

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5108-07  
Bill No.: Truly Agreed To and Finally Passed CCS for SCS for SB 729  
Subject: Department of Economic Development; Education, Elementary and Secondary;  
Education, Higher; Science and Technology; Tax Credits  
Type: Original  
Date: June 10, 2014

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Bill Summary: This proposal modifies provisions relating to taxation.

**FISCAL SUMMARY**

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0 to (\$11,000,000)	\$0 to (\$12,000,000)	\$0 to (\$12,000,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0 to (\$11,000,000)</b>	<b>\$0 to (\$12,000,000)</b>	<b>\$0 to (\$12,000,000)</b>

**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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Blind Pension Fund	(Unknown)	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 13 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☒ 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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Local Government</b>	<b>Less than \$5,000,000</b>	<b>Less than \$5,000,000</b>	<b>Less than \$5,000,000</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

#### **§135.305 Wood Energy Tax Credit**

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal would not fiscally impact BAP. It may impact Total State Revenue and 18e calculations, as it is an extension of a tax credit that expired on June 30, 2013. The three year average amount authorized under this tax credit program was \$3.1 million. Therefore, this proposal may reduce General and Total State Revenues by up to \$6 million annually.

Officials at the **Department of Economic Development** assume there is no identifiable fiscal impact to the Division of Energy. The proposal does not assign any direct or indirect duties or responsibilities to the Division of Energy. The Division would continue to administer the wood energy tax credit with existing resources.

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

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

	FY 2011	FY 2012	FY 2013
Certificates Issued (#)	17	10	12
Projects (#)	17	10	12
Amount Authorized	\$3,269,364	\$3,060,710	\$2,990,840
Amount Issued	\$3,269,364	\$3,060,710	\$2,990,840
Amount Redeemed	\$3,818,378	\$2,282,401	\$3,563,209

**Oversight** assumes this part of the proposal extends the Wood Energy tax credit from its current expiration date of June 30, 2013 to June 30, 2020. It also places an annual cap of \$6 million on this tax credit. The five year issue average of this credit has been \$3,253,294. Extending the tax credit will result in a potential loss of revenue to the state of \$0 (no credits issued) to the new annual cap.

ASSUMPTION (continued)

§135.710 Alternative Fuel Tax Credit

Officials at **BAP** assume no fiscal impact from this proposal to BAP. This proposal renews and modifies the Alternative Fuel Station tax credit for tax years 2015 to 2018. The proposal also expands the list of qualifying properties to include certain electric vehicle recharging stations. The program is capped at \$1 million annually, and may therefore reduce General and Total State Revenues by this amount. BAP notes \$69,454 was redeemed under this program in FY 2012.

Officials at the **Department of Economic Development** assume that due to inclusion of eligibility of private citizens for tax credits up to \$1,500, the department anticipates there will be a fiscal impact from this proposal. DED expects there could be a large number of installations of electric vehicle (EV) recharging stations by private citizens. If an individual is considering the purchase of an EV, it is safe to assume the individual will also purchase a charging station for his/her home to be able to charge the vehicle overnight.

Estimates of the cost for purchase and installation of EV recharging stations range from \$2,000 - \$2,300 for a Level 2 (dedicated outlet charging in approximately 6-7 hours). A faster charging residential installation could be up to \$10,000 according to one source. DED assumes most installations will be for the Level 2 mid-range station which would be very attractive if there is a tax credit of \$1,500. Until December 31, 2013, there was also a federal tax credit for such recharging stations. It is not known whether this tax credit will be renewed. Limited research into similar tax credits for private citizens in other states revealed a 20% of total cost of the installation or up to \$400 tax credit in Maryland and a 25% or \$750 credit in Oregon.

The market for EVs tripled from approximately 17,500 sold in the U.S. in 2011 to 53,000 new EVs in 2012. It is likely that the number of EVs will continue to increase dramatically as consumers become more exposed to EV technology and manufacturers release more makes and models of EVs that appeal to a broader range of consumers. However, for purposes of this fiscal note, a conservative estimate is that the number of EVs sold in the U.S. will be at only 17,500/year, although it is likely to be more. If the EVs are distributed proportionally with population among the states, Missouri could expect the following EV purchases and EV recharging stations:

- 1,800 in 2014
- 2,160 in 2015
- 2,500 in 2016
- 2,880 in 2017 and
- 3,200 in 2018.

ASSUMPTION (continued)

In addition, there are likely to be business entities installing EV recharging stations as well as other alternative refueling facilities, especially compressed natural gas (CNG) stations due to the lower cost of natural gas.

The Division of Energy would need to review applications and confirm eligibility and costs as well as whether a Missouri contractor (if located within 75 miles) was used for 51% of the costs of the station. We estimate one additional Energy Specialist III would be needed to perform these duties to be able to certify eligibility to the Department of Revenue.

Officials at the **DOR** assume there is no fiscal impact from this proposal.

**Oversight** notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Alternative Fuel Station tax credit program had the following activity;

	FY 2011	FY 2012	FY 2013
Amount Authorized	\$87,925	\$91,365	\$0
Amount Issued	\$87,925	\$91,365	\$0
Amount Redeemed	\$23,365	\$45,690	\$69,454

**Oversight** notes this credit began on August 28, 2008 for tax years starting January 1, 2009. The program required the alternative fuel stations to be built between January 1, 2009, and January 1, 2012, to qualify for the tax credit. This program has a sunset date that requires it to end on August 28, 2014.

**Oversight** assumes this proposal reauthorizes the Alternative Fuel tax credit. This credit will begin with tax years starting January 1, 2015, and therefore the Fiscal Years impacted would be 2016 and 2017. Oversight assumes this proposal places a \$1 million cap on this proposal and therefore, Oversight will show the loss of revenue to the State as \$0 (no credits issued) to \$1 million.

**Oversight** assumes this proposal may allow private citizens to claim the credit however, the cap on the proposal remains the same. Oversight assumes DED would be able to handle this credit with its existing staff.

ASSUMPTION (continued)

§137.010 Property Tax

Officials at the **State Tax Commission** assume there is no fiscal impact from this proposal.

Officials at **BAP** assume this proposal adds certain equipment for the storage of certain propane or LP products to the definition of "real property". BAP notes this may lower the ratio used to calculate the assessed value of property. To the extent that local political subdivisions cannot adjust levies to make up any reduced revenues, this may result in lower local revenues, including revenues for school districts. The State Tax Commission may be able to provide additional information.

**Oversight** assumes this part of the proposal adds "propane or LP gas equipment" to the list of items that are considered to be real property. They are currently considered personal property. Changing from personal property to real property will reduce the assessment ratio causing a loss of assessed valuation, which in turn will reduce local government revenue. Additionally, it will result in a loss of  $\frac{1}{2}$  of 1% of the local government revenue reduction to the Blind Pension Fund. At this time it is unknown how much equipment qualifies for this reclassification and therefore it is unknown how large the loss of revenue to local government and the Blind Pension Fund would be. Oversight will reflect an Unknown loss for local governments and the Blind Pension Fund.

**Oversight** notes, any estimate of revenue losses due to a reduction in the assessed valuation for specific items should be considered in the context of current state limitations on local government tax revenues. Based on our review of property tax rate information developed by the Office of the State Auditor, Oversight has determined that many local governments would be able to compensate for a reduction in assessed valuation by increasing tax rates within existing tax rate ceilings.

§620.750 Rural Regional Grants

Officials at **BAP** assume this proposal would not fiscally impact BAP. This legislation authorizes the Department of Economic Development to issue grants up to \$5 million per fiscal year for rural regional development, subject to appropriation. This proposal would not impact General or Total State Revenue.

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

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

ASSUMPTION (continued)

Officials at the **DED** assume §620.750 creates the rural regional development grant programs that offer \$150,000 grants to regional development organizations. The program is subject to appropriation and has a \$5,000,000 cap. DED will administer the program. DED assumes a negative impact ranging from \$0 - \$5,000,000.

DED will also require one additional FTE to administer the program. The FTE would be responsible for reviewing applications, accepting applications, creating guidelines and implementation of the programs.

**Oversight** assumes that due to the limited number of grants issued each year, the Department of Economic Development could absorb the administration of this proposal with existing staff.

This proposal states it is subject to appropriation by the General Assembly, with a maximum of \$5 million annually. **Oversight** will reflect the impact as \$0 (no money appropriated) to the maximum allowed annually.

§620.2600 Innovation Campus Tax Credit

Officials at **BAP** assume this proposal would not fiscally impact BAP. This bill creates a tax credit for private contributions to innovation campus partnerships (whether personal or corporate) at 50 percent of the contribution received, which would be paid back to the state by the innovation campus partnership. This tax credit would be revenue neutral to the state because innovation campus partnerships will pay the state the amount of the tax credits issued. There is a positive and negative impact to General and Total State Revenues, which would net to \$0.

Officials at the **DED** assume §620.2600 creates the Innovation Campus Tax Credit Act which allows an innovation education campus to receive tax credits from DED in an amount equal to their cash value. DED would create and administer guidelines for the program, accept and approve applications, and also conduct compliance.

DED assumes this proposal will result in no fiscal impact because in order for an eligible innovation campus to obtain a tax credit for a donation made they must present DED with the cash value for that tax credit.

Officials at the **Department of Elementary and Secondary Education** assume tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students.

Officials at the **Department of Higher Education** assume this proposal would not fiscally impact them. However, it has the potential to reduce state revenues, which could impact funds available for higher education related entities and programs.

JH:LR:OD

ASSUMPTION (continued)

Officials at the **DOR** assume this proposal would require computer programming changes to various tax systems. The IT is estimated to be \$22,932 for 840 FTE hours. The Personal Tax Division would require one Revenue Processing Technician I per 6,000 credits redeemed. The Corporation Tax Division would need three Revenue Processing Technicians I for tax credits redeemed, tax credit transfers and compliance mailings and correspondence. The Collections and Tax Assistance Division would need two Tax Collection Technicians I for additional contacts on the delinquent and non-delinquent tax lines and one Revenue Processing Technician I for additional contacts to the field offices.

**Oversight** assumes DOR is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DOR could absorb the computer programming costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

**Oversight** assumes DOR's Personal, Corporate, and Collections Tax Assistance Divisions could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justify additional FTE, they could seek the FTE through the appropriation process.

Officials at **Missouri Western State University, Office of the Governor** and the **Office of State Treasurer** and the **University of Missouri** each assume there is no fiscal impact to their respective organizations from this proposal.

Officials at **Northwest Missouri State University** assume there would be costs to the University depending on number of contributions.

Officials at **Linn State Technical College, Missouri State University** and the **University Central Missouri** each assume a positive impact that can not be quantified at this time.

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state an unknown reduction of premium tax revenues as a result of the creation of the Innovation Campuses tax credit is possible. 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



ASSUMPTION (continued)

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 will 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** assumes that section 620.2600.4(3) requires payment from the provider equal to the amount of the value of the tax credit. Oversight assumes that receipt of payment and the application of the tax credits could affect various state funds, so for the purpose of this note Oversight is showing all the payments and costs to General Revenue. Due to the timing differences between purchase and redemption of credits, this could result in a positive or negative impact in any given year; however, the overall result of this proposal is no impact to Total State Revenue.

Officials at the following schools: Blue Springs Public Schools, Branson Public Schools, Charleston R-I Schools, Cole R-I Schools, Columbia Public Schools, Fair Grove Schools, Francis Howell Public Schools, Fulton Public School, Independence Public Schools, Jefferson City Public Schools, Johnson County R-7 Schools, Kirksville Public Schools, Kirbyville R-VI Schools, Lee Summit Public Schools, Malden R-I Schools, Malta Bend Schools, Mexico Public Schools, Monroe City R-I Schools, Nixa Public Schools, Parkway Public Schools, Pattonville Schools, Raymore-Peculiar R-III Schools, Raytown School District, Sedalia School District, Sikeston Public Schools, Silex Public Schools, Special School District of St. Louis County, Spickard School District, St Joseph School District, St Louis Public Schools, St. Charles Public Schools, Sullivan Public Schools and Warren County R-III School District did not respond to **Oversight's** request for fiscal impact.

Officials at the following colleges: Crowder, East Central Community College, Harris-Stowe, Jefferson College, Kansas City Metro Community College, Lincoln University, Moberly Area Community College, Missouri Southern State University, Southeast Missouri State University, State Fair Community College, St. Charles Community College, St. Louis Community College, Three Rivers Community College and Truman State University did not respond to **Oversight's** request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
<b>GENERAL REVENUE</b>			
<u>Revenue</u> - Dept of Economic Development - payment for the tax credit filed with the application §620.2600	Unknown	Unknown	Unknown
<u>Revenue Reduction</u> - extension of the wood energy tax credit §135.305	\$0 to (\$6,000,000)	\$0 to (\$6,000,000)	\$0 to (\$6,000,000)
<u>Revenue Reduction</u> - extension of the alternative fuel tax credit §135.710	\$0	\$0 or (\$1,000,000)	\$0 or (\$1,000,000)
<u>Cost</u> - Department of Economic Development - rural regional development grants §620.750	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)
<u>Cost</u> - Dept of Economic Development - innovation campus tax credit §620.2600	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>\$0 to <u>(\$11,000,000)</u></b>	<b>\$0 to <u>(\$12,000,000)</u></b>	<b>\$0 to <u>(\$12,000,000)</u></b>

**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.**

## **BLIND PENSION FUND**

<u>Revenue Reduction</u> - Blind Pension - changing from personal tax to real property tax §137.010	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON BLIND PENSION</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
<b>LOCAL GOVERNMENT FUNDS</b>			
<u>Revenue Reduction</u> - Local Governments from changing from personal tax to real property tax \$137.010	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENT FUNDS</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
<b>RURAL REGIONAL DEVELOPMENT GROUP FUNDS</b>			
<u>Transfer In</u> - Rural Regional Development groups - grants from General Revenue\$620.750	\$0 to <u>\$5,000,000</u>	\$0 to <u>\$5,000,000</u>	\$0 to <u>\$5,000,000</u>
<b>ESTIMATED NET EFFECT ON RURAL REGIONAL DEVELOPMENT GROUP FUNDS</b>	<b>\$0 to <u>\$5,000,000</u></b>	<b>\$0 to <u>\$5,000,000</u></b>	<b>\$0 to <u>\$5,000,000</u></b>

FISCAL IMPACT - Small Business

Small businesses may be impacted by the changes to the existing tax credits and to the creation of the new Innovation Campus tax credit.

FISCAL DESCRIPTION

Wood Energy Producers Tax Credit (§135.305) - Prior to June 30, 2014, wood energy producers were allowed a tax credit to produce processed wood products. This act reauthorizes the tax credit until June 30, 2020. A cap of \$6 million per fiscal year is added to the tax credit. No tax credits may be authorized unless an appropriation is made for such tax credits.

Alternative Fuel Vehicle Refueling Property Tax Credit (§135.710) - For calendar years 2009 to 2012, persons installing and operating an alternative fuel refueling property were eligible for an income tax credit. This act reauthorizes the tax credit for calendar years 2015 to 2017. A cap of one million dollars per year is set for the tax credit. Electric vehicle recharging properties are added to the types of properties eligible for the tax credit. The act also make the tax credit subject to appropriations.

FISCAL DESCRIPTION (continued)

Taxation of Property Used for Transportation or Storage of Certain Fuels (§137.010) - Currently, stationary property used for transportation of liquid and gaseous products is treated as real property for tax purposes. This act adds stationary property used for storage of such products to the definition of real property. Propane and liquid propane gas equipment are added to the list of liquid or gaseous products.

Rural Regional Development Grants (§620.750) - This act mandates that the Department of Economic Development shall disburse rural regional development grants to qualified rural regional development groups, subject to an appropriation not to exceed five million dollars each year. A group must meet certain criteria in order to qualify for a grant, and applications for a grant shall only be submitted by a legally created regional planning commission. A single grant shall not exceed one hundred and fifty thousand dollars, and each region shall not receive more than two grants.

Innovation Campus Tax Credit (§620.2600) - This act creates a new tax credit for donations to innovation campuses. An innovation campus is a partnership between a Missouri high school, a four-year higher education institution, a business, and a two-year higher education institution. For a donation to be eligible for a tax credit, it must be used to advance learning in the areas of science, technology, engineering, and mathematics.

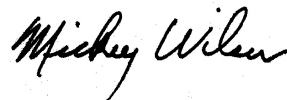
A taxpayer may receive a tax credit in an amount equal to fifty percent of the taxpayer's donation to an innovation campus. The tax credit is not refundable but may transferred or carried forward for four years. After application for a tax credit has been made, the Department of Economic Development must receive from an innovation campus an amount equal to the value of the tax credit before the tax credit will be issued.

This provision sunsets on August 28, 2020.

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 Elementary and Secondary Education  
Department of Higher Education  
Department of Insurance, Financial Institutions and Professional Registration  
Department of Revenue  
Joint Committee on Administrative Rules  
Linn State Technical College  
Missouri State University  
Missouri Western State University  
Northwest Missouri State University  
Office of Administration  
    Division of Budget and Planning  
Office of the Governor  
Office of State Treasurer  
State Tax Commission  
University of Central Missouri  
University of Missouri



Mickey Wilson, CPA  
Director  
June 10, 2014

Ross Strobe  
Assistant Director  
June 10, 2014