the cap is calculated using gross or net General Revenue receipts. The table calculates the 3-year average for gross and net GR receipts.

Gross GR						
Year	2005	2006	2007	2008	2009	2010
Gross GR Receipts	7,782.7	8,461.1	8,925.2	9,262.3	9,074.1	9,120.3
Annual GR Growth		678.4	464.1	337.1	-188.2	46.2
3 yr Avg. GR Growth				493.2	204.3	65.0
5% of Avg. GR Growth				**24.7**	**10.2**	**3.3**
Net GR						
Year	2005	2006	2007	2008	2009	2010
Gross GR Receipts	6,711.4	7,332.2	7,716.4	8,003.9	7,687.4	7,764.3
Annual GR Growth		620.8	384.2	287.5	-316.5	76.9
3 yr Avg. GR Growth				430.8	118.4	16.0
5% of Avg. GR Growth				**21.5**	**5.9**	**0.8**

In FY 2008, $31.0 million in tax credits were issued under this program. The average redemption amount for the last three years was approximately $22.1 million. The program has a 5 year carry forward provision. Therefore, the actual impact of the bill may not be observable

ASSUMPTION (continued)

until all the past credits have been redeemed.

Officials from the **Department of Economic Development - Missouri Finance Development Board (MDFB)** state there are no projects pending above the $10 million cap at this time. The MDFB states they rely on participation fee income for funding and that they do not receive State Appropriations. MDFB charges a 4% participation fee on every dollar contributed to cover administrative costs of this program. In addition, fee income from this program subsidizes the expense of the DREAM program. The DREAM program is a joint effort by MDFB, the Department of Economic Development and Missouri Housing Development Commission. The majority of the costs were taken on by MDFB.

The MDFB calculates the five percent of the average growth in General Revenue receipts for the preceding three years to be $24.6 million.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown to what extent the tax credits have exceeded statutory limits. Premium tax revenue is split 50/50 between General Revenue and 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.

Officials from the **Department of Revenue** and the **Office of Administration - Administrative Hearing Commission** each assume the proposal would not fiscally impact their respective agencies.

According to the Tax Credit Analysis sheets provided by the Department of Economic Development, the amount of tax credits issued and redeemed under this program in the previous five fiscal years has been;

Year	Amount Issued	Amount Redeemed
FY 2008	$31,004,874	$19,877,329
FY 2007	$27,069,317	$24,706,809
FY 2006	$ 6,124,141	$21,858,725
FY 2005	$28,964,274	$25,953,799
FY 2004	$39,401,435	$10,020,578

ASSUMPTION (continued)

DED also states that the amount of tax credits outstanding under this program is $35 million.

According to a report prepared by the **Office of Administration - Division of Accounting**, the Total Receipts into the General Revenue Fund over the past four years, has been;

Fiscal Year	GR Total Receipts	Growth	3 Year Average Growth
FY 2005	$7,783,412,881		
FY 2006	$8,461,113,853	$677,700,972	
FY 2007	$8,925,195,521	$464,081,668	
FY 2008	$9,262,273,015	$337,077,494	$492,953,378
FY 2009 (est)	$9,074,100,000	($188,173,015)	$204,238,716

Therefore, 'five percent of the average growth in general revenue receipts in the preceding three fiscal years' is $24,647,669 ($492,953,378 x 5%) for FY 2008. For FY 2009 if we use the estimated receipts number from OA - Accounting ($9.074 billion), five percent of the average annual growth for the three years (FY 2006 - FY 2009) would be $10,216,436 ($204,238,716 x 5%).

Oversight will assume even without the joint agreement by DED, COA and DOR, the Missouri Development Finance Board could issue tax credits up to $24.6 million in FY 2009. This amount will change annually since it is based upon GR receipts over the previous four years. The revenue estimate for FY 2009, according to the Division of Accounting, is $9.074 billion, which is $188 million lower than the FY 2008 collections. Therefore, assuming the $9.074 billion receipt estimate for FY 2009 is correct, this would result in a limit of $10.2 million in tax credits available to the MFDB in FY 2010 without receiving approval from the COA, DED and DOR.

It is possible that the calculated ceiling of five percent of the average growth in General Revenue receipts in the preceding three fiscal years could result in a number below $10 million. Therefore, Oversight will assume the changes made in this proposal could potentially reduce the amount of tax credits issued by the MDFB under this program. Oversight will range the fiscal impact of the proposal from $0 (the MDFB would not have issued more than $10 million or the 5% calculated amount in credits regardless of these changes) to a savings of $21 million (amount of FY 2008 issuance over $10 million - rounded).

This potential savings of up to $21 million could result in a potential loss of participation fees paid to the MDFB of up to $840,000 ($21 million x 4%). Oversight will not reflect this loss in

ASSUMPTION (continued)

the fiscal note since it would occur in MDFB accounts, which are not considered state funds.

Oversight assumes the state benefits indirectly from the issuance of these tax credits and to restrict their use could result in a negative indirect fiscal impact to the state. However, Oversight will not reflect either of these indirect impacts to the state from the changes within this proposal.

This proposal could increase Total State Revenues.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE			
Savings - potential reduction in tax credits issued by the Missouri Development Finance Board (100.286)	$0 to $21,000,000	$0 to $21,000,000	$0 to $21,000,000
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**$0 TO $21,000,000**	**$0 TO $21,000,000**	**$0 TO $21,000,000**

Note: This does not reflect the possibility that some of the tax credits could have been utilized by insurance companies against insurance premium taxes. If this occurred, the loss in tax revenue would have be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small business that qualify under this program or that indirectly benefit from the projects funded in part by these tax credits could be adversely impacted by this proposal.

FISCAL DESCRIPTION

This act repeals the provision of law which allows the statutory ten million dollar annual cap on issuance of development fund contribution tax credits to be exceeded upon joint agreement by the Commissioner of Administration, the director of the Department of Economic Development, and the director of the Department of Revenue.

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 Economic Development
Department of Revenue
Department of Insurance, Financial Institutions and Professional Registration
Office of Administration

Mickey Wilson, CPA
Director
February 10, 2009