

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0684-01
Bill No.: SB 118
Subject: Bonds - General Obligation and Revenue; Tax Credits; Economic Development
Type: Original
Date: March 3, 2017

Bill Summary: This proposal voids any authority for the Missouri Development Finance Board to expend public moneys.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	\$0	\$23,038,879	\$23,038,879
Total Estimated Net Effect on General Revenue	\$0	\$23,038,879	\$23,038,879

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
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 2018	FY 2019	FY 2020
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning (B&P)** assume this proposal removes the Missouri Development Finance Board's (MDFB) ability to expend public money beginning on August 28, 2017. The MDFB encourages economic development activity with three tax credit programs.

Business Use Incentives for Large-scale Development (BUILD) - The incentives offered by the BUILD Missouri Program are designed to offset infrastructure and other capital costs of certain large projects by making the cost of investing in Missouri more competitive. The costs are financed through the issuance by the MDFB of certificates (bonds or notes), the principal and interest on which will be repaid by the business. Businesses are then reimbursed for these repayments through the issuance by the MDFB of Missouri state income tax credits. §100.850.5. caps the annual tax credits authorized at \$25 million.

B&P notes that authorized credits under the BUILD Missouri Program have averaged \$20,558,917, issued credits have averaged \$8,657,563, and redemptions have averaged \$8,304,761 over the last three years. Elimination of this tax credit would result in an increase to General and Total State Revenue of an estimated \$8,304,761 and potentially up to \$25,000,000 annually.

Infrastructure Contributions Tax Credit Program - The MDFB is authorized by §100.286.6, to grant a tax credit equal to 50% on the value of any eligible contribution to the MDFB by any taxpayer. To be eligible for the credit, the contribution must be made to one of three funds established by the MDFB's statutes. (Industrial Development and Reserve Fund, the Infrastructure Development Fund, or the Export Finance Fund). §100.286.8. places a \$10 million cap on total tax credits authorized or approved annually. However, that limit may be exceeded by mutual, notarized agreement between the Commissioner of the Office of Administration, the Director of DED, and the Director of the Department of Revenue, but in no case shall exceed \$25 million per year.

B&P notes that authorized credits under the Contributions Tax Credit Program have averaged \$16,080,833, issued credits have averaged \$17,078,861, and redemptions have averaged \$15,787,176 over the last three years. Elimination of this tax credit would result in an increase to General and Total State Revenues of an estimated of \$15,787,176 and potentially up to \$25,000,000 annually.

ASSUMPTION (continued)

Revenue Bond Guarantee - The Tax Credit Bond Enhancement Program provides a tax credit enhancement on behalf of Public Entities for certain bonds. This program uses the MDFB's bond tax credits as collateral. Credits are only redeemed in the event of a default. Currently \$22,762,400 is being used as collateral. §100.297.3, caps the total tax credit being used as collateral at \$50 million. MDFB states passage of this legislation would constitute default, and would therefore issue collateralized tax credits which would not have otherwise been issued. This would result in a negative impact to General and Total State Revenues of (\$22,762,400) up to (\$50,000,000) in the first year of this proposal.

This proposal eliminates these tax credits and could result in a cumulative increase to General and Total State Revenue of \$1,329,537 to a net effect of zero in the first year of this legislation. In subsequent years this proposal could increase General and Total State Revenues an estimated \$24,091,937 (average annual redemptions for BUILD and Contribution Tax Credits) up to the \$50 million total cap for these two tax credits and could be impact the Article X, Section 18(e) calculation.

Changes to these programs may also impact related economic activity. B&P is unable to estimate any induced revenue impacts.

Oversight assumes the many programs and changes to existing programs in this proposal may have an impact on the state. However, Oversight considers this to be an indirect impact of the proposals and will not reflect them in the fiscal note.

Officials at the **Department of Economic Development (DED)** assume this proposal would void the MDFB's program funding authority for all its programs effective August 28, 2017. No new applications could be considered, and applications in process and under review but not consummated could not be finished. Board responsibilities would be limited to fulfilling ongoing financial obligations in effect as of August 28, 2017.

This would eliminate the MDFB's public infrastructure, private activity and cultural facility revenue bond programs, small business loan program, and all tax-credit supported programs including Business Use Incentive for Large Scale Development ("BUILD").

The long-range implications of the elimination of the MDFB as a financial source for the many and various type projects and governmental and private borrowers it assists cannot be estimated. Demand for each program can vary each year and is based on many different factors. It is impossible to predict what the overall demand for MDFB programs will be in future years. Below is a chart of financing provided by the MDFB over the last 10 years.

ASSUMPTION (continued)

Program	# of Projects	Issuance/Approval Amount
BUILD	35	\$132,569,300
MIDOC	14	\$1,552,209
SBL	60	\$1,740,905
Private Purpose Bonds	8	\$183,690,154
Cultural Activity Bonds	16	\$599,790,000
Public Activity Bonds	43	\$763,065,000
Public Refundings	27	\$651,349,000
Tax Credit for Contributions	60	\$122,585,942

Source: Department of Economic Development

Oversight notes this proposal terminates the Missouri Development Finance Board’s authority to expend public money under §100.250 to §100.297 (MDFB Infrastructure tax credit and the Bond Guaranty tax credit) and §100.700 to §100.850 (BUILD tax credit). Additionally they are not to expend public money by way of granting loans, issuing bonds, or issuing tax credits. Oversight notes this prohibition begins on August 28, 2017 (FY 2018). Oversight notes it is possible for the MDFB to issue all the annual credits allowed in FY 2018 prior to the beginning of the prohibition; therefore, Oversight will not show an impact in FY 2018.

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

	FY 2014	FY 2015	FY 2016	FY 2017 (projected)	FY 2018 (projected)
Amount Authorized	\$18,504,992	\$12,795,004	\$30,376,756	\$8,945,982	\$20,558,917
Amount Issued	\$6,318,996	\$10,612,876	\$9,040,816	\$14,382,504	\$8,657,563
Amount Redeemed	\$8,533,926	\$7,990,466	\$8,389,892	\$14,382,504	\$8,304,761

Oversight notes this proposal would stop the issuance of this credit after August 28, 2017 (FY 2018). This credit has an annual cap of \$25 million. Oversight will reflect the amount of increased revenue to the State equal to the average amount issued over the last five years of \$9,005,376. Since it is possible that all the credit could be issued in FY 2018, Oversight will not

ASSUMPTION (continued)

show the savings until FY 2019.

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

	FY 2014	FY 2015	FY 2016	FY 2017 (projected)	FY 2018 (projected)
Amount Authorized	\$35,842,500	\$3,158,300	\$9,241,700	\$10,000,000	\$10,000,000
Amount Issued	\$27,698,347	\$8,711,790	\$14,826,446	\$21,803,701	\$21,803,701
Amount Redeemed	\$19,474,868	\$14,792,341	\$13,094,319	\$15,787,176	\$15,787,176

Oversight notes this proposal would prohibit the issuance of any credits after August 28, 2017. This credit has an annual cap of \$10 million that can be increased to \$25 million by agreement of the Director of Department of Economic Development, Director of Department of Revenue and the Commissioner of Administration. Currently they have agreed to raise the cap to \$25 million. Oversight will reflect the amount of increased revenue to the State equal to the average amount issued over the last five years of \$14,033,503 starting in FY 2019.

Oversight notes the MDFB Bond Guarantee tax credit has a \$50,000,000 cap. These tax credits are computed based on the inability to meet debt service on bonds after all other resources are utilized and all compliance requirements are met on an annual basis. Oversight notes this proposal would prohibit authorizations of this credit after August 28, 2017. Per this proposal, all outstanding credits will continue to act as security for bonds issued prior to the proposal; therefore, Oversight will not show a savings from this tax credit.

Oversight notes this proposal allows the MDFB to fulfill all financial obligations in effect as of August 28, 2017. Therefore taxpayers will be able to continue to redeem and carry forward all previously issued tax credits.

Officials at the **Office of Administration's Division of Accounting** assume there is no fiscal impact from this proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE			
<u>Additional Revenue</u> - elimination of the BUILD tax credit	\$0	\$9,005,376	\$9,005,376
<u>Additional Revenue</u> - elimination of the Infrastructure tax credit	<u>\$0</u>	<u>\$14,033,503</u>	<u>\$14,033,503</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>\$23,038,879</u>	<u>\$23,038,879</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that previously qualified for the tax credits or bonds may be impacted.

FISCAL DESCRIPTION

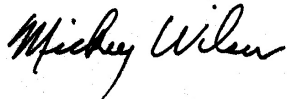
Beginning August 28, 2017, this act voids any authority given to the Missouri Development Finance Board to expend public moneys, including but not limited to the granting of loans and grants, the issuing of bonds, and the issuing of tax credits. This act does not limit the authority of the Board to fulfill any financial obligations in effect as of August 28, 2017.

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

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