Claire McCaskill
Missouri State Auditor

August 2005

TAX CREDIT

Community Development Corporation Tax Credit Program

Report no. 2005-55

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YELLOW SHEET

State estimated to lose $6 million on Community Development Tax Credit program; auditors recommend state let credit expire

This audit reviewed the cost-benefit to the state of the Community Development Corporation (CDC) tax credit program and found the credit would not create enough economic activity to offset the tax credits used. Legislators meant for the credit, started in 1994, to create community development centers, which would invest in small businesses, housing and redevelopment projects. As of December 2004, state officials had issued $4.6 million in tax credits for this program, and $4.4 million had been redeemed. State law requires state auditors to perform a cost-benefit analysis of all state tax credit programs, and this report is a part of such ongoing work.

CDC will not increase jobs or state revenue to offset credits

Auditors found the state will lose an estimated $6 million after its $9.5 million investment into CDC projects. The state's revenue will only be positively effected for 2 of the 15 years of the program. (See page 10)

Tax credit will only create an average of 9 jobs over 15 years

Auditors used economic software to analyze total economic impact of this tax credit program. The software found the program created a projected total average of 9 jobs for the 15-year program. (See page 10)

Audit recommends no new funds for the tax credit program

The CDC tax credit program has about $1.3 million in tax credits left to be issued as of December 2004. Due to the $6 million revenue loss, auditors recommended the General Assembly allow the tax credit to expire without authorizing additional tax credits. (See page 12)

State not holding CDC participants to requirements

Program guidelines required CDCs to submit annual reports, job creation reports and a listing of all investors in the CDC, as well as the state to perform random audits of the job creation reports. But state officials have not enforced reporting requirements and random audits have not occurred. (See page 14)

State officials say tight state budgets kept oversight minimal

State officials overseeing the CDC tax credit program said they have known since 1998 about the need for greater oversight of the program, but needed more staff to accomplish this task. They have tried since 2001 to find funding to staff program oversight, but have been unsuccessful due to tight state budgets. (See page 15)

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Honorable Matt Blunt, Governor
and
Joint Committee on Tax Policy
and
Gregory A. Steinhoff, Director
Department of Economic Development
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State law mandates the State Auditor's Office perform cost-benefit analyses on the tax credit programs administered by the Department of Economic Development (DED). This report includes a detailed study estimating the economic impact of the Community Development Corporation (CDC) tax credit program on state revenue. We also reviewed the adequacy of management controls in place to ensure compliance with statutory requirements for the CDC tax credit program.

We concluded the CDC tax credit program had not generated sufficient economic activity to offset the state tax credits used because the program is estimated to result in a net loss of approximately $6 million in state revenues. We also found DED has not ensured the CDC tax credit program had met statutory requirements because it had not enforced program requirements.

We generally conducted our work in accordance with Government Auditing Standards issued by the Comptroller General of the United States with the exception for the external impairment of access to redemption data from income tax returns which limited our ability to conduct our work. This report was prepared under the direction of Kirk Boyer. Key contributors to this report included John Blattel and Tara Shah.

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Contents

Abbreviations

CDC	Community Development Corporation
DED	Department of Economic Development
MDFB	Missouri Development Finance Board
REMI	Regional Economic Models, Inc.
RSMo	Missouri Revised Statutes

Introduction

The Community Development Corporation (CDC) tax credit program started in 1994 and is authorized[1] to issue up to $6 million in tax credits to individuals, partnerships, financial institutions, trusts or corporations making qualified investments to community banks. Tax credits for this program have been issued at 50 percent of the investment amount for investments in community banks or CDCs. The legislature established this program to induce the creation of CDCs, which would then invest in new or growing small businesses, owner occupied housing, certain types of real estate development, or redevelopment projects in a targeted area. No one CDC should receive more than 20 percent of the $6 million in tax credits available for the program which limits each CDC to $1.2 million in tax credits.

The three types of activities a community bank or CDC may be involved in include (1) a micro-loan program which provides funding for a small business, or continues an existing business, (2) housing development or rehabilitation, or (3) land development.

Per state law,[2] investments must remain in the CDC for a minimum of 5 years. Withdrawal prior to the 5-year period should result in revocation of the tax credit.

The credits are transferable or may be sold under the provisions of the statute and the credits can be carried forward for 10 years to offset future tax liability. The tax credits may be redeemed against state income tax, corporate franchise tax, financial institution tax, insurance premium tax, or express company tax.

According to state law,[3] the State Auditor's Office is required to analyze the cost benefit and the effectiveness of all tax credit programs administered by the Department of Economic Development (DED). Effective August 28, 2004, the legislature amended this law to expand the State Auditor's Office's responsibility to include a review of all tax credit programs. This change also requires the State Auditor's Office to review those programs not administered by DED.

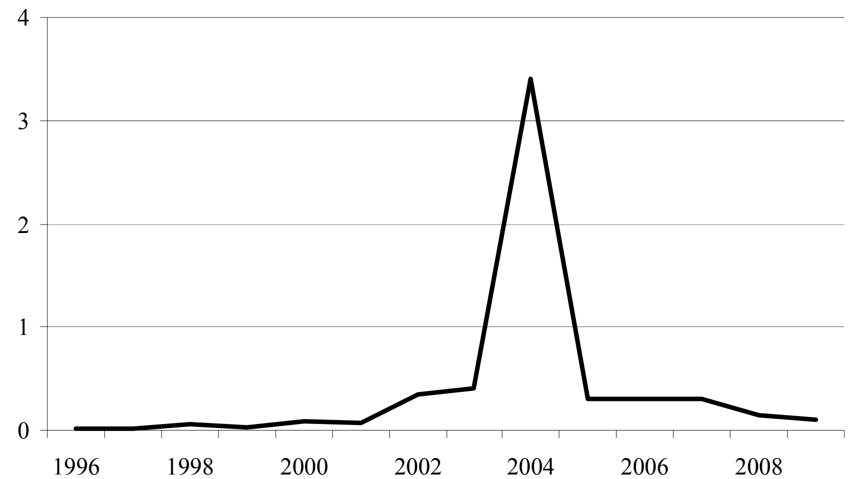
[1] Sections 135.400-430, RSMo 2000 or Cumulative Supp. 2004. A senate bill passed in 2000 removed the $6 million CDC tax credit limit and authorized $500,000 in tax credits would be made available annually; however, in 2002 the Missouri Supreme Court determined this bill was unconstitutional. As a result the $6 million limit still exists.
[2] Section 135.411, RSMo 2000.
[3] Section 620.1300, RSMo, Cumulative Supp. 2004.

DED is currently utilizing an internal system, known as the Customer Management System, to track the issuance and redemption of tax credits. This system began in July 2001; therefore, much of the tax credit activity for this program has been maintained in prior management systems, including a Department of Revenue tracking system. Tax credit activity in prior management systems has been converted to the Customer Management System.

Tax Credits Used

As of December 2004, records showed $4,642,843 in tax credits had been issued and $4,448,404 had been redeemed for the CDC program. An additional $1,357,158 in tax credits has been authorized to CDCs, or community banks, awaiting issuance upon receipt of investments. Due to the nature of this program, we could not project when the remaining tax credits will be issued. Figure 1.1 shows redeemed tax credits by year since the inception of the program, with estimated redemptions through fiscal year 2009.

Figure 1.1: Program Redemptions by Calendar Year (Dollars in Millions)

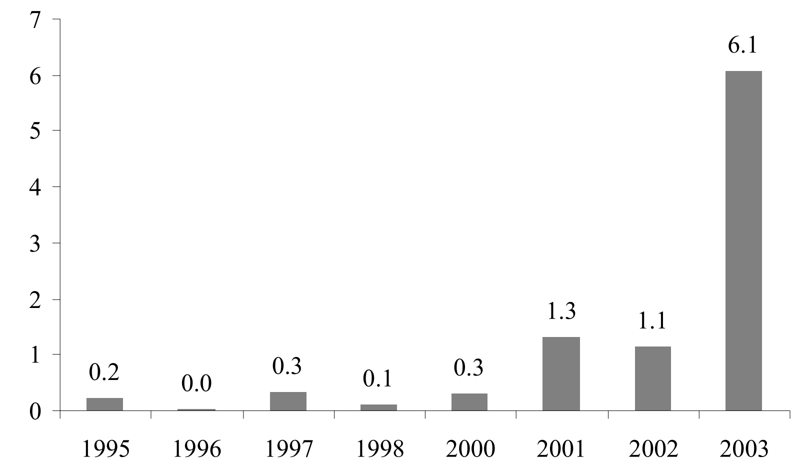


Source: Department of Revenue's tax credit system (1995-2002), Department of Economic Development's Customer Management System (2002-2004), and SAO estimated tax credit redemptions (2005-2009).

Investments Received by CDCs

Twelve CDCs received $9.5 million in investments. (See Appendix I for county locations of participating CDC projects.) The development projects which operated micro-loan programs provided loans for agriculture, amusement, auto services, business services, construction, health services, legal services, personal services, restaurant, retail, and social services businesses. The development projects which operated in housing development invested in residential property and those in land development invested in non-residential property. Due to the nature of this program, projections could not readily be made of the time periods for future investment activity. Figure 1.2 indicates the total investments by calendar year and Figure 1.3 indicates the investments by location in Missouri.

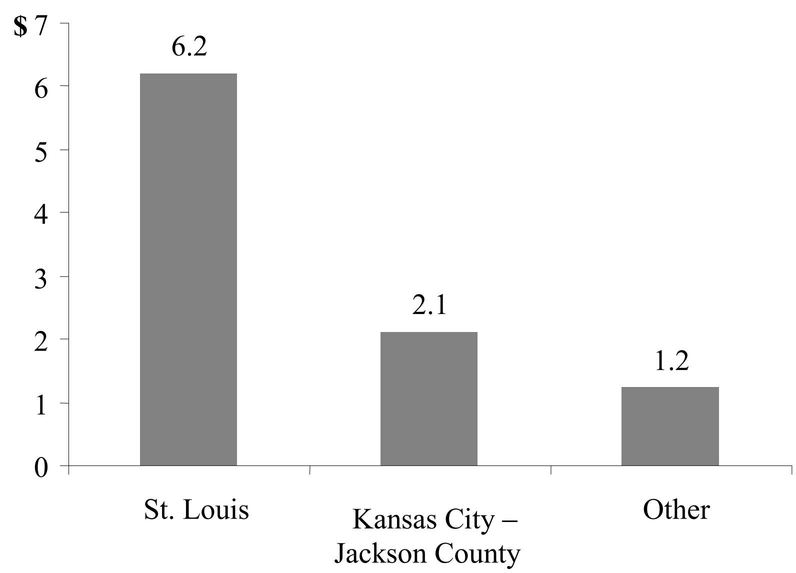
Figure 1.2: Qualified Investments by Calendar Year (Dollars in Millions)[1]



[1] Investment figures total $9.4 million instead of $9.5 million due to rounding.

Source: DED data.

Figure 1.3: Qualified Investments by Location (Dollars in Millions)



Source: DED data.

Scope and Methodology

To evaluate the impact of the CDC tax credit program on the state, we reviewed state statutes and the DED's guidelines and procedures. We discussed the operations of the program and management controls with the program manager and division director to determine if proper controls were in place to ensure compliance with statutory requirements.

We obtained data files from DED's computerized Customer Management System which reports on the investment and tax credit activity. We compared the computerized data against DED manual records and noted no discrepancies. We concluded the system data was complete and could be relied upon for purposes of our analysis.

We obtained aggregate totals of annual redemptions by calendar year from the Department of Revenue and DED. We were not provided detailed redemption information. The Director of Revenue denied us access due to her interpretation of the Missouri Supreme Court decision in the case of Director of Revenue v. State Auditor 511 S.W.2d 779 (Mo. 1974). This external impairment limited our ability to conduct work and therefore, we could not verify the completeness and accuracy of annual redemption totals.

We used economic software produced by Regional Economic Models, Inc. (REMI)[4] to analyze the total economic impact of the tax credit programs on the state's economy. This version includes 53 industry sectors and divides the state into 15 regions. The model compares the baseline forecast of the state economy with an alternative forecast that takes into account the effect of the tax credit program. The key outputs from the model are (1) growth in total employment, (2) growth in gross state product, and (3) fiscal impact on state revenues. REMI is used by DED to analyze its tax credit programs.

Modeling assumptions

We changed four variables in the model to create the alternative forecast (1) capital costs of the industries receiving benefits of the CDC tax credit program, (2) investment spending on residential or non-residential areas, (3) personal income tax, and (4) government spending.

First, we reduced the capital costs of various industries in which the CDCs operating as micro-loan programs received investments to reflect the lower cost of debt and equity financing. We assumed 5-year loan periods and allocated the reduction to capital costs over the 5-year period. We limited our adjustment to the total investments the CDC had received. Four CDCs loaned $6 million for development of two industrial areas in St. Louis and another CDC in Cabool purchased an old building for $239,500 to refurbish for a manufacturing plant. We reflected this activity as an investment in non-residential areas in the year the purchase had been made. For the projects which developed or rehabilitated housing, we increased investment spending in residential areas. We initially used estimates to project future activity for periods of investments and redemptions; however, these

[4] REMI was founded in 1980 and constructs economic software that forecasts how isolated changes in the state's economy will effect the state's overall economy on a year-by-year basis.

estimates took the program to 2016 and made the economic analysis results unrealistic. Therefore, we compressed future activity (investments, redemptions, and loans) to one year and posted it as 2005 activity.[5] Overall, for the loan programs, we reduced the cost of capital for the various industries by approximately $3 million and increased non-residential investment spending by approximately $6.2 million. For the housing development projects, we increased residential investment spending by a total of approximately $2.9 million.

Next, we made adjustments to reduce the cost of capital for the industries in which business investors in the CDC projects sold tax credits. The majority of investors for the CDC program represented banks, private industries, and non-profit organizations. However, investors could also sell tax credits to individual taxpayers. We reduced the cost of capital for investor industries that sold tax credits by an average of 85 percent[6] of the face value of the tax credit. We also decreased personal income tax for the portion of the tax credit benefiting the individual (assumed to be 15 percent of the tax credit value) to reflect tax credit redemptions.

For tax credits issued directly to individual taxpayers for investment, we decreased personal income tax for the full tax credit amount to reflect tax credit redemptions. We allocated the personal income tax adjustment in the year the investment was made to regions where the CDC receiving taxpayers' investments had been located.

We also reduced state government spending by tax credit amounts redeemed each year from 1996 to 2004. Then, we posted future estimated redemptions as a reduction in government spending in 2005. We assumed $67,500 in tax credits went unissued.[7] These adjustments resulted in a $5,932,500 ($6,000,000 less $67,500) reduction in state spending which we allocated to all regions.

Investments may be withdrawn by the investor after the 5-year investment period has been fulfilled. It would be proper to reflect repayment of the investment in our simulation; however, we did not have enough information to develop a well-supported assumption on the amount of repayments to

[5] The program still went out until 2009 because loans assumed to be made in 2005 had a 5-year period.

[6] The 85 percent assumed sale value is based on the average sale price of tax credits.

[7] Projects in two counties, Linn and Buchanan, have been inactive since March 1998 and February 1996, respectively; therefore, we assumed $67,500 in tax credits would not be issued.

allocate to the various industries and regions. Without this information, we did not model repayment of investments in our economic analysis.

We submitted our modeling assumptions and the REMI model results to an economist at REMI. He stated he found no problems with the assumptions and results.

In addition to the various factors discussed above which are measurable through the use of REMI, there are other factors which may have an economic impact which are not measurable. Since this program can be used to encourage investment in distressed communities, it can have social impacts, as well as, economic impacts. For example, it may increase the quality of life by encouraging rehabilitation of housing in distressed areas which would not occur without the tax credit. This can be a positive benefit of the credit which we were not able to include in our analysis of the tax credit.

We requested comments on a draft of our report from the Director of DED and those comments are reprinted in Appendix V. We performed our work between November 2004 and March 2005.

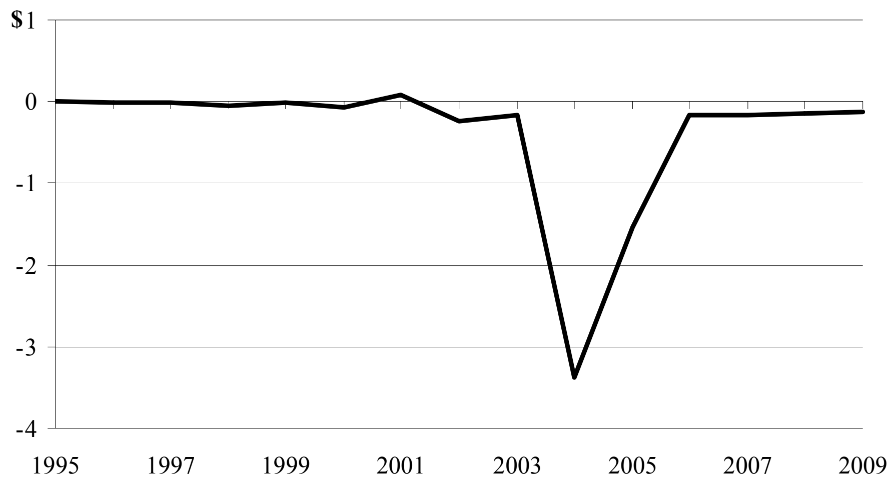
The CDC Program Has Not Created Sufficient Economic Activity

The CDC tax credit program will not generate sufficient economic activity to offset the state tax credits used. This situation has occurred because the program is not estimated to create the number of jobs and increase gross state product enough to offset the tax credits provided. As a result, the state is estimated to lose revenue of $6 million.

Loss of $6 Million From the CDC Program

The REMI model predicts the CDC tax credit program will generate a $6 million loss. The model estimates the investment of $9.5 million provided to CDC projects will result in about a $94,000[8] net revenue loss. Then, when total projected tax credit redemptions of $5,932,500 are considered, the total loss to the state is projected to be $6 million.[9] The CDC program is projected to have a positive effect on state revenues in only 2 of 15 years. Figure 2.1 shows the impact on state revenues factoring in the investments and tax credit redemptions.

Figure 2.1: Predicted Change in State Revenue (Dollars in Millions)



Source: REMI economic model.

Impact on jobs and gross state product not enough to offset tax credits

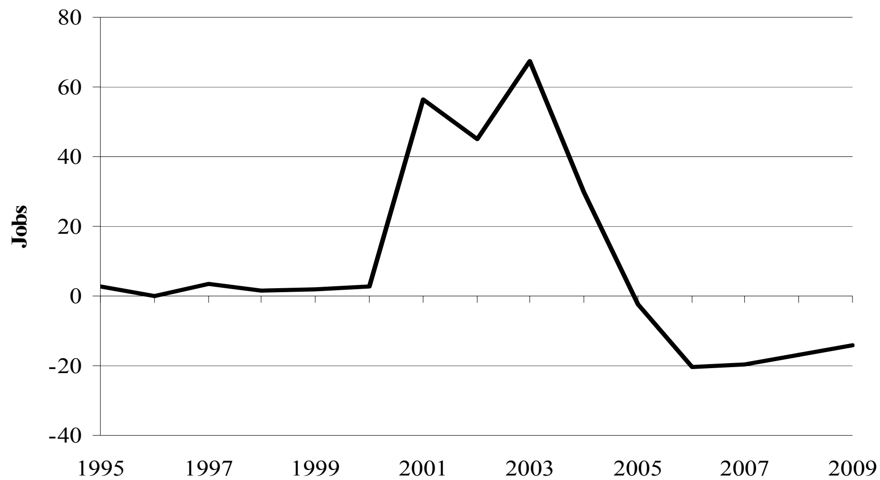
The CDC tax credit program's predicted impact on jobs and the gross state product has not been enough to offset the $6 million in lost revenue. For example, the program created a projected total average of 9 jobs for the 15-year program period. However, each job is projected to cost the state

[8] This net loss is calculated by taking the projected $1,450,780 revenues generated from the program less the projected $1,544,593 in state expenditures.

[9] This loss calculation does not include the positive social effects of any developments which occurred in the distressed communities that would not have occurred without the tax credit. For example, it was not possible to measure the economic benefits of the increased quality of life this tax credit may have provided to these areas.

$43,532 per year.[10] Job growth was projected to have peaked in 2003 at 68 jobs. The model predicted by 2005, jobs resulting from the program will turn negative as the effects of the program dissipate. The model predicted $38,588 as the average annual salary of created jobs. Most of the predicted new jobs were located in the Kansas City-Jackson County and St. Louis areas. Some regions were predicted to lose jobs due to economic migration. Figure 2.2 shows the predicted change in employment.

Figure 2.2: Predicted Change in Employment



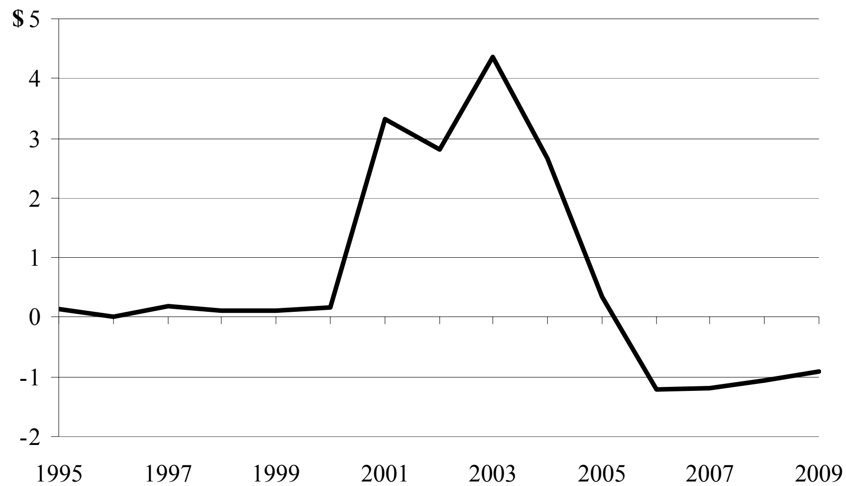
Source: REMI economic model.

Gross state product not enough

The REMI model predicted gross state product increased and peaked at an increase of $4.4 million in 2003, and declines steadily to $351,000 in 2005 as effects of the program dissipate. The projected increase in gross state product totals $9.8 million through 2009. Figure 2.3 shows the predicted change in gross state product.

[10] Job cost per year calculated by using REMI's total projected loss to the state of $6 million by 9 jobs, then by the 15-year period.

Figure 2.3: Predicted Change in Gross State Product (Dollars in Millions)



Source: REMI economic model.

Although the tax credit program is predicted to create jobs and increase the state's gross product, the REMI model predicts the changes will not produce enough economic activity in affected regions and industries to offset estimated increases in state expenditures associated with the investments, according to an economist at REMI.

Conclusions

Although the CDC tax credit program is estimated to create jobs and increase gross state product, the REMI model estimates it will not generate sufficient economic activity to offset the tax credits used. Based on the assumptions used when entering the CDC program data into the model, the results show the CDC program will cost the state $6 million in lost revenue and create only an average of 9 jobs over the 15-year life of the program. The investment activity and job creation through 2004 occurred primarily in Kansas City-Jackson County and St. Louis.

The CDC program is in the late phase of its life cycle with $1,357,158 tax credits left to be issued as of December 2004, 22 percent of the allowable tax credits. Because of the estimated $6 million state revenue loss, we believe the General Assembly should not provide additional funding for the program.

Recommendation

We recommend the General Assembly allow the CDC program to expire without authorizing additional tax credits.

Agency Comments

See Appendix V for agency comments.

Enforcement of Procedures Needed to Ensure CDC Program Meets Statutory and Program Requirements

DED has not ensured the CDC tax credit program has met statutory and DED require ments. This situation has occurred because program officials have not required CDCs to submit adequate reports on investors and job creation reports, or reviewed CDC annual reports for accuracy. In addition, DED has not required adequate proof of investments.

Program Guidelines Have Not Been Enforced

Program guidelines require CDCs to report on investors annually and submit job creation reports. In addition, DED guidelines require it to randomly audit the job creation reports and reserves the right to audit the documents and records of the CDC to ensure compliance with legal and program requirements. However, the program administrator has not required CDCs to submit required information in annual reports and random audits have not been done.

Program guidelines required CDCs to submit annual reports and a listing of all investors in the CDC. In addition, the CDCs are required to submit job reports at the end of the third year after issuance of tax credits to an investor of the CDC. Program guidelines state failure to provide these reports may result in DED requiring repayment of the tax credits provided to investor of the CDC, plus legal and other collection costs.

5-year investment period not monitored and job creation reports for loans not submitted

DED has not monitored investments provided to CDCs to ensure investors remained in the projects for 5 years, as statutorily required. CDC program guidelines required CDCs to include a listing of all investors as part of the CDCs' annual reports; however, a program manager told us he has not enforced this requirement on CDCs.

State law[11] states that withdrawal of an investment prior to 5 years requires the tax credit to be revoked and repayment by the taxpayer of any tax credits already redeemed.

Under this tax credit program, the five CDCs which made loans to new or growing small businesses had not reported adequate information on jobs created and/or retained. Those CDCs included some information on job creation in annual reports; however, the CDCs did not report the information in accordance with DED guidelines.[12] Program guidelines required job creation reports, documenting jobs created and/or retained, be provided to DED after 3 years for CDCs involved in making micro-loans or

[11] Section 135.411, RSMo 2000.

[12] CDCs making loans or involved in land development projects are required to submit this information because DED guidelines require at least one job be created for each loan made or land development project.

land development. The job creation reports should include new employees' names and hire dates.[13] The DED program manager stated he has never requested job creation reports.

No verification of annual report data and proof of investment inadequate

Random audits of annual report data and job creation reports have not been performed. DED guidelines require it to randomly audit the job creation reports and reserves the right to audit the documents and records of the CDC to ensure compliance with legal and program requirements.

DED also has not required adequate supporting documentation for proof of the investment. CDC program guidelines required a copy of the investor's check and a copy of the deposit slip. However, without requiring the supporting documentation to include validation by a bank, these documents would not provide proof the transactions occurred.

We spoke to the Community Development division director regarding why program guidelines had not been enforced. She stated DED was aware of the need for oversight of their programs since 1998, when Legislative Oversight produced the "Program Evaluation: Department of Economic Development Evaluation of Tax Credit Programs" report. This report included a recommendation that the General Assembly consider funding an internal audit staff within DED to promote fiscal accountability. The division director also stated the State Auditor's Office had noted the need for accountability and recommended the DED request the same in future budgets.[14] Budget reductions since 2001 failed to provide the opportunity for DED to shift existing resources to accomplish an accountability unit. The division director stated DED requested in its budget funds to staff an accountability unit in fiscal years 2004 and 2005. The request was not funded in fiscal year 2004. In fiscal year 2005, the positions were funded, but ultimately eliminated as part of the DED proposal to meet budgetary withholdings and generate savings in general revenue.

Conclusions

DED has not ensured the CDC tax credit program has met statutory requirements. Guidelines require CDCs submit annual reports which include a listing of investors and job creation data at the end of 3 years. However, DED has not enforced reporting of these items. Also, guidelines require DED to perform random audits of job creation reports and if necessary audit the documents and records of the CDC to ensure compliance with legal and program requirements. However, DED has not conducted these audits. In

[13] Four CDCs involved with land development had not been active in the program for 3 years because the CDCs had been approved to participate in the program in September 2003.
[14] Review of State Tax Credits Administered by the Department of Economic Development, Report no. 2001-13, issued February 23, 2001.

addition, supporting documentation DED required to prove investments has not been adequate to ensure the investment actually occurred.

Recommendation

We recommend the Director of the Department of Economic Development enforce the formal requirements of DED's tax credit programs and implement adequate internal controls to ensure only valid tax credits are issued and monitored.

Agency Comments

See Appendix V for agency comments.

CDC Projects by County

Table I.1 indicates the county location for the projects participating in the CDC program and the total credits those projects are authorized to receive, have been issued and remain outstanding.

Table I.1: Credits by County

County	Projects	Authorized	Issued	Remaining
Boone	1	$343,400	$88,742	$254,658
Buchanan	1	120,000	53,100	66,900
Greene	1	750,000	220,000	530,000
Jackson County	2	1,500,000	995,000	505,000
Linn	1	36,600	36,000	600
St. Louis County	5	3,100,000	3,100,000	0
Texas	1	150,000	150,000	0
Total	12	$6,000,000	$4,642,842	$1,357,158

Source: DED's Customer Management System.

Tax Credit Review Status

Table II.1 shows the tax credit programs administered by DED and the status of their review by the State Auditor's Office.

Table II.1: DED Tax Credit Programs and Review Status

Program	Review Status
(Capital) Small Business Investment (cap expired) § 135.400	Reviewed in 2005
Community Development Corporation/Bank § 135.400	Reviewed in 2005
Certified Capital Companies (CapCo) (cap. expired) § 135.500	Reviewed in 2004
New Enterprise Creation § 620.635	Reviewed in 2004
Community College New Jobs Training Bonds § 178.894	Reviewed in 2003
Brownfield Jobs/Investment § 447.700	Reviewed in 2002
Brownfield Remediation § 447.700	Reviewed in 2002
Historic Preservation § 253.545	Reviewed in 2002
Qualified Research Expense § 620.1039	Reviewed in 2002
Seed Capital (cap expired) § 348.300	Reviewed in 2002
Youth Opportunities and Violence Prevention § 620.1100	Reviewed in 2002
Film Production § 135.750	Reviewed in 2001
Rebuilding Communities § 135.535	Reviewed in 2001
Small Business Incubator § 620.495	Reviewed in 2001
Winery and Grape Growers § 135.700	Reviewed in 2001
Affordable Housing Assistance § 32.111	To be reviewed
Brownfield Demolition § 447.700[1]	To be reviewed
BUILD Missouri Bonds § 100.700	To be reviewed
Business Facility § 135.100	To be reviewed
Development § 32.105	To be reviewed
Enhanced Enterprise Zone § 135.950[2]	To be reviewed
Enterprise Zone § 135.200	To be reviewed
Family Development Account § 208.755	To be reviewed
Guarantee Fee § 135.766	To be reviewed
MDFB Development and Reserve § 100.250	To be reviewed
MDFB Export Finance § 100.250	To be reviewed
MDFB Bond Guarantee Credit § 100.286	To be reviewed
MDFB Infrastructure § 100.250	To be reviewed
Missouri Low Income Housing § 135.350	To be reviewed
Neighborhood Assistance § 32.100	To be reviewed
Neighborhood Preservation § 135.475	To be reviewed
Transportation Development § 135.545	To be reviewed

[1] There was no tax credit activity for this program in fiscal years 2001 through 2004; therefore, this program is not included in Appendix IV, Table IV.1.

[2] This tax credit program became effective with 2004 legislation and is therefore a new tax credit and is not included in Appendix IV, Table IV.1.

Source: State Auditor's Office.

Tax Credit Programs Administered by Other Departments

Table III.1 lists the tax credit programs for tax year 2004 administered by departments other than DED.

Table III.1: Non-DED Administered Tax Credit Programs

Program	Administering Department
Adoption (Special Needs)	Revenue
Agricultural Product Utilization Contributor	Agriculture
Bank Franchise	Revenue
Bank Tax Credit for S Corporation Shareholders	Revenue
Cellulose Casings	Revenue
Charcoal Producers	Natural Resources
Disabled Access	Revenue
Domestic Violence	Public Safety
Examination Fees	Insurance
Life and Health Guarantee Association	Insurance
Maternity Home	Social Services
Missouri Health Insurance Pool	Insurance
Missouri Property and Casualty Guarantee Association	Insurance
New Generation Cooperative Incentive	Agriculture
Pharmaceutical	Revenue
Processed Wood Energy	Natural Resources
Property Tax	Revenue
Retain Jobs[1]	Revenue
Shared Care	Health
Sponsorship and Mentoring Program	Elementary and Secondary Education

[1] This tax credit program became effective with 2004 legislation and is therefore a new tax credit and is not included in Appendix IV, Table IV.1.

Source: State Auditor's Office.

Tax Credit Redemptions by Program

Table IV.1 indicates the redeemed tax credits for fiscal years 2001 through 2004 for current tax credit programs in the state. The information was received from the agencies responsible for administrating the programs and was not audited for completeness or accuracy.

Table IV.1: Tax Credit Redemptions by Program

	Fiscal Year			
Program	**2001**	**2002**	**2003**	**2004**
Adoption (Special Needs)	$1,994,763	$1,995,471	$1,993,883	$1,995,882
Affordable Housing Assistance	11,080,040	8,912,821	7,601,144	7,554,503
Agricultural Product Utilization Contributor	524,829	379,740	957,074	1,964,872
Bank Franchise Tax	122,803	1,383,763	873,461	1,596,458
Bank Tax Credit for S Corporation Shareholders	585,372	898,921	1,060,111	1,233,830
Brownfield Jobs/Investment	4,567	149,072	90,893	2,134,891
Brownfield Remediation	4,517,217	9,720,088	5,669,489	16,101,975
BUILD Missouri Bonds	664,257	2,907,348	4,261,882	9,667,000
Business Facility	6,721,162	5,088,781	7,244,747	7,826,417
(Capital) Small Business Investment	3,399,257	370,719	149,068	49,478
Cellulose Casings	257,595	294,348	225,319	429,480
Certified Capital Companies (CapCo)	12,569,861	13,567,768	13,111,196	13,564,932
Charcoal Producers	0	0	120,837	0
Community Development Corporation/Bank	43,089	100,087	484,723	1,632,669
Community College New Jobs Training Bonds	11,542,521	10,708,511	8,650,799	8,061,584
Development	[2]	185,920	430,097	562,622
Disabled Access	31,293	49,184	47,506	87,401
Domestic Violence	500,018	528,196	513,532	475,283
Enterprise Zone	21,724,904	14,461,571	13,767,273	19,766,366
Examination Fees[1]	2,403,492	3,286,876	2,781,111	2,370,251
Family Development Account	0	25,713	8,760	27,488
Film Production	882,305	51,749	122,810	423,857
Guarantee Fee	107,080	23,418	0	0
Historic Preservation	33,971,984	41,401,415	43,153,986	66,089,980
Life and Health Guarantee Association[1]	7,490,665	4,149,702	2,440,427	177,712
Maternity Home	1,147,185	995,937	976,379	982,747
MDFB Bond Guarantee Credit	0	0	316,855	0

Appendix IV
Tax Credit Redemptions by Program

Program	Fiscal Year 2001	2002	2003	2004
MDFB Infrastructure[3]	8,798,670	8,714,272	6,310,541	10,020,578
Missouri Health Insurance Pool[1]	1,417,694	2,454,317	1,581,522	3,687,665
Missouri Low Income Housing	11,747,808	19,474,343	29,978,473	36,916,831
Missouri Property and Casualty Guarantee Association[1]	13,612,065	20,135,749	18,362,815	16,823,462
Neighborhood Assistance	13,217,496	11,075,600	8,641,533	10,217,628
Neighborhood Preservation	465,024	1,947,073	3,879,134	4,001,293
New Enterprise Creation	0	1,940,260	4,331,972	3,259,307
New Generation Cooperative Incentive	1,570,531	533,203	1,510,305	3,466,068
Pharmaceutical	75,816,984	63,686,262	3,737,102	524,527
Processed Wood Energy	4,154,777	2,673,412	3,642,570	1,205,443
Property Tax	101,616,246	85,901,461	97,180,378	95,237,314
Qualified Research Expense[4]	8,476,856	6,185,521	1,642,524	2,038,230
Rebuilding Communities	1,053,401	3,438,354	2,289,501	1,415,889
Seed Capital	1,235,887	1,068,033	508,182	288,174
Shared Care	15,309	19,271	24,355	39,109
Small Business Incubator	172,912	107,793	81,716	167,360
Sponsorship and Mentoring Program	0	0	0	0
Transportation Development	[5]	1,235,603	1,249,848	3,678,532
Winery and Grape Growers	629,145	239,098	275,366	260,397
Youth Opportunities and Violence Prevention	2,752,320	3,000,974	2,898,572	3,272,225
Total	$369,039,391	$355,467,719	$305,179,772	$361,297,710

[1] Redemptions are on a calendar year rather than fiscal year and based on tax year credit was applied against.

[2] Redemptions for this year are included under the neighborhood assistance program.

[3] This program's redemption totals includes MDFB Development and Reserve and MDFB Export Finance.

[4] Under Section 620.1039(7), RSMo Cumulative Supp. 2004, no tax credits shall be approved or issued as of January 1, 2005 for this program.

[5] Redemptions for this year are included under the rebuilding communities program.

Source: DED's budget documents and administrating agencies.

Agency Comments

MISSOURI
DEPARTMENT OF ECONOMIC DEVELOPMENT

Matt Blunt
Governor

Gregory A. Steinhoff
Director

July 13, 2005

The Honorable Claire McCaskill
Auditor of the State of Missouri
Harry S Truman State Office Building
Room 880
Jefferson City, MO 65101

Dear Ms. McCaskill:

This letter is in response to your review of state tax credits administered by the Department of Economic Development. Below you will find our responses to the two recommendations contained in the draft report titled *Community Development Tax Credit Program.*

State Auditor Recommendation
We recommend the General Assembly allow the CDC program to expire to without authorizing additional credits.

Department of Economic Development's Response

Under current statutes no additional credits can be authorized and to do so would require a change in law. It should be noted that that a total of $3 million of the $6 million in tax credits issued are assigned to projects that were in the implementation stage this calendar year. The methodology (modeling) and audit review represent a snapshot of the CDC Tax Credit program results. As such, the long-term impact of the projects (social benefits, neighborhood revitalization, future job creation, and local economic returns such as property taxes) may not be depicted. In addition, the method shows only a single use of the loan funds. The principle and interest loan payments may be re-used by the CDC Bank. It appears that no credit for future impact is shown for the revolving re-use of those funds in the estimate of economic impact.

State Auditor Recommendation
We recommend the Director of Department of Economic Development enforce the formal requirements of its tax credit programs and implement adequate internal controls to ensure only valid tax credits are issued and monitored.

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Community Development Tax Credit Program
July 13, 2005
Page 2

Department of Economic Development's Response

Since the inception of the audit, a total of eleven out of the twelve CDC Tax Credit projects have been monitored on-site by Division of Community Development compliance staff from other programs. The twelfth project is scheduled to be monitored on-site by July 28, 2005. The staff used a written monitoring compliance checklist devised from the statute and the guidelines. The on-site monitoring will result in letters issued to projects regarding findings and recommendations requiring action and written response. The letters also will outline future annual reporting requirements. A database to track the future submission of required reports shall be maintained by the program manager.

If you have any questions concerning this information, please feel free to contact me at 751-4770 or Arlan Holmes at 526-7863.

Sincerely,

Gregory A. Steinhoff
Director

c: Mike Mills
Donna Prenger
Sallie Hemenway
Arlan Holmes