

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4418H.011
 Bill No.: HB 1919
 Subject: Taxation and Revenue - General; Tax Credits; Department of Revenue; Tax Incentives; Food; Agriculture; Urban Redevelopment; Department of Agriculture; Minorities
 Type: Original
 Date: March 7, 2022

Bill Summary: This proposal authorizes a tax credit for urban farms located in a food desert as well as establishes an agricultural socially disadvantaged community’s outreach program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund*	(\$211,440)	Up to (\$304,869)	Up to (\$308,375)
Total Estimated Net Effect on General Revenue	(\$211,440)	Up to (\$304,869)	Up to (\$308,375)

*Oversight notes the MDA requires 2 FTE in order to comply with both provisions of this bill. Additionally, the tax credit provision has a \$100,000 annual cap.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 FTE

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 135.1610 - Tax Credit for Urban Farms located in food desert

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation, for all tax years beginning on or after January 1, 2023, creates a tax credit for taxpayers who establish an urban farm within a classified food desert within the state. If an urban farm is established within a qualifying area, the qualifying taxpayer would be able to claim a tax credit against their state tax liability up to 50% of the eligible expenses for establishing the urban farm. No urban farm can claim a tax credit in excess of \$5,000. The tax credits may be carried forward to the next three (3) succeeding tax years. There is a \$100,000 cap placed on the tax credit.

This proposed legislation could reduce General Revenue (GR) and Total State Revenue (TSR) up to (\$100,000) annually and could impact the calculation under Article X, Section 18(e).

Officials from the **Missouri Department of Revenue (DOR)** state this proposal would allow a tax credit against a taxpayer's state tax liability equal to fifty percent (50%) of the eligible expenses for establishing an urban farm starting on January 1, 2023. The tax credit cannot be transferred, sold or assigned. The credit is not refundable but can be carried forward the next three years (3). The total amount of credits that can be authorized annually is \$100,000. No taxpayer may receive more than \$1,000 in credits per each urban farm. DOR assumes the impact to General Revenue would be a loss of Up to the \$100,000 that can be authorized annually. The first tax returns claiming the credit will start being filed in January 2024 (FY 2024).

Fiscal Year	Loss to GR
2023	\$0
2024	(Up to \$100,000)
2025	(Up to \$100,000)

DOR assumes this would be a new income tax credit and it would be added to the MO-TC and information about the credit would be added to DOR's website and changes would be needed in the individual income tax system. DOR notes the costs to update these items is \$3,596.50. DOR will need the following FTE should the number of credits redeemed justify the FTE.

- 1 FTE Revenue Processing Technician for every 6,000 credits redeemed
- 1 FTE Revenue Processing Technician for every 7,600 errors/correspondence generated

Oversight notes this proposed legislation states that no taxpayer shall claim a tax credit in excess of five thousand dollars (\$5,000). The cumulative amount of tax credits that may be authorized in any calendar year shall not exceed one hundred thousand dollars (\$100,000). Oversight

assumes the minimum number of taxpayers that claim the tax credit created could be as low as 20 each year. In addition, the tax credits created shall not be transferred, sold, or assigned. Therefore, **Oversight** assumes DOR can absorb the responsibilities associated with the tax credit created with existing resources. Should the number of redemptions or the number of errors generated prove to be significant, DOR may seek additional FTE through the appropriation process.

Officials from the **Missouri Department of Agriculture – Missouri Agricultural & Small Business Development Authority (MASBDA)** state MASBDA does not currently receive funds from General Revenue or Federal sources to administer any programs. All revenues are fee based and used to pay for administrative costs.

Section 135.1610 - Tax Credit for Urban Farms located in food desert

MASBDA assumes that a non-refundable application fee of \$100 will be charged to each applicant. MASBDA states Section 348.080 gives MASBDA the authority to collect fees and charges, as the authority determines to be reasonable, in connection with its loans, advances, insurance, commitments, and servicing.

MASBDA assume this is the same application fee for four (4) other MASBDA tax credit programs (New Generation Processing Entity initial application, New Generation Producer/Investor Tax Credit application, Agricultural Product Utilization Contributor contribution application, Qualified Beef Tax Credit application).

MASBDA notes the only program that does not charge the \$100 fee is the Family Farm Breeding Livestock Tax Credit program. The program has a review fee of 1% of the family farm loan amount and that fee is set under Section 348.500.

The current 5 employees of MASBDA will be sufficient enough to run this program and no additional equipment will need to be purchased. MASBDA cost allocation is based on percentage of time spent on each program per fiscal year by employee. Our assumption is that the Urban Farms Tax Credit program will add approximately 8% more program activity for Fiscal Year 2022. Fiscal Year 2023 estimated salary total is \$16,466 per Fiscal Note worksheet. Other administrative costs such as office supplies, postage, printing, etc.... are estimated approximately at \$1,500 for this new program.

Oversight assumes, then, the \$100 would not impact state revenue(s). Therefore, **Oversight** will not report a fiscal impact for the \$100 fee that may be charged on each applicant of the tax credit program created. However, **Oversight** estimates the total amount that may be collected totals \$10,000 (\$100 * 100 applicants).

Oversight notes this proposed legislation would grant a tax credit to taxpayers who establish an urban farm in a food desert equal to fifty percent (50%) of the eligible expenses incurred in establishing such urban farm. This proposed legislation defines a “Food Desert” as “a census

tract that has a poverty rate of at least twenty percent (20%) or a median family income of less than eighty percent (80%) of the statewide average and where at least five hundred (500) people or thirty-three percent (33%) of the population is located at least a quarter mile way from a full-service grocery store in an urban area”.

Per data published (2019) by the [United States Department Of Agriculture](#) , there are approximately 454 census tracts in Missouri that are low-access and low-income that are approximately one-half (0.5) miles away from a full-service grocery store in an urban area or ten (10) miles away from a full-service grocery store in a rural area.

Oversight is unable to determine, of the 454 low-access and low-income census tracts in Missouri that are approximately one-half (0.5) miles away from a full-service grocery store in an urban area or ten (10) miles away from a full-service grocery store in a rural area, how many would remain when reduced to a quarter mile (.25) away from a full-service grocery store.

Additionally, per publication from United States Census Bureau - Missouri GEO, there are approximately 119 urban areas observed in Missouri during the 2010 census of which 11 are urbanized areas and 108 are urban clusters.

Oversight notes “Eligible Expenses” are defined as “expenses incurred in the construction or development of establishing an urban farm in a food desert”.

The fifty percent (50%) tax credit shall not exceed a taxpayer’s state tax liability. Any amount of tax credit that exceeds the taxpayer’s state tax liability may be carried forward to the next three (3) succeeding tax years.

No taxpayer may claim a tax credit in excess of five thousand dollars (\$5,000) for each urban farm established in a food desert. The aggregate amount of tax credits authorized under this proposed legislation shall not exceed \$100,000 during any calendar year. Therefore, Oversight assumes the minimum number of tax credits that may be issued could be as low as 20 each year (\$100,000 / \$5,000).

Oversight notes the tax credit program created would begin January 1, 2023. Oversight notes taxpayers would not file their Tax Year 2023 claiming the tax credit created until after January 1, 2024 (Fiscal Year 2024).

Therefore, **Oversight** will report a revenue reduction to GR by an amount “Up to” \$100,000 beginning in Fiscal Year 2024. Oversight notes the tax credit program created would sunset December 31st six (6) years after the effective date of this section.

Lastly, **Oversight** notes this provision will add approximately 8% more program activity to the Department. The MDA will may require additional .4 FTE to assure a proper implementation and compliance. **Oversight** assumes MDA is provided with core funding to handle a certain amount of activity each year. If multiple bills pass which require additional staffing and duties at

substantial costs, MDA could request funding through the appropriation process. Therefore, for purpose of this fiscal note, **Oversight** will report zero impact in regards to the FTE.

Section 261.021 - the "Socially Disadvantaged Communities Outreach Program

MDA assume this legislation creates the "Socially Disadvantaged Communities Outreach Program," to be implemented by the Missouri Department of Agriculture. The legislation outlines specific objectives the program is established to achieve.

They include:

- Provide financial assistance for people growing food in socially disadvantaged communities;
- Encourage activities that support and promote urban agriculture in socially disadvantaged communities;
- Provide educational and skills training related to food production in socially disadvantaged communities.

For the department to fulfill the responsibilities associated with a new program and to achieve the stated objectives in the legislation, it will be necessary to employ an individual in a leadership or managerial position to administer the program to fulfill the mission of the program.

The legislation directs the department to designate an employee to administer and monitor the socially disadvantaged communities outreach program and serve as a liaison to affected communities. The individual will be responsible for providing leadership at the state level to encourage participation in programs to meet the goals stated above. The level of responsibility will require this position to be a managerial position.

For the program manager of the "Socially Disadvantaged Communities Outreach Program" to succeed in achieving the goals, it will be necessary for the program to have an employee, marketing specialist, to carry out the day-to-day tasks.

The program manager will be responsible for oversight of the program while the marketing specialist will be responsible for completing the necessary duties specified in the legislation including but not limited to:

Conducting workshops and other sessions that provide educational and skills training related to food production to residents in socially disadvantaged communities; and

Seeking grants, private donations, or other funding sources to support the socially disadvantaged communities outreach program; and

Assisting with an annual report required to be submitted to the general assembly.

The creation of a new program with specific stated purpose and objectives will require no less than 2.00 FTE to sufficiently and successfully implement the program as outlined in detail in the legislation.

Normal E&E costs are also necessary to support the operation of the program.

Oversight notes MDA is assuming that this Section will require 2 FTEs to perform the required tasks. The FTE will be responsible for coordinating efforts related to the outreach program. Activities will involve establishing definitions, program policy and guidelines, and determining resources for the program. Implementation efforts will involve coordinating financial and educational resources in accordance with the program guidelines. Lastly, the MDA will be required to conclude its findings and provide a complete report to the General Assembly annually. Oversight does not have any information to the contrary. Therefore, **Oversight** will reflect MDA's requested 2 FTEs in the fiscal note.

Officials from the **Attorney General's Office**, **Department of Economic Development**, and the **Department of Health and Senior Services** each assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note 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 \$5,000. 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 its 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 SOS is provided with core funding to handle a certain amount of activity each year. **Oversight** assumes SOS could absorb the costs related to this proposal. Therefore, Oversight will reflect zero fiscal impact on the fiscal note for above agency.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE FUND			
Revenue Reduction Section 135.1610 – Tax Credit For Establishing Urban Farm’s In Food Deserts (p.3 & 6)	<u>\$0</u>	<u>Up to</u> (\$100,000)	<u>Up to</u> (\$100,000)
GENERAL REVENUE			
<u>Cost – MDA - Section 261.021</u>			
Personal Services	(\$84,655)	(\$103,618)	(\$105,691)
Fringe Benefits	(\$53,038)	(\$64,327)	(\$65,022)
Equipment and Expense	(\$73,747)	(\$36,924)	(\$37,662)
<u>Total Cost – MDA</u>	<u>(\$211,440)</u>	<u>(\$204,869)</u>	<u>(\$208,375)</u>
FTE Change – MDA (p.5 & 7)	2 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$211,440)</u>	<u>Up to</u> <u>(\$304,869)</u>	<u>Up to</u> <u>(\$308,375)</u>
Estimated Net FTE Change on General Revenue		2 FTE	2 FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that establishes an urban farm within a food desert, as defined, as such small business could qualify for a tax credit that would reduce or eliminate such small business’s tax liability (Section 135.1610).

FISCAL DESCRIPTION

This bill allows a taxpayer to claim a tax credit against the taxpayer's state tax liability in an amount equal to 50% of the taxpayer’s eligible expenses for establishing an urban farm in a food desert, as defined by the bill.


The amount of the tax credit claimed shall not exceed the amount of the taxpayer's state tax liability in the tax year for which the credit is claimed, the taxpayer shall not be allowed to claim a tax credit under this section in excess of \$5,000 for each urban farm. However, any tax credit that cannot be claimed in the tax year the contribution was made may be carried over to the next three succeeding tax years until the full credit is claimed. The total amount of tax credits authorized shall not exceed \$100,000. These tax credits cannot be transferred, sold, or assigned. The program will sunset December 31, six years after the effective date.

The bill also requires the Department of Agriculture to establish the "Socially Disadvantaged Communities Outreach Program", an outreach program for historically unserved, underserved, or inappropriately served communities. The Program must provide financial assistance, encourage activities to support and promote urban agriculture, provided educational and skills training related to food production, address food deserts, recommend improvements and services to address concerns in these communities.

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

Office of Administration – Budget & Planning Division
Missouri Department of Revenue
Missouri Department of Agriculture
Attorney General's Office
Department of Economic Development
Department of Health and Senior Services
Missouri Secretary of State
Joint Committee on Administrative Rules



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