COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5721-01
Bill No.: SB 783
Subject: Economic Development; Economic Development Department; Property, Real and Personal; Tax Credits
Type: Original
Date: February 27, 2012

Bill Summary: This proposal modifies provisions of the Distressed Areas Land Assemblage Tax Credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 or ($10,000,000)
Total Estimated Net Effect on General Revenue Fund	**$0 to ($10,000,000)**	**$0 to ($10,000,000)**	**$0 or ($10,000,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
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 2013	FY 2014	FY 2015
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Budget and Planning** assume this proposal substantively modifies the distressed areas land assemblage tax credit in the following ways:

Eliminates the five-year time limitation on receiving a tax credit for acquisition costs.
Makes additional projects eligible for the tax credit.
Increases the reimbursement amount for demolition costs from 50 percent to 100 percent.
Allows the tax credit to be claimed on a quarterly basis instead of annual basis.
Increases the annual cap on the program from $20 million to $30 million, but does not increase the overall program cap of $95 million.
Delays the program sunset from August 28, 2013 to August 28, 2016.

The remaining amount of tax credits available for this program is approximately $67 million. This proposal could therefore lower General and Total State Revenues by that amount. This program may encourage other economic activity, but Budget and Planning does not have data to estimate the induced revenues.

Officials at the **Department of Economic Development** (**DED**) assume this proposal requires DED to review projects after January 1, 2016, and determine if the applicant achieved their milestones in regards to the project. If they did not, then DED is able to modify the benefits they receive.

By removing the 5-year interest limitation on qualifying interest costs, the amount of acquisition costs will increase, therefore increasing the amount tax credits awarded to the applicants. This would also take away the incentive for redevelopment of the property in a reasonable timeframe. DED is unable to determine the exact impact the proposed legislation will have on Total State Revenue; therefore DED anticipates an unknown negative impact in excess of $100,000 to total state revenues based on the potential increase in the amount of tax credits awarded.

DED is responsible for determining eligibility for the program and also for the compliance and auditing functions. DED anticipates the need for one additional FTE based on the program modifications and increase in administration for the program. This FTE would be an Economic Development Incentive Specialist III ($40,212) and would be responsible for reviewing the project plan applications to make sure they meet the criteria of the program and conducting reviews of the projects to ensure compliance with the program and determine if milestones were achieved.

ASSUMPTION (continued)

Officials at the **Department of Revenue** assume there is no fiscal impact from this proposal.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. The department has no means to arrive at a reasonable estimate of loss in premium tax revenue as a result of tax credits. 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 through out 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.

Oversight assumes this proposal has an annual program cap of $95 million and that already $27 million has been redeemed. This proposal does not change the program cap but it does increase the yearly cap from $20 million annually to $30 million annually beginning on August 28, 2012. If the full $30 million is redeemed annually under this proposal, then the program could end in FY 2014. Oversight will show the increase in the yearly cap in FY 2013 and FY 2014.

Oversight assumes the since the program cap has not changed that DED should be able to absorb the duties of this proposal with existing resources. Should there be a measurable increase in the number of applicants for this tax credit then DED could request additional FTE through the appropriation process.

FISCAL IMPACT - State Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE			
Revenue Reduction - increase in the distressed area tax credit cap	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 or ($10,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 to ($10,000,000)**	**$0 to ($10,000,000)**	**$0 or ($10,000,000)**

FISCAL IMPACT - Local Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act modifies provisions of the Distressed Areas Land Assemblage Tax Credit.

Currently, an applicant for this tax credit is entitled to a tax credit in an amount equal to fifty percent of the applicant's acquisition costs, which includes among other things the cost of demolishing vacant buildings, and for a five-year period, one hundred percent of the applicant's interest costs. These acquisition costs include the reasonable costs of maintaining an eligible parcel of land for a five-year period after acquiring the parcel. This act eliminates the five-year time limitation on receiving a tax credit for maintenance costs and interest costs, and allows the applicant to receive a tax credit equal to one hundred percent of the reasonable costs of demolition, rather than a tax credit equal to fifty percent of the demolition costs.

This act allows a developer applying for the tax credit to file for the credit on a quarterly basis, rather than annually.

This act increases the cap on the amount of tax credits that can be issued under this program each year from 20 to 30 million dollars. The act also divides the amount of tax credits that can be issued each year into two pools. If there is more than one applicant entitled to tax credits in that year, then half of the annual amount of money will go to projects in a specific type of redevelopment area and half for areas located in other project areas. If the Department of Economic Development does not issue tax credits equal to all of each pool of money by December 15th, the other kind of projects can get the remaining money in the other pool.

Currently, the Department of Economic Development is prohibited from authorizing tax credits under this program after August 28, 2013. This act extends the amount of time the department can authorize tax credits under this program until August 28, 2016.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

JH:LR:OD

SOURCES OF INFORMATION

Budget and Planning
Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue

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JH:LR:OD