COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1186-01
Bill No.: HB 429
Subject: Economic Development; Tax Credits; Taxation and Revenue
Type: Original
Date: February 23, 2009

Bill Summary: This proposal establishes the Regional Economic Development Initiative which allows tax credits for donations to regional economic development organizations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	($98,361) to ($12,098,361)	($106,184) to ($12,106,184)	($109,372) to ($12,109,372)
Total Estimated Net Effect on General Revenue Fund*	**($98,361) to ($12,098,361)**	**($106,184) to ($12,106,184)**	**($109,372) to ($12,109,372)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**
Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	**2**	**2**	**2**

☐ 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 2010	FY 2011	FY 2012
Local Government*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal creates the "Regional Economic Development Initiative." For tax years beginning on or after December 31, 2009, the amount of tax credits available for this program is twelve million dollars in any year or thirty-six million dollars cumulatively. Therefore this proposal could reduce general and total state revenues by this amount. This program may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. DED may have such an estimate.

Officials from the **Department of Economic Development (DED)** state the proposed legislation creates a new tax credit program called the "Regional Economic Development Initiative". A regional Economic Development organization is formed and any contribution they take in to develop and promote economic development growth as outlined in the legislation would receive a 50% tax credit. The Economic Development organization must submit an application to DED, who is required to approve and accept the application.

DED's Business and Community Services (BCS) division would require 2 FTE as a result of the proposed legislation. One FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program. The second FTE would be an Account Clerk II and would be responsible for providing support to the Economic Development Incentive Specialist III, reviewing invoices, processing payments and tracking and monitoring the expenditures of the program. The related costs for these FTE include one-time expenditures for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, computer, professional development and travel. The cap for this new tax credit is $12 million a year ($36 million cumulative) so there would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

DED estimates the cost of the two FTE to total roughly $115,000 per year.

Oversight assumes DED could administer the program with one additional FTE (Economic Development Incentive Specialist III).

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state the Personal Tax section would require:

- One (1) Revenue Processing Tech I (Range 10, Step L) per 6,000 credits claimed;

Also, DOR assumes their Corporate Tax section would require:

- One (1) Revenue Processing Technician I (Range 10, Step L) needed for every 5,200 additional returns to be verified; and
- One (1) Revenue Processing Technician I (Range 10, Step L) needed for every 2,080 pieces of additional correspondence

Note: FN 3799-01 (2008) indicated that Personal Tax would require 1 Tax Processing Technician for every 6,000 credits claimed. Upon further review, it has been determined that Corporate Tax will also be impacted by this legislation.

DOR also states that due to the Statewide Information Technology Consolidation, their response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed to and Finally Passed the OA-IT costs shown will be requested through appropriations by OA-IT.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. The Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 2 existing CIT III for 2 months for system modifications to MINITS and 3 existing CIT III for 1 month for COINS, CAFÉ and E-file. The estimated cost is $31,087.

Oversight will assume the number of tax credit issuances under this program will not warrant the need for three additional FTE for the Department of Revenue. Oversight will assume one additional FTE will be able to handle the additional workload resulting from this bill. If Oversight is incorrect in this assumption and one FTE is not sufficient, Oversight assumes the Department of Revenue could request additional FTE at a later time through the appropriation process. Oversight has, for fiscal note purposes only, changed the starting salary for DOR's Revenue Processing Tech I to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Floor space expense has been taken out of DOR's estimate, as Oversight assumes additional floor space will not be required for one additional FTE.

ASSUMPTION (continued)

Officials from the **Office of 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.

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 estimates that from $0 - $12 million per year could be lost 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 each of these funds may be impacted 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 has ranged the fiscal impact of the regional economic development initiative from $0 (no additional tax credits will be redeemed) to a $12 million loss to the general revenue fund. The credits are for taxable years beginning on or after January 1, 2009, therefore, Oversight assumes the tax credits could be utilized with the returns filed for calendar year 2009, which would be in FY 2010. Since the credits could be utilized in FY 2010, Oversight will assume the Department of Revenue would need the additional FTE in FY 2010.

Oversight compared the total tax credit issuances for all programs relative to the total tax credit redemptions for the previous four years in order to determine a relationship between the two.

Oversight discovered that the annual redemptions ranged from 81 percent to 86 percent of the

annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, under this proposal, if $12,000,000 of additional credits are issued, Oversight would assume $9,960,000 (83%) of credits to be redeemed, reducing Total State Revenues.

Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal; however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE			
Costs - DED			
Personal Service (1 FTE)	($35,803)	($44,252)	($45,580)
Fringe Benefits	($17,411)	($21,520)	($22,166)
Expense and Equipment	($10,421)	($4,132)	($4,257)
Total Costs - DED	($63,635)	($69,904)	($72,003)
FTE Change - DED	1 FTE	1 FTE	1 FTE
Costs - DOR			
Personal Service	($19,467)	($24,061)	($24,783)
Fringe Benefits	($9,467)	($11,701)	($12,052)
Expense and Equipment	($5,792)	($518)	($534)
Total Costs - DOR	($34,726)	($36,280)	($37,369)
FTE Change DOR	1 FTE	1 FTE	1 FTE
Loss - DED			
Tax credit of 50% of contribution to a regional economic development organization	$0 to ($12,000,000)	$0 to ($12,000,000)	$0 to ($12,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($98,361) to ($12,098,361)**	**($106,184) to ($12,106,184)**	**($109,372) to ($12,109,372)**
Estimated Net FTE Change for General Revenue Fund	2 FTE	2 FTE	2 FTE

Note: This 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 2010 (10 Mo.)	FY 2011	FY 2012
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This bill establishes a regional economic development initiative to promote individual and business investments in economic development within a region through contributions to regional economic development organizations. A "regional economic development organization" is defined as any legally formed and locally recognized nonprofit organization representing multiple cities or counties with the goal of promoting economic growth for its respective area.

Beginning January 1, 2009, taxpayers will be eligible to receive a tax credit equal to 50% of any amount contributed to a regional economic development organization if the organization's plan has been approved by the Department of Economic Development. In order to receive the tax credit, contributions must be made during the department-approved fundraising time period.

No more than $12 million of tax credits can be authorized annually and no more than $36 million for the life of the program. The tax credit can be used to offset a taxpayer's income tax; corporate franchise tax; financial institutions tax; or bridge, express, and public utilities tax. The tax can be carried forward for up to five years or transferred.

A regional economic development organization may submit an application to the department for tax credit authorization. The requirements of the application, eligible activities, and considerations the department must take into account when reviewing applications are specified. The organization must submit quarterly reports detailing its expenditures and the progress of its project. Within six months of the end of the project, the organization must report its results and submit an audit to the department. If the funds have not been expended in accordance with the approved application or if the project has not been completed, the organization must repay the department an amount equal to the tax credits issued. No application will be authorized to receive more than $2 million in tax credits. Of this amount, no more than $50,000 per year can be used to support the operation of the organization, including salaries, marketing, operating expenses, and equipment.

The provisions of the bill will expire three years from the effective date.

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 Revenue
Department of Insurance, Financial Institutions and Professional Registration
Office of Administration - Budget and Planning
Office of the Secretary of State

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