

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6651-01
Bill No.: SB 1112
Subject: Administration, Office of; Economic Development Department; Historic Preservation; Public Buildings; Tax Credits
Type: Original
Date: April 19, 2016

Bill Summary: This proposal creates the “Capitol Complex Tax Credit Act.”

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	Could Exceed (\$10,025,000)	Up to (\$10,000,000)	Up to (\$10,000,000)
Total Estimated Net Effect on General Revenue	Could Exceed (\$10,025,000)	Up to (\$10,000,000)	Up to (\$10,000,000)

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 2017	FY 2018	FY 2019
Capitol Complex Fund	Up to \$20,600,000 or \$33,600,000	Up to \$20,600,000 or \$33,600,000	Up to \$20,600,000 or \$33,600,000
Total Estimated Net Effect on <u>Other</u> State Funds	Up to \$20,600,000 or \$33,600,000	Up to \$20,600,000 or \$33,600,000	Up to \$20,600,000 or \$33,600,000

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

In response to similar legislation filed this year regarding tax credits, officials at the **Department of Insurance, Financial Institutions and Professional Registration** assumed an unknown reduction of premium tax revenues as a result of the creation of a tax credit for contributions to certain organizations working with ex-offenders 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 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.

Officials at the **Office of the State Treasurer** assume no fiscal impact from this proposal to their organization.

In response to similar legislation filed this year regarding promulgation of rules, officials at the **Joint Committee on Administrative rules** assumed this proposal will have no fiscal impact.

In response to similar legislation filed this year regarding promulgation of rules, officials at the **Office of the Secretary of State (SOS)** stated 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.

ASSUMPTION (continued)

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

In response to similar legislation filed this year regarding tax credits, officials at the **Department of Revenue (DOR)** assumed the creation of the Capitol Complex Tax Credit and adjusting the cap of the Historic Preservation Tax Credit will require additional FTE and computer programming costs.

Oversight assumes the DOR can absorb the duties of this proposal with existing staff. Should DOR see an increase in responsibilities to justify additional FTE, they can seek those FTE through the appropriation process.

Oversight will show a one-time cost of Could Exceed \$25,000 for DOR's computer programming costs in FY 2017.

Oversight notes §253.550.2 states the \$140 million aggregate cap for the Historic Preservation Tax Credit will end June 30, 2016. Beginning July 1, 2016, the aggregate cap is decreased to \$120 million. Based on the Tax Credit Analysis Form submitted by DED, the table below shows the history of amounts authorized, issued, and redeemed of the tax credit.

	FY 2013	FY 2014	FY 2015	FY 2016 (YTD)	FY 2016 (Projected)	FY 2017 (Projected)
Amount Authorized	\$93,923,652	\$146,635,429	\$97,136,287	\$19,415,078	\$120,000,000	\$120,000,000
Amount Issued	\$71,495,994	\$41,791,636	\$53,206,338	\$8,117,238	\$60,000,000	\$60,000,000
Amount Redeemed	\$78,814,711	\$59,829,671	\$47,638,886	Unknown	\$65,000,000	\$65,000,000

According to DED, the projected amount to be issued in FY 2016 and 2017 is \$60 million. This is far below the new maximum cap (\$120 million) and therefore reducing the annual cap from \$140 million to \$120 million will have no impact to the General Revenue fund.

ASSUMPTION (continued)

Oversight notes §620.3200 allows the Department of Economic Development to charge a fee to the recipient of any tax credits issued by the Department under the provisions of chapter 253 (Historic Preservation Tax Credit) in an amount not to exceed one percent of the amount of tax credits issued. Oversight also notes this fee shall be payable to the Missouri Development

Finance Board for the benefit of the Capitol Complex Fund. Using the projections provided by DED on the Tax Credit Analysis form for FY 2016 and 2017, Oversight will show revenue to the Capitol Complex Fund in the amount of \$600,000 ($\$60,000,000 \times 1\%$) starting in FY 2017.

Oversight notes the Department of Economic Development shall not authorize more than \$10 million in tax credits under §620.3210 in any calendar year. Therefore, Oversight will show a fiscal impact of \$0 (no credits authorized) to the maximum cap of \$10 million.

Oversight notes §620.3210.4 of this proposal allows for a qualified donor to claim a credit in the amount of 50% of the eligible monetary donation ($\$10 \text{ million maximum tax credit cap} / 50\% = \$20,000,000$). §620.3210.5 of this proposal allows for a qualified donor to claim a credit in the amount of 30% of the eligible artifact donation ($\$10 \text{ million maximum tax credit cap} / 30\% = \$33,333,333$). Oversight will show donations to the Capitol Complex Fund up to \$20,000,000 to \$33,000,000.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE			
<u>Savings</u> - decrease of aggregate cap for Historic Preservation Tax Credit §253.550.2	\$0	\$0	\$0
<u>Cost</u> - DOR - computer	(Could Exceed \$25,000)	\$0	\$0
<u>Loss</u> - tax credit for donations to the Capitol Complex Fund §620.3210	Up to <u>(\$10,000,000)</u>	Up to <u>(\$10,000,000)</u>	Up to <u>(\$10,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	Could Exceed <u>(\$10,025,000)</u>	Up to <u>(\$10,000,000)</u>	Up to <u>(\$10,000,000)</u>

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.

CAPITOL COMPLEX FUND

<u>Revenue</u> - fees charged by DED (1% of Historic Preservation Tax Credit) §620.3200	\$600,000	\$600,000	\$600,000
<u>Donations</u> - value of donations (50% tax credit for cash donations, 30% tax credit for donations of artifacts)	Up to \$20,000,000 or \$33,000,000	Up to \$20,000,000 or \$33,000,000	Up to \$20,000,000 or \$33,000,000
<u>Cost</u> - administrative expenses §620.3210.3	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON CAPITOL COMPLEX FUND	Up to <u>\$20,600,000 or \$33,600,000</u>	Up to <u>\$20,600,000 or \$33,600,000</u>	Up to <u>\$20,600,000 or \$33,600,000</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

Between January 1, 2016, and June 30, 2016, the Department of Economic Development shall only approve applications for tax credits for the rehabilitation of historic structures up to a cap of \$60 million including credits previously issued that are still active. For each fiscal year after July 1, 2016, the department of economic development shall not approve tax credits over \$120 million including credits previously issued that are still active.

This act creates the "Capitol Complex Fund" that is split into two accounts - one a rehabilitation and renovation account and the other a maintenance account. The fund is authorized to accept donations to be used for projects to restore, renovate, improve and maintain buildings in the capitol complex.

Under this act, any tax credits issued by the Department of Economic Development under chapter 253 are subject to a 1% fee payable to the Missouri Development Finance Board for the benefit of the Capitol Complex Fund.

This act allows for both monetary donations to the fund in the form of cash or publicly traded stocks and bonds and donations of "eligible artifacts" to the fund, defined as property and fixtures once owned and used in the capitol complex but since removed.

90% Of the donations received along with all fees collected from tax credits issued by the Department of Economic Development shall be deposited in the rehabilitation and renovation account and 7.5% shall be placed in the maintenance account. The remaining 2.5% may be used for soliciting donations, advertising and promoting the fund, and administrative costs related to the fund.

The Commissioner of Administration is charged with choosing projects, procuring goods and services, and contracting for rehabilitation, renovation, and maintenance work using money from the fund.

FISCAL DESCRIPTION (continued)

Any monetary donations shall result in a credit against any state income tax (except employer withheld taxes) or state taxes imposed on financial institutions for an amount equal to 50% of the monetary donation amount. Any amount of tax credit that exceeds the qualified donor's state income tax liability may be refunded or carried forward for the following four years.

Upon receiving a donation, the Missouri Development Finance Board shall issue a statement to the donor with the value of the donation and upon receiving the statement, the Department of Economic Development shall issue a tax credit certificate to the donor.

Any donations of eligible artifacts shall result in a credit against any state income tax (except employer withheld taxes) or state taxes imposed on financial institutions for an amount equal to 30% of the value of the donation amount. Any amount of tax credit that exceeds the donor's tax liability shall not be refunded for artifacts, but the credit may be carried forward for four subsequent years.

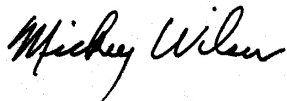
The Department of Economic Development shall only issue tax credits for donations to the Capitol Complex Fund up to \$10 million per year. Donations received in excess of the cap shall be placed in line for tax credits the following year. Alternatively a donor may donate without receiving the credit or may request that their donation is returned.

Tax credits issued for donations under this act are not subject to a fee. Tax credits issued under this act are transferable. This act shall sunset six years after enactment unless reauthorized 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 Insurance, Financial Institutions, and Professional Registration
Office of the State Treasurer
Joint Committee on Administrative Rules
Office of the Secretary of State
Department of Revenue



Mickey Wilson, CPA
Director
April 19, 2016

Ross Strope
Assistant Director
April 19, 2016