



MISSOURI TAX CREDIT REVIEW COMMISSION

November 30, 2010

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Senator Chuck Gross *
Steven J. Stogel

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Sen. Jolie Justus
Sen. Robin Wright-Jones
Rep. Tim Flook
Rep. Sam Komo
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Tom Reeves
Penney Rector
Russ Still
Craig Van Matre
Ray Wagner
Todd Weaver
Shannon Weber
Mike Wood
David Zimmermann

The Honorable Jeremiah “Jay” Nixon
Governor of Missouri
P.O. Box 720
Jefferson City, MO 65102

Dear Governor Nixon:

Please find attached the Report of the Missouri Tax Credit Review Commission (“the Commission”), which provides a comprehensive review and analysis of Missouri’s tax credit programs and concrete, fact-based recommendations for their improvement.

On July 21, 2010, you created a 27-member Commission to review the State’s current tax credit programs and to make recommendations for greater efficiency and enhanced return on the State’s investment in these programs. The Commission members you selected for this important work consisted of a diverse group of business, community and legislative leaders, representing a wide range of interests and backgrounds. We believe that the depth of expertise and breadth of perspective among Commissioners, along with invaluable public participation, is reflected in the thoughtful, comprehensive and wide-ranging recommendations in this report.

We believe the Commission’s work and final report meets your charge to determine which tax programs are generating a good return on investment for the taxpayers of Missouri and which are not, and to provide fact-based recommendations for change for improvements to ensure Missouri’s tax credits are actually creating jobs, spurring economic development and building communities.

As you indicated in your remarks to the Commission on September 8, 2010, the State of Missouri is looking at a budget gap for Fiscal Year 2012 that could exceed \$400 million. As State revenues have declined and spending for other programs has been reduced, spending on the State’s tax credit programs has continued to grow. The Commission’s recommendations recognize the impact that this growth in tax credit expenditures will continue to have on the State’s ability to fund other priorities, while at the same time acknowledging that the State needs to have well-calibrated economic development tools that incentivize job creation and capital investment to compete in today’s global economy.

*Not now serving

In performing its task, the Commission took very seriously your admonition that none of the Commission's recommendations should disturb projects that are already underway and tax credits that have already been awarded. Accordingly, you will see that all of the Commission's recommendations are for improvements to the State's tax credit programs solely on a prospective basis, so as to "do no harm" to settled expectations, business certainty and the State's AAA bond rating.

The Commission's recommendations are discussed in greater detail in the accompanying report. However, several of the key recommendations include:

- Recommendations to eliminate or not reauthorize 28 tax credit programs that have outlived their usefulness and do not create a justifiable benefit in relation to their cost to taxpayers;
- Recommendations to improve the efficiency of 30 tax credit programs to provide a greater return on investment for taxpayers;
- Recommendations that no tax credits be subject to an annual appropriation process, but instead that tax credit programs be subject to review by the General Assembly according to an orderly sunset schedule;
- Recommendations that where appropriate and feasible the General Assembly impose an annual cap on all programs currently lacking a statutory cap to limit the total amount of tax credits that may be authorized annually to gain additional budget certainty for the state;
- Recommendations for changes to state and federal law that will improve the efficiency and overall value of Missouri's tax credit programs to both the State and the users of the programs; and
- Recommendations to develop a voluntary buy-back or exchange of outstanding tax credits for less than the credits' face value in order to reduce the State's overall tax credit liability, which is currently estimated to be in excess of \$1 billion in outstanding tax credits that could be redeemed.

We estimate that, if all of the recommendations in this report were adopted, the State could realize short and long term savings totaling as much as \$220 million in tax credit authorizations (based on average authorizations FY07-FY09), eliminate the exponential growth of tax credit authorizations, and improve budget forecasting, while at the same time better-positioning the State to compete in the economy of today as well as the economy of the future.

We sincerely hope that the recommendations provided in this report will provide the touchstone for sharpening our economic tools while effectuating rational reform of Missouri's tax credit system. Please let us know if you wish to discuss any of the report's recommendations or if there is any additional way we may assist you in this important work for the State of Missouri.

Respectfully,

Members of the Tax Credit Review Commission

Co-Chair Steven Stogel

Co-Chair Senator Chuck Gross

Senator Matt Bartle

Senator Jolie Justus

Senator Robin Wright-Jones

Representative Tim Flook

Representative Sam Komo

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