COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1537-01
Bill No.: SB 280
Subject: Abortion; Agriculture and Animals; Banks and Financial Institutions; Business and Commerce; Charities; Children and Minors; Conservation Department; Corporations; Disabilities; Economic Development; Economic Development Department; Enterprise Zones; Environmental Protection; Health Care; Historic Preservation; Insurance- General; Taxation and Revenue - General; Taxation and Revenue - Income; Taxation and Revenue - Property; Tax Credits
Type: Original
Date: March 2, 2011

Bill Summary: Modifies provisions of Missouri tax credit programs in accordance with recommendations made by the Missouri Tax Credit Review Commission Report.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	Unknown greater than $79,883,668	Unknown greater than $174,181,513	Unknown greater than $215,456,906
Total Estimated Net Effect on General Revenue Fund	**Unknown greater than $79,883,668**	**Unknown greater than $174,181,513**	**Unknown greater than $215,456,906**

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.

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 27 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

JH:LR:OD

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 32.115 and 100.286 Infrastructure and Affordable Housing Assistance Program Tax Credits
Officials at the **Missouri Development Finance Board** assume despite the fact that the Infrastructure Development Tax Credit has an annual cap, the Board currently anticipates that issuances of credits will be significantly under the statutory cap due to the self-regulating nature of the Infrastructure Development Tax Credits during times of economic downturn.

Officials at the **Department of Economic Development** assume this proposal in sections 32.115.3-32.115.4 would reduce the Affordable Housing Assistance Program (AHAP) tax credits issued per dollar of charitable donations made to approved affordable housing projects and nonprofit organization operations. Currently, donors receive $0.55 worth of tax credits per $1.00 donated. This would reduce the value to $0.40 of tax credits per $1.00 donated. This provision could affect the amount of tax credits issued per donor, but it does not affect the overall program cap, so there is no fiscal impact to report as a result of this provision.

DED assumes section 32.115.6 would sunset the AHAP tax credits as of August 28, 2015. This would result in an eventual reduction of redemptions and corresponding increase in General Revenue. However, because the AHAP has a 10-year carry forward provision, taxpayers could potentially continue to redeem AHAP credits through FY 2025.

DED assumes section 32.115 would change the Neighborhood Assistance tax credit by reducing it from 50% to 35%. The 70% tax credit is left unchanged.

ASSUMPTION (continued)

The potential positive fiscal impact from the Neighborhood Assistance tax credit programs sunset is shown below based on estimates of the range of potential positive fiscal impact, with the high end of the range represented by the applicable program cap and the low end represented by the average annual authorizations of tax credits under the applicable programs for fiscal years 2007 through 2009. This range reflects the fact although in any fiscal years there is the potential for tax credit authorizations under these programs up to the applicable cap, the actual authorizations are often less than the cap amount. The savings is based on the average authorizations (FY 07-FY 09) of $15,652,748 and the maximum savings based on the current statutory cap of $16,000,000.

Oversight assumes this proposal changes the Affordable Housing Assistance Program tax credit by reducing from fifty-five percent of the eligible donation to forty percent of such donation. This tax credit has an annual cap of $11 million. In FY 2010, $4,599,981 in tax credits were issued and $11,647,956 were redeemed.

Oversight assumes that for all taxable years beginning on or after January 1, 2012, this act decreases the Missouri Development Finance Board Infrastructure Contribution credit from a fifty percent credit for contributions received to a credit equal to thirty-five percent of the contributed amount. This tax credit has an annual cap of $6 million. In FY 2010, $2,713,000 in tax credits were issued and $1,589,618 were redeemed.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under these programs after August 28, 2015. **Oversight** assumes any income to the state from tax credits not issued and the taxes being collected is outside the fiscal note period. Taxes will start being collected in FY 2016.

Oversight using the FY 10 amount of tax credits calculated the amount of potential savings that could have occurred if the new reduced percentage rate proposed in this legislation would have been in place in FY 10. The results are as follows:

Tax Credit	FY 2010 Issued	New % rate amount issued	Potential Savings
Infrastructure	$39,203,730	$27,442,611	$11,761,119
Affordable Housing	$4,599,981	$3,679,985	$919,996

Oversight can not predict how taxpayers may react to the change in the amount they can claim and therefore can not predict whether there will be a reduction in the amount of the tax credits applications. Oversight assumes the proposed changes could result in a reduced amount of tax credits being issued in future fiscal years, FY 2012 - FY 2015. Oversight will show a projected increase in net revenues as being Unknown over $100,000.

Section 99.1205 Distressed Areas Land Assemblage Tax Credit
Officials at the **Budget and Planning** and the **Department of Economic Development** assume no direct impact to their agencies as a result of this proposal.

Oversight assumes the Distressed Areas Land Assemblage Tax Credit would sunset on August 28, 2011. This program has a cap of $95,000,000 in credit being issued over the life of the program with no more than $20,000,000 per year. This program issued $20,000,000 in FY 2010 and $6,731,635 were redeemed.

Oversight assumes any income to the state from tax credits not issued and the taxes being collected will start in September of 2011, which is FY 2012. However, since it is possible for the agency to issue all of the tax credits before this proposal prohibits any more being issued, Oversight will show the increased revenue to the State beginning in FY 2013.

Sections 148.064, 143.471, 148.400, 375.774, 376.745 & 376.975
Officials at the **Budget and Planning** assume this proposal provides sunsets for these programs. To the extent these proposals are not extended, general and total state revenues will increase, but associated economic activity may be lost.

Oversight assumes the following tax credits do not have an annual cap or a program cap. In FY 2010, these programs issued tax credits totaling $39,670,275 and $18,001,714 of those credits were redeemed. This proposal would prohibit the issuance of any further tax credits under these programs after August 28, 2013:

Bank Franchise - section 148.064
Bank TC for S Corp - section 143.471
Exam Fee - section 148.400
Property and Casualty Insurance Guaranty - section 375.774
Life and Health Insurance Guaranty - section 376.745
Health Insurance Pool - section 376.975

Oversight assumes any income to the state from tax credits not issued and the taxes being collected will start in September of 2013. However, since it is possible for the agency to issue all of the tax credits before this proposal prohibits any more being issued, Oversight will only show the savings in FY 2014. Oversight assumes the future claiming of the tax credits will remain constant over the upcoming fiscal years. Oversight for the fiscal note is showing the amount of increased revenue to the State as being equal to the average amount issued over the last five years.

Sections 135.487, 100.850, 135.150, 32.115, 135.967, 100.297, 100.286, 620.1881, 348.505, 348.430, 348.432 & 135.460

Oversight assumes this proposal would prohibit the issuance of any further tax credits under these programs after August 28, 2015:

Neighborhood Preservation Act - section 135.487
BUILD - section 100.850
Business Facility - section 135.150
Development Tax Credit - section 32.115
Enhanced Enterprise Zone - section 135.967
MDFB Bond Guarantee -section 100.297
MDFB Infrastructure - section 100.286
Missouri Quality Jobs - section 620.1881
Family Farm Breeding Livestock Loan Program - section 348.505
Agricultural Product Utilization Contributor - section 348.430
New Generation Cooperative Incentive - section 348.432
Youth Opportunities -section 135.460

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

Officials at the **Department of Economic Development** assume the program sunsets for DED programs in this proposal occur over a period of several years beginning with Fiscal Year 2016. Therefore, the total potential savings outlined in the table below may only be realized over a period of several years. Any anticipated positive fiscal impact based on the sunset of programs, would be offset by an unknown negative fiscal impact with respect to those programs that require or result in a net positive fiscal impact to the state in order for the benefit or tax credit to be issued. Such programs would include Enhanced Enterprise Zone, Brownfield and Missouri Quality Jobs.

The potential positive fiscal impact from the programs sunset in this proposal is shown below based on estimates of the range of potential positive fiscal impact, with the high end of the range represented by the applicable program cap and the low end represented by the average annual authorizations of tax credits under the applicable programs for fiscal years 2007 through 2009.

This range reflects the fact although in any fiscal years there is the potential for tax credit authorizations under these programs up to the applicable cap, the actual authorizations are often less than the cap amount.

Program Sunset	Effective Date	Savings Based on Average Authorizations (FY07-FY09)	Maximum Savings Based on Current Statutory Cap
Development Tax Credit	8/26/2015	$1,450,000	$6,000,000
New Business Facility	8/28/2015	$4,581,994	Unknown (program uncapped)
Youth Opportunities	8/28/2017	$5,641,665	$6,000,000
Neighborhood Preservation	8/28/2015	$14,126,322	$16,000000
Enhanced Enterprise Zone	8/28/2015	$7,023,970	$24,000,000
Quality Jobs	8/28/2015	$21,993,492	$80,000,000
TOTAL SAVINGS			

DED assumes that tax credits previously authorized or issued under any program with a carry forward provision would continue to be redeemed under these programs, notwithstanding the sunset on the agency's authority to authorize new tax credits.

Officials at the **Missouri Development Finance Board** (**MDFB**) assume MDFB does not receive state appropriations. But said legislation will reduce and eliminate fee income from these programs. MDFB collects an annual fee from all recipients of BUILD tax credits. Said annual income is 33% of the MDFB FY2012 operating budget. BUILD program income is projected to be over 50% of future operating budgets due to the effects of the economic downturn on other programs.

Despite the fact that BUILD Tax Credit has an annual cap, the Board currently anticipates that issuances of credits will be significantly under the statutory caps due to the fact that the new BUILD cap was just approved last session from $15m to $25m.

This legislation will potentially increase State Revenue due to the elimination of tax credits that offset taxes otherwise paid to General Revenue. Credits issued through the BUILD program are a stream of credits issued over 15 years. Previously approved projects will continue to receive approximately $111 million in benefits through 6/30/2029. Potential savings are in the form of

ASSUMPTION (continued)

no additional projects and no incremental increases. Credits will continue to be issued through 2029 regardless of legislation as they are contractually obligated as long as the projects are in compliance with the program guidelines. Savings to General Revenue is estimated at -0- for Fiscal Years 2013, 2014, and 2015 as it is expected that the programs will continue to maintain their current level of impact until after the State sunset date. Estimated savings can not be properly estimated until after the effective date has passed and all existing projects are accounted for.

The bill eliminates the MDFB Bond Guarantee Tax Credit. These credits are only issued in the event of project default. Currently, credits are used as collateral for 3 MDFB owned Parking Garages in St. Louis.

Oversight assumes that several of these programs have annual or program caps. The caps on these programs is greater than $234,300,000. In FY 2010, these programs issued tax credits totaling $90,843,724 and $58,567,137 of those credits were redeemed. Oversight assumes any income to the state from tax credits not issued and the taxes being collected is outside the fiscal note period. Taxes will start being collected in FY 2016.

Sections 135.010 and 135.030 Property Tax Credit
Officials at the **Budget and Planning** assume this proposal removes provisions making renters eligible for the Senior Property Tax Credit. Based on data reported to BAP by DOR in the autumn of 2010, renters redeemed $59.2 million in tax credits in 2008, and $56.6 million in tax credits in 2009. This proposal will increase general and total state revenues by similar amounts in FY12 and beyond.

Officials at the **Department of Revenue** (**DOR**) assume in calendar year 2010 there were approximately 106,000 renters that received $57,000,000 in property tax credits. DOR assumes this proposal would require programming changes to the MINITS system and individual income tax and PRC forms and instruction changes will be required.

Officials at the **University of Missouri** assume that of the approximately $119 million worth of Property Tax Credits claimed in FY 2009, $54 million of these credits were claimed by renters.

Oversight assumes this proposal removes the provisions allowing individuals who rent to claim the tax credit. This program does not have an annual cap. In FY 2010, $118,594,589 credits were issued and redeemed. Oversight assumes this proposal will result in a savings to the state because the number of people who are eligible for the credit is reduced. Oversight will show the increase to net revenues from the tax credit program as $57 million each fiscal year.

ASSUMPTION (continued)

Section 135.327 Special Needs Adoption/Children In Crisis Tax Credit
Oversight assumes that for all taxable years beginning on or after January 1, 2012, this act decreases the Special Needs Adoption/Children In Crisis Tax Credit from a fifty percent credit for contributions received to a credit equal to thirty-five percent of the contributed amount. This tax credit has an annual cap of $4 million. In FY 2010, $2,315,044 in tax credits were issued and redeemed.

Oversight using the FY 10 amount of tax credits calculated the amount of potential savings that could have occurred if the new reduced 35% rate proposed in this legislation would have been in place in FY 10. The results are as follows:

Tax Credit	FY 2010 Issued	New % rate amount issued	Potential Savings
Special Needs	$2,315,044	$1,620,531	$694,513

Oversight can not predict how taxpayers may react to the change in the amount they can claim and therefore can not predict whether there will be a reduction in the amount of the tax credits applications. Oversight assumes the proposed changes could result in a reduced amount of tax credits being issued in future fiscal years. Oversight will show a projected increase in net revenues as being Unknown.

Oversight assumes the proposed changes could result in a reduced amount of tax credits being issued in future fiscal years. Oversight will show a projected increase in net revenues as being Unknown.

Section 135.352 Low- Income Housing Tax Credit
Officials at the **Budget and Planning (BAP)** assume this proposal limits the new authorizations for the LIHTC program to $16M annually. BAP notes this amount is roughly consistent with authorizations the last several years, but the MHDC projected new authorizations of $19.2M annually for FY's 11 & 12, and this amount may grow higher as the overall economy recovers or the need for housing grows.

This proposal reduces the period for the tax credits from 10 years to 3 years. Projects may be able to generate the same amount of equity, but this will reduce some risk associated with the time value of money. If so, this will reduce the aggregate amount of credits needed to finance a project. However, because of the length of time between project authorization and credit redemption, any savings won't likely be realized until after FY14. BAP defers to the MHDC for a more detailed discussion.

This proposal prohibits the issuance credits for projects financed with the tax-exempt bond option after Jan. 1, 2012. BAP defers to the MHDC for a discussion of any related impacts.

This proposal prohibits the concurrent use of Historic credits with LIH credits. BAP cannot estimate any potential savings from this provision.

Officials at the **Department of Economic Development** assume this would reduce the amount of Low-Income Housing credits authorized, issued and redeemed which would increase total state revenue. The following changes are expected:

Section 135.352 (7) - Projects receiving tax credits under the Low Income Housing program are not eligible to receive tax credits under the Historic Preservation program.

Section 135.353.2 – This section would change the Missouri Low Income Housing Tax Credit (Mo. LIHTC) from a 10-year tax credit program capped at the annual federal LIHTC cap to a 3-year tax credit capped at $16 million in annual authorizations. Eventually the state would see a significant (over $100 million) reduction in the annual amount of Mo. LIHTC issued and redeemed as a result of this provision. However, because of the significant lag time between authorization, issuance and redemption of credits, it would take several years for the full impact of this change to be realized.

Section 135.352.3 – This section would eliminate the 4% Mo. LIHTC used for developments receiving an allocation of tax-exempt bonds. Currently, there is a $6 million cap on the authorization of annual 4% credits. There eventually would be a $6 million reduction in 4% Mo. LIHTC redemptions (and a corresponding $6 million increase in General Revenue). However, because of the significant lag time between authorization, issuance and redemption of credits, it would take several years for the full impact of this change to be realized.

Section 135.352.7 – This section would eliminate the practice known as "stacking" whereby the same development receives both Mo. LIHTC and the state Historic Preservation Credit. While this change would affect the total amount and type of state tax credit received by particular developments, it would not affect the overall amount of state tax credits authorized, issued or redeemed. Therefore, this change has no associated fiscal impact.

Section 135.352.7 – This section would sunset the Mo. LIHTC program so that no tax credits would be authorized after Aug. 28, 2015. This would eventually have a significant fiscal impact, but it would take a while for the full effect to be felt due to the lag time between when a tax credit is authorized, issued and redeemed.

Because the Mo. LIHTC is a 10-year credit, the full impact of the reductions in tax credit issuances and redemptions due to this propsal would phase in through FY24. The fiscal impact associated with a reduction in Mo. LIHTC tax credit issuances and redemptions would be projected to start in FY14 in the amount of $400,000 (reduction in redemptions and corresponding increase in General Revenue). The long-range reduction in redemptions (and corresponding increases in General Revenue) associated with this proposal would be projected to phase in over FY15-FY24 as shown below. After FY24, the full impact of this proposal (estimated $192 million decrease in redemptions and corresponding increase in General Revenue) would be felt each year as long as the changes remained in effect. The numbers below take into account reductions in Mo. LIHTC authorizations, issuances and redemptions from both the move to a three-year program capped at $16 million per year as well as the eventual sunset of the program after 8/28/2015.

The fiscal impact on AHAP would be the sunset of the program after 8/28/2015.

FY	AHAP Long-Range Impact	Mo. LIHTC Long-Range Impact
FY12		$0
FY13		$0
FY14		Unknown to $400,000
FY15		Unknown to $3,100,000
FY16	Unknown to $11,000,000	Unknown to $6,300,000
FY17	Unknown to $11,000,000	Unknown to $21,500,000
FY18	Unknown to $11,000,000	Unknown to $52,700,000
FY19	Unknown to $11,000,000	Unknown to $87,900,000
FY20	Unknown to $11,000,000	Unknown to $123,100,000
FY21	Unknown to $11,000,000	Unknown to $146,300,000
FY22	Unknown to $11,000,000	Unknown to $165,500,000
FY23	Unknown to $11,000,000	Unknown to $184,700,000
FY24	Unknown to $11,000,000	Unknown to $191,500,000
FY25 and future years	Unknown to $11,000,000	Unknown to $192,000,000

The fiscal impact associated with this legislation would be the savings to the state associated with eliminating the 4% Mo. LIHTC and capping the annual amount of 9% Mo. LIHTC authorized to $16 million for three years for 1/1/13-8/28/15 and then the eventual sunset of the program in FY16. The fiscal impact from AHAP would be the sunset of the program in FY16. In order to estimate the potential fiscal impact of this proposal, we have projected issuances/redemptions with and without passage of this proposal.

Of course, there is no fiscal impact associated with tax credits until they are redeemed. However because both the Mo. LIHTC and AHAP have carry forward provisions, it is impossible to predict with certainty the timing of future redemptions. For purposes of estimating fiscal impact, the projections below assume all credits are redeemed in the year of issuance. The numbers are presented as a range from Unknown to the estimated redemption amount if all the previously authorized credits were issued and redeemed. Several other assumptions were made in order to estimate fiscal impact, and these assumptions are listed below. Assumptions:

- 100% of authorized credits are eventually issued and redeemed.
- Mo. LIHTC developments will continue to follow the same time-frames between authorization and issuance as experienced historically.
- The MO LIHTC 9% annual credit authorizations will be $8,041,000 in FY11 and $16,000,000 in FY12-FY15 due to passage of this proposal.
- No Mo. LIHTC will be authorized after FY15 due to passage of this proposal.
- With passage of this proposal Mo. LIHTC 9% developments authorized for credits by MHDC after FY11 will only receive 3 years worth of annual credits, but developments authorized by MHDC in FY11 and prior will receive 10 years of annual credits.
- The full $6 million of Mo. LIHTC 4% credit allowable will be authorized in FY11 and no 4% credits will be authorized after FY11 due to passage of this proposal.
- Without passage of this proposal, $13.2 million in annual 9% credits and $6 million in annual 4% credits would be authorized in FY12 and each year thereafter.
- Mo. LIHTC Developments are issued equal amounts of credits each year for their entire credit period (10 years or 3 years).
- Entire $11 million AHAP statutory cap will be authorized and issued each year.
- No AHAP will be authorized after FY15 due to passage of this proposal.

Estimated Fiscal Impact

	Mo. LIHTC Projected Issuances & Redemptions As Proposed by this proposal	Mo. LIHTC Maximum Projected Issuances & Redemptions Under Current Law	Mo. LIHTC Change in Issuances & Redemptions Based on Proposed legislation	AHAP Projected Change in Issuances & Redemptions As Proposed by this legislation	Estimated Impact on General Revenue Due to this proposal
FY 12	$165,756,074	$165,756,074	$0	$0	$0
FY 13	$166,555,901	$166,555,901	$0	$0	$0
FY 14	$168,128,724	$168,528,724	(Unknown to $400,000)	$0	Unknown to $400,000
FY 15	$172,014,949	$175,114,949	(Unknown to $3,100,000)	$0	Unknown to $3,100,000
FY 16	$172,680,605	$178,980,605	(Unknown to $6,300,000)	(Unknown to $11,000,000)	Unknown to $17,300,000
FY 17	$156,769,170	$178,269,170	(Unknown to $21,500,000)	(Unknown to $11,000,000)	Unknown to $32,500,000
FY 18	$121,530,802	$174,230,802	(Unknown to $52,700,000)	(Unknown to $11,000,000)	Unknown to $63,700,000
FY 19	$82,702,474	$170,602,474	(Unknown to $87,900,000)	(Unknown to $11,000,000)	Unknown to $98,900,000
FY 20	$51,627,121	$174,727,121	(Unknown to $123,100,000)	(Unknown to $11,000,000)	Unknown to $134,100,000
FY 21	$35,382,127	$181,682,127	(Unknown to $146,300,000)	(Unknown to $11,000,000)	Unknown to $157,300,000
FY 22	$18,428,410	$183,928,410	(Unknown to $165,500,000)	(Unknown to $11,000,000)	Unknown to $176,500,000
FY 23	$5,946,500	$190,646,500	(Unknown to $184,700,000)	(Unknown to $11,000,000)	Unknown to $195,700,000
FY 24	$936,250	$192,436,250	(Unknown to $191,500,000)	(Unknown to $11,000,000)	Unknown to $202,500,000

FY 25	$0	$192,000,000	(Unknown to $192,000,000)	(Unknown to $11,000,000)	Unknown to $203,000,000

Oversight assumes that for all taxable years beginning on or after January 1, 2012, this act changes the calculation of the cap on the Low-Income Housing Tax Credit. This tax credit has an annual cap of $16 million. In FY 2010, $155,703,625 in tax credits were issued and $142,141,458 were redeemed.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under these programs after August 28, 2015. Oversight assumes any income to the state from tax credits not issued and the taxes being collected is outside the fiscal note period. Taxes will start being collected in FY 2016.

Section 135.490, 135.550, 135.562, 135.575, 135.600, 135.630, 208.770
Oversight assumes the following tax credits reduced from fifty percent to thirty-five percent of eligible contributions for all taxable years beginning on or after January 1, 2012.

Tax Credit	Cap	Issued	Redeemed
Disabled Access	no cap	$12,526	$12,526
Shelter for Victims of Domestic Violence	$2 million	$1,032,802	$789,750
Maternity Home	$2 million	$1,021,293	$761,650
Mo Healthcare Access Fund	$1 million	$0	$0
Pregnancy Resources Center	$2 million	$1,624,130	$1,198,062
Family Development Account	$300,000	$25,000	$3,000

ASSUMPTION (continued)

Oversight using the FY 10 amount of tax credits calculated the amount of potential savings that could have occurred if the new reduced percentage rate proposed in this legislation would have been in place in FY 10. The results are as follows:

Tax Credit	FY 2010 Issued	New % rate amount issued	Potential Savings
Disabled Access	$12,526	$8,768	$3,758
Shelter for Victims of Domestic Violence	$1,032,802	$722,961	$309,841
Maternity Home	$1,021,293	$714,905	$306,388
Mo Healthcare Access Fund	$0	$0	$0
Pregnancy Resources Center	$1,624,130	$1,136,891	$487,239
Family Development Account	$25,000	$17,500	$7,500

Oversight can not predict how taxpayers may react to the change in the amount they can claim and therefore can not predict whether there will be a reduction in the amount of the tax credits applications. Oversight assumes the proposed changes could result in a reduced amount of tax credits being issued in future fiscal years, FY 2012 - FY 2017. Oversight will show a projected increase in net revenues as being Unknown.

Officials at the **Department of Economic Development** assume the potential positive fiscal impact from the Family Development Account program being sunset is shown below based on estimates of the range of potential positive fiscal impact, with the high end of the range represented by the applicable program cap and the low end represented by the average annual authorizations of tax credits under the applicable programs for fiscal years 2007 through 2009. This range reflects the fact although in any fiscal years there is the potential for tax credit authorizations under these programs up to the applicable cap, the actual authorizations are often less than the cap amount. The savings is based on the average authorizations (FY 07-FY 09) of $99,995 and the maximum savings based on the current statutory cap of $300,000.

ASSUMPTION (continued)

Officials at the **Department of Social Services** assume that the degree of effort to process the tax credit applications is unchanged regardless of the fact that the amount of the credit has been reduced. The Department expects no impact from this proposal.

Officials at the **Budget and Planning** assume this proposal provides sunsets for these programs. To the extent these proposals are not extended, general and total state revenues will increase, but associated economic activity may be lost.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under these programs after August 28, 2017. Oversight assumes any income to the state from tax credits not issued and the taxes being collected is outside the fiscal note period. Taxes will start being collected in FY 2018.

Section 135.1150 Residential Treatment Tax Credit
Oversight assumes that for all taxable years beginning on or after January 1, 2012, this act decreases the Residential Treatment Tax Credit from a fifty percent credit for contributions received to a credit equal to thirty-five percent of the contributed amount. This tax credit has no annual cap. In FY 2010, $402,669 in tax credits were issued and $551,841 were redeemed.

Oversight using the FY 10 amount of tax credits calculated the amount of potential savings that could have occurred if the new reduced 35% rate proposed in this legislation would have been in place in FY 10. The results are as follows:

Tax Credit	FY 2010 Issued	New 35 % rate amount issued	Potential Savings
Residential Treatment	$402,669	$281,868	$120,801

Oversight can not predict how taxpayers may react to the change in the amount they can claim and therefore can not predict whether there will be a reduction in the amount of the tax credits applications. Oversight assumes the proposed changes could result in a reduced amount of tax credits being issued in future fiscal years. Oversight will show a projected increase in net revenues as being Unknown.

Section 137.1018 Repeal of the Rolling Stock Tax Credit
Oversight assumes this proposal repeals the Rolling Stock Tax Credit. This tax credit did not have an annual cap and in the last three years has not had any credits issued or redeemed.

ASSUMPTION (continued)

Oversight assumes the repeal of this tax credit would not result in any savings or cost to the State.

Section 253.550, 253.557 & 253.559 Historic Preservation Tax Credit
Officials at the **Budget and Planning** assume this proposal creates a reduced cap of $75M for the Historic Tax Credit program, and removes the exemption for "micro" projects. Based on prior redemption patterns, and because the program has a carry forward provision, BAP estimates this proposal will increase general and total state revenues $1.5M in FY12, $6.5M in FY13, and $16.3M in FY14. Other provisions that may create savings include: a cap of $50,000 per residential project, an exclusion of residential projects valued over $150,000, and a prohibition on concurrent use of Low Income Housing or Neighborhood Preservation credits. BAP cannot estimate the potential savings.

Officials at the **Department of Economic Development** assume this potential positive fiscal impact would increase by a maximum of $65 million when the reduced cap for the Historic Preservation Program under this proposal is fully phased-in. The savings is based on the average authorizations (FY 07-FY 09) of $170,114,756 and the maximum savings based on the current statutory cap of $140,000,000 in FY 2011.

Officials at the **Department of Natural Resources** assume the State Historic Preservation Office is responsible for reviewing and approving rehabilitation work for the state credits. Any changes in the tax credit structure may have an impact on the number or rehabilitation projects the State Historic Preservation Office reviews and approves. The department would not anticipate a significant direct fiscal impact as a result of the changes made to the State Historic Preservation Tax Credit.

Oversight assumes this proposal beginning in FY 2013, prohibit the issuing of more than seventy-five million dollars in historic preservation tax credits. Oversight will show the increase in net revenues of $65 million per fiscal year.

Oversight assumes this proposal prohibits the stacking of historic preservation tax credits with neighborhood preservation tax credits or low-income housing tax credits. Therefore, Oversight assumes the proposed changes could result in a reduced amount of tax credits being issued in future fiscal years, FY 2012 - FY 2017. Oversight will show a projected increase in net revenues as being Unknown.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under

ASSUMPTION (continued)

these programs after August 28, 2017. Oversight assumes any income to the state from tax credits not issued and the taxes being collected is outside the fiscal note period. Taxes will start being collected in FY 2018.

Section 447.708 Brownfield Redevelopment Remediation/Jobs & Investment Tax Credit
Officials at the **Budget and Planning** assume this act prohibits authorizations of the Brownfield Remediation/Jobs & Investment Credits after June 30, 2011.

Officials at the **Department of Economic Development** assume Brownfield Remediation/Jobs & Investment tax credits sunset. Also reduces eligible costs for professional engineering, consulting and architecture to 20% of the cost for the Brownfield Remediation tax credit. Provides clawback if the projected jobs are not created or retained. The savings based on the average authorizations (FY 07 -FY 09) is $22,348,784. The maximum savings based on current statutory cap is Unknown as the programs are uncapped.

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

Oversight assumes this proposal stops the issuance of this tax credits on June 30, 2011. This program does not have an annual cap. In FY 2010, the Remediation tax credit issued $13,978,902 in credits and $17,590,273 were redeemed. In FY 2010, the Jobs & Investment credits had $1,903,904 were issued and $1,650,222 were redeemed. Oversight for the fiscal note is showing the amount of increased revenue to the State as being equal to the average amount issued over the last five years.

Section 660.055 Shared Care Tax Credit
Officials at the **Department of Health and Senior Services** assume in FY 2010, there were 246 claimants who redeemed $106,068 from this tax credit.

Oversight assumes the Shared Care Tax Credit does not have an annual cap or a program cap. In FY 2010, this program issued tax credits totaling $168,500 and $106,086 of those credits were redeemed. This proposal would prohibit the issuance of any further tax credits under this program after August 28, 2017.

Oversight assumes any income to the state from tax credits not issued and the taxes being collected is outside the fiscal note period. Taxes will start being collected in FY 2018.

ASSUMPTION (continued)

Repealed Tax Credits
Officials at the **Budget and Planning** assume this proposal repeals the authorizing statutes for the following programs effective August 28, 2011:

The Rolling Stock Credit. This program is subject to appropriation. This proposal will not impact general and total state revenues.

The Wood Energy Tax Credit. Based on prior redemption patterns, and because the program has a carry forward provision, BAP estimates this proposal will increase general and total state revenues $1.0M in FY12, $1.7M in FY13, $2.4M in FY14, and $3.4M annually thereafter.

The Charcoal Producers Tax Credit. This program expired at the end of 2005, and the carryforward period is nearly over. This proposal will have no impact on general and total state revenues.

The Rebuilding Communities Tax Credit. Based on prior redemption patterns, and because the program has a carry forward provision, BAP estimates this proposal will increase general and total state revenues $0.3M in FY12, $1.0M in FY13, $1.6M in FY14, and $1.8M annually thereafter.

The Wine & Grape Production Credit. Based on prior redemption patterns, BAP estimates this proposal will increase general and total state revenues $0.04M in FY12, $0.08M in FY13, $0.12M in FY14, and $0.18M annually thereafter.

The Film Production Credit. Based on prior redemption patterns, and because the program has a carry forward provision, BAP estimates this proposal will increase general and total state revenues $0.1M in FY12, $1.4M in FY13, $2.9M in FY14, and $3.3M annually thereafter.

The Self-Employed Health Insurance Credit. Based on prior redemption patterns, BAP estimates this proposal will increase general and total state revenues $1.5M in FY12, $1.6M in FY13, $1.7M in FY14, and $1.8M annually thereafter.

The Small Business Incubator Credit. Based on prior redemption patterns, and because the program has a carry forward provision, BAP estimates this proposal will increase general and total state revenues $0 in FY12, $.07M in FY13, $0.25M in FY14, and $0.5M annually thereafter.

ASSUMPTION (continued)

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

Officials at the **Department of Economic Development** assume an unknown positive fiscal impact over $100,000 as a result of the proposed legislation. The Department anticipates a positive fiscal impact as a result of the sunset or repeal of the specified programs. However, the exact amount of the positive impact is unknown due to the uncertainty as to the amount of tax credits that would otherwise be authorized and subsequently redeemed under the sunsetted/eliminated programs in any subsequent fiscal year.

The potential positive fiscal impact as a result of the repealed programs is shown below based on estimates of the range of potential positive fiscal impact, with the high end of the range represented by the applicable program cap and the low end represented by the average annual authorizations of tax credits under the applicable programs for fiscal years 2007 through 2009. This range reflects the fact although in any fiscal years there is the potential for tax credit authorizations under these programs up to the applicable cap, the actual authorizations are often less than the cap amount.

Program Repealed	Savings Based on Average Authorizations (FY07-FY09)	Maximum Savings Based on Current Statutory Cap
Rebuilding Communities	$1,788,394	$8,000,000
Wine & Grape	$183,495	Unknown (program uncapped)
Film Production	$3,257,918	$4,500,000
Business Incubator	$500,000	$500,000
TOTAL SAVINGS	$5,729,807	$13,000,000

Oversight assumes that several of these programs have annual or program caps. The caps on these programs is greater than $13 million. In FY 2010, these programs issued tax credits totaling $11,573,289 and $6,888,222 of those credits were redeemed. This proposal will repeal the following tax credit programs:

Wine and Grape - Section 135.700
Charcoal Producer - Section 135.313
Small Business Incubator - Section 620.495
Self-Employed Health Insurance - Section 143.119
Film Production - Section 135.750
Wood Energy - section 135.300
Rebuilding Communities -section 135.535

ASSUMPTION (continued)

Oversight assumes any income to the state from the tax credits not issued and the taxes being collected will start in September of 2011. However, since it is possible for the agency to issue all of the tax credits before this proposal prohibits any more being issued, Oversight will only show the savings beginning FY 2013. Oversight for the fiscal note is showing the amount of increased revenue to the State as being equal to the average amount issued over the last five years for each tax credit.

Bill As A Whole
Officials at the **Department of Revenue** assume their response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at $6,572, which is 248 FTE hours.

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

Officials at the **Budget and Planning** (**BAP**) assume other economic activity may be reduced as a result of this proposal. BAP cannot estimate the loss of any revenues associated with this reduction.

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

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

ASSUMPTION (continued)

each of these funds may be impacted by tax credits each year.

Officials from the **Office of the Secretary of State** (**SOS**) state 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.

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.

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE			
Revenue - stopping of the tax credits and collection of the taxes owed			
Neighborhood Assistance	Unknown over $100,000	Unknown over $100,000	Unknown over $100,000
Infrastructure	Unknown over $100,000	Unknown over $100,000	Unknown over $100,000
Affordable Housing	Unknown over $100,000	Unknown over $100,000	Unknown over $100,000
Distressed Land Assemblage	$0	$20,000,000	$15,000,000
Bank Franchise	$0	$0	$2,209,248
Bank TC for S Corp	$0	$0	$1,507,338
Exam Fee	$0	$0	$10,987,629
Property & Casualty Insurance	$0	$0	$4,591,780
Life & Health Insurance Guaranty	$0	$0	$17,984,670
Health Insurance Pool	$0	$0	$8,994,728
Property Tax Credit	$57,000,000	$57,000,000	$57,000,000

Special Needs/Children in Crisis	$0	Unknown	Unknown
Low-Income Housing	$0	$0	Unknown
Disabled Access	$0	Unknown	Unknown
Shelter for Victims of Violence	$0	Unknown	Unknown
Maternity Home	$0	Unknown	Unknown
Mo Healthcare Access Fund	$0	Unknown	Unknown
Pregnancy Resource Center	$0	Unknown	Unknown
Residential Treatment Agency	$0	Unknown	Unknown
Family Development Account	$0	Unknown	Unknown
Residential Treatment	$0	Unknown	Unknown
Historic Preservation	$0	$65,000,000	$65,000,000
Rolling Stock	$0	$0	$0
Brownfield Jobs & Investment	$1,844,203	$1,844,203	$1,844,203
Brownfield Remediation	$20,739,465	$20,739,465	$20,739,465
Shared Care	$0	$0	$0
Wine and Grape	$0	$157,579	$157,579
Charcoal Producer	$0	$345,501	$345,501
Small Business Incubator	$0	$288,584	$288,584
Self-Employed Health Insurance	$0	$1,428,578	$1,428,578
Film Production	$0	$1,975,176	$1,975,176
Wood Energy	$0	$3,398,846	$3,398,846
Rebuilding Communities	$0	$1,703,581	$1,703,581
Prohibition of Stacking of Credits	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE	**Unknown greater than $79,883,668**	**Unknown greater than $174,181,513**	**Unknown greater than $215,456,906**

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.

FISCAL IMPACT - Local Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This could affect small businesses that received any of the listed tax credits.

FISCAL DESCRIPTION

This act modifies provisions of Missouri tax credit programs in accordance with recommendations made by the Missouri Tax Credit Review Commission Report.

Low-income Housing Tax Credits
Under current law, low-income housing tax credits are allowed over a ten-year period. Beginning January 1, 2012, this act reduces the period of time in which low-income housing tax credits are allowed to a three-year period and limits the total amount of low-income tax credits issued annually to no more than sixteen million dollars. The issuance of four percent low-income housing tax credits will be prohibited after January 1, 2012. The act also prohibits stacking low-income housing tax credits with historic preservation tax credits.

Historic Preservation Tax Credits
Under current law, the Department of Economic Development is prohibited from issuing more than one hundred forty million dollars in historic preservation tax credits in any fiscal year for projects which will receive more than two hundred and seventy-five thousand dollars in tax credits. Beginning fiscal year 2013, and each fiscal year thereafter, this act would prohibit the Department of Economic Development from issuing more than seventy-five million dollars in historic preservation tax credits increased by the amount of any recisions of approved applications for tax such credits. Projects which would receive less than two hundred seventy-five thousand dollars in tax credits will be subject to the seventy-five million dollar cap.

The act prohibits the department from issuing more than fifty thousand dollars in historic preservation tax credits per project for non-income producing residential rehabilitation projects. Non-income producing residential rehabilitation projects involving a subject property with a purchase price in excess of one hundred fifty thousand dollars will be ineligible for tax credits. Applicants for projects that, as of June 30, 2012, have: received approval from the Department of Economic Development; incurred certain levels of expenses; or received certification from the state historical preservation officer will not be subject to the new limitations on tax credit issuance, but will be subject to the current law limitations on tax credit issuance. The act also prohibits the stacking of historic preservation tax credits with neighborhood preservation tax credits or low-income housing tax credits.

Reduction of Tax Credit Awards for Certain Contribution Credits
For all taxable years beginning on or after January 1, 2012, the act decreases the Missouri

FISCAL DESCRIPTION (continued)

Development Finance Board Infrastructure Contribution credit from a fifty percent credit for contributions received to a credit equal to thirty-five percent of the amount contributed. The Affordable Housing Assistance Program tax credit is also reduced from fifty-five percent of the eligible donation to forty percent of such donation. The Disabled Access Tax Credit is reduced from fifty percent to thirty-five percent of eligible access expenditures. Beginning January 1, 2012, the following Social and Contribution tax credits will be reduced from fifty percent of the eligible contribution or donation to thirty-five percent of such contribution or donation:

1) Domestic Violence Shelter Tax Credits;
2) Family Development Account Tax Credits;
3) Health Care Access Fund Tax Credits;
4) Maternity Homes Tax Credits;
5) Neighborhood Assistance Program Tax Credits;
6) Pregnancy Resource Center Tax Credits;
7) Residential Dwelling Access Tax Credits;
8) Residential Treatment Agency Tax Credits; and
9) Children in Crisis Tax Credits;

Sunset Provisions for Certain Tax Credit Programs
Due to the commission's recommendation that reforms to programs be made on a prospective basis, rather than utilizing traditional sunset provisions, this act prohibits the authorization of tax credits provided under the following programs after August 28, 2013:
1) The Bank Franchise Tax Credit;
2) The Bank Tax Credit for S-Corporations;
3) The Examination Fee Tax Credit;
4) The Missouri Health Insurance Pool Tax Credit;
5) The Missouri Life and Health Insurance Guaranty Tax Credit; and
6) The Property and Casualty Insurance Guaranty Tax Credit.

The authorization of tax credits under the following programs will be prohibited after August 28, 2015:
1) The Brownfield Remediation Tax Credit;
2) The Neighborhood Preservation Tax Credit;
3) The BUILD Tax Credit;
4) The Business Facility Tax Credit;
5) The Development Tax Credit;
6) The Enhanced Enterprise Zone Tax Credit;
7) The MDFB Bond Guarantee Tax Credit;

FISCAL DESCRIPTION (continued)

8) The MDFB Infrastructure Development Contribution Tax Credit;
9) The Missouri Quality Jobs Act;
10) The Family Farm Breeding Livestock Tax Credit;
11) The Agricultural Product Utilization Tax Credit;
12) The New Generation Cooperative Tax Credit; and
13) The Neighborhood Assistance Tax Credit.

The authorization of tax credits under the following programs will be prohibited after August 28, 2017:
1) The Historic Preservation Tax Credit;
2) The Low-Income Housing Tax Credit;
3) The Domestic Violence Shelter Tax Credit;
4) The Maternity Home Tax Credit;
5) The Pregnancy Resource Center Tax Credit;
6) The Shared Care Tax Credit;
7) The Youth Opportunities Tax Credit;
8) The Disabled Access Tax Credit; and
9) The Family Development Account Tax Credit;

The limitations on tax credit authorizations provided in the act will not impair an administering agencies ability to issue tax credits that were authorized prior to the date on which authorizations are prohibited, nor will they affect a taxpayer's ability to redeem such tax credits.

The act prohibits the approval of any new application for certificates under the Distressed Areas Land Assemblage Tax Credit program after August 28, 2011.

Repeal of Certain Tax Credit Programs
This act repeals the following tax credit programs:
1) The Wine and Grape Production Tax Credit;
2) The Charcoal Producers Tax Credit;
3) The Wood Energy Tax Credit;
4) The Self-Employed Health Insurance Tax Credit;
5) The Rebuilding Communities Tax Credit;
6) The Film Production Tax Credit;
7) The Small Business Incubator Tax Credit; and
8) The Railroad Rolling Stock Tax Credit.

The act also repeals provisions of the Missouri property tax credit, commonly referred to as the

FISCAL DESCRIPTION (continued)

circuit breaker tax credit, which allow renters to receive the property tax credit for rent constituting taxes paid.

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

Budget and Planning
Department of Agriculture
Department of Economic Development
Department of Health and Senior Services
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Department of Revenue
Department of Social Services
Office of the Secretary of State
University of Missouri

Mickey Wilson

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Director
March 2, 2011

JH:LR:OD