

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6185-01
Bill No.: SB 917
Subject: Economic Development; Tax Credits
Type: Original
Date: April 10, 2014

Bill Summary: This proposal raises the fee that the Department of Economic Development may charge for issuing certain tax credits from 2.5% to 5%.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Economic Development Advancement	\$0 to \$1,935,506	\$0 to \$1,935,506	\$0 to \$1,935,506
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 to \$1,935,506	\$0 to \$1,935,506	\$0 to \$1,935,506

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

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
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 2015	FY 2016	FY 2017
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Economic Development (DED)** assume §620.1900 proposes a 2.5% increase in the fees DED is authorized to collect for each recipient of a DED tax credit. DED assumes this proposal will have an additional positive impact on Total State Revenue ranging from \$0 - \$1.9 million. The positive impact may not occur until FY 2017 or later because the increase in the fee will not take effect immediately and may not apply to projects currently awaiting issuance.

The Economic Development Advancement Fund (EDAF) which was created by statute 620.1900 is a fund consisting of monies derived from a 2.5% fee that DED is authorized to charge each recipient of any DED tax credit.

Below are the previous balances for EDAF:

Year	Revenues from 2.5% fee
FY06	\$553,594.16
FY07	\$1,712,420.60
FY08	\$3,603,835.52
FY09	\$3,927,659.56
FY10	\$4,174,721.02
FY11	\$4,402,352.50
FY12	\$3,722,281.63
FY13	\$3,209,227.74
FY14	\$1,311,933.26 (Actual July through January)

ASSUMPTION (continued)

The projected revenue for FY 14 is illustrated below:

FY14 TC Fee Revenues		
Month	Month	Revenues
01	July	181,978
02	August	326,614
03	September	140,406
04	October	315,229
05	November	160,908
06	December	141,918
07	January	41,117
08	February	390,280
09	March	237,056
09	March	
10	April	
11	May	
12	June	
TOTAL		1,935,506

During the past 4 years, several budget items for BCS have been moved from General Revenue to EDAF. The fund will not be able to sustain the current spending level as the revenues into the fund are not substantial enough to cover the expenditures.

This past year the DED has seen a decrease in the number of taxpayers applying for tax credits. The reduction in tax credit recipients has caused a reduction in the amount currently collected in the fund.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal would not fiscally impact BAP. This changes the fee on tax credits issued by DED from 2.5% to 5%. Based on the current trend in FY 2014, BAP projects fee revenues to be \$1.9 million for FY 2014. Since this proposal doubles the fee, BAP estimates that this may increase Total State Revenues by up to \$1.9 million or more.

Officials at the **Department of Revenue** and the **Office of State Treasurer** each assume there is no fiscal impact to their organization from this proposal.

ASSUMPTION (continued)

Oversight assumes this proposal would become effective on August 28, 2014 since no other effective date is listed. Oversight will reflect the impact as \$0 (no additional credits authorized and no additional fees paid) up to the Department of Economic Development's estimate.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
ECONOMIC DEVELOPMENT ADVANCEMENT FUND			
<u>Additional Revenue</u> - payment of increased fee	\$0 to <u>\$1,935,506</u>	\$0 to <u>\$1,935,506</u>	\$0 to <u>\$1,935,506</u>
ESTIMATED NET EFFECT ON ECONOMIC DEVELOPMENT ADVANCEMENT FUND	\$0 to <u>\$1,935,506</u>	\$0 to <u>\$1,935,506</u>	\$0 to <u>\$1,935,506</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that are recipients of the tax credits must pay the fee.

FISCAL DESCRIPTION

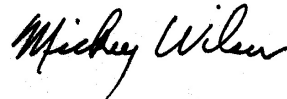
Currently, the Department of Economic Development may collect a fee for issuance of certain tax credits. The amount collected cannot exceed 2.5% of the amount of the tax credit. The fees collected are deposited into the Economic Development Advancement Fund. This act raises the amount that may be collected to 5% of the amount of the tax credit.

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

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SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Office of Administration
Division of Budget and Planning
Office of State Treasurer



Mickey Wilson, CPA
Director
April 10, 2014

Ross Strobe
Assistant Director
April 10, 2014