COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3397-06
Bill No.: HCS for SS for SB 696
Subject: Motor Carriers; Taxation and Revenue - Income
Type: Original
Date: April 17, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	$21,506,399 to (More than $46,733,601)	$21,587,444 to (More than $75,762,556)	$21,576,644 to (More than $75,763,356)
Total Estimated Net Effect on General Revenue Fund*	**$21,506,399 to (More than $46,733,601)**	**$21,587,444 to (More than $75,762,556)**	**$21,576,644 to (More than $75,763,356)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Insurance Dedicated	($2,164)	$0	$0
Various state fund	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on Other State Funds*	**(Unknown)**	**(Unknown)**	**(Unknown)**

*** 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 38 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government*	**(Unknown)**	**(Unknown)**	**(Unknown)**

*** 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

Section 26.700 - establishes the Small-Business Advocacy Program within the Office of the Lieutenant Governor;

In response to a similar proposal from this year (SB 1134) officials from the **Office of the Lieutenant Governor** assumed that this proposal will require the office to hire an additional employee to administer this program. The cost to the General Revenue Fund will be approximately $90,530 for FY07, $89,831 for FY08, and $91,676 for FY09.

Oversight assumes employment of the FTE to administer the small business advocacy program would be subject to appropriations. Oversight has shown the cost, should the funds be appropriated.

ASSUMPTION (continued)

Sections 32.100 - 32.125 - removes the Neighborhood Assistance Act;

Oversight assumes, after conversations with the Office of Administration - Budget and Planning, that this part of the proposal (along with the repeal of sections 32.110, 32.117, 32.120, 135.406, 208.750, 208.755, 208.760, 208.765, 208.770, 208.775, 620.1100 & 620.1103) repeals the Neighborhood Assistance Program, the Youth Opportunities Program, the Family Development Account and the Development Tax Credit.

The total tax credits available for these programs is

Program	Annual Cap
Neighborhood Assistance	$16,000,000
Development Tax Credit	$ 6,000,000
Family Development	$ 4,000,000
Youth Opportunities	$ 6,000,000
Total	$32,000,000

The Neighborhood Assistance Program (NAP) has an annual limit of tax credit issuances of $16 million. The amount of issuances for the past three years has been $12.1 million in FY 2003, $9.8 million in FY 2004 and $11.3 million in FY 2005. DED projects issuances of $11.0 million in FY 2006 and 2007. Therefore, **Oversight** will reflect a savings for the removal of the Neighborhood Assistance Program of $11 million per year.

The Development Tax Credit (DTC) has a $6 million annual cap. The issuances for the past three years have been $1.7 million in FY 2003, $3.7 million in FY 2004 and $2.9 million in FY 2005. For FY 2006 and FY 2007, DED projects issuances of $6 million each. Therefore, **Oversight** will reflect a savings for the removal of the Development Tax Credit of $6 million annually.

The Family Development Account (FDA) has a $4 million annual cap. The issuances for the past three years have been $27,373 in FY 2003, $13,687 in FY 2004 and $7,625 in FY 2005. For FY 2006 and FY 2007, DED projects issuances of $30,000 each. Therefore, **Oversight** will reflect a savings for the removal of the Family Development Account program of $30,000 annually.

The Youth Opportunities Program (YOP) has a $6 million annual cap. The issuances for the past three years have been $3.0 million in FY 2003, $3.7 million in FY 2004 and $4.5 million in FY 2005. For FY 2006 and FY 2007, DED projects issuances of $4.5 million each. Therefore,

ASSUMPTION (continued)

Oversight will reflect a savings for the removal of the Youth Opportunities Program of $4.5 million annually.

Sections 41.655, 41.1010, 42.007, 160.053 & 168.021 - changes the law regarding military facilities and personnel;

In response to a similar proposal from this year (HB 1398), officials of the **Office of the Governor** assumed no fiscal impact.

In response to a similar proposal from this year (HB 1398), officials of the **Office of Secretary of State** stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office 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 Secretary of State's office for Administrative Rules is less than $1,500. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, officials reserve 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.

In response to a similar proposal from this year (HB 1398), officials of the **Department of Economic Development** assumed the bill should have minimal impact on DED. It adds one member, the Chair of the Veterans Commission, to the MO Military Commission which is a commission administered by DED. Additional expenses associated with one additional commission member are lodging at $70 per night, mileage at 240 miles for round trip average to meetings at the current mileage rate of .375, and $45 per day for meals per person for a cost of $205 per meeting. DED anticipates 5 meetings per year for a total cost of $1,025. Officials estimate annual costs adjusted for inflation as follows: $1,025 in FY 2007; $1,056 in FY 2008; and $1,087 in FY 2009.

In response to a similar proposal from this year (HB 1398), officials of the **Department of Public Safety - Office of Adjutant General** assumed no fiscal impact.

ASSUMPTION (continued)

Officials of the **Department of Elementary and Secondary Education** assume section 160.053 would result in minimal costs for school districts who would need to identify if a child came from an accredited program in another state.

Officials of the **Missouri Veterans Commission** assume no fiscal impact.

In response to a similar proposal from this year (HB 1398), officials of the **City of Knob Noster** assumed there would be no fiscal impact.

Sections 99.845, 99.847 - Tax Increment Financing;

Oversight assumes increasing the state tax increment financing portion from $32 million to $50 million will reduce state revenues up to $18 million in a given year, subject to appropriations.

Sections 99.918, 99.960, 99.963, 99.975, 99.980 - Missouri Downtown Economic Stimulus Act (MODESA); and Sections 99.1045, 99.1048, - Missouri Rural Economic Stimulus Act (MORESA);

The proposal changes the annual limitation of MODESA from $108 million, and from MORESA from $12 million; to a combined annual limit of $58 million. Since the program has not been in place long enough for the annual tax revenues to be placed into the funds, **Oversight** will assume that combining and lowering the annual limitation will not result in current savings to the General Revenue Fund.

Sections 99.1082, 99.1090, 99.1092 - Downtown Revitalization Preservation Program;

Oversight assumes that since the proposal did not change the annual limitation on the program (still $15 million), that although the changes in the bill may change the utilization of the program, the fiscal impact will still be $0 to ($15,000,000) to the General Revenue Fund.

ASSUMPTION (continued)

Sections 99.1100 - 99.1130 - Missouri Economic Development Code;

In response to a similar bill from this year (HB 1782), officials from the **Department of Economic Development (DED)** stated the bill establishes provisions regarding local economic development by creating the Missouri Local Economic Development Code. DED assumed the bill should have no fiscal or administrative impact on their agency. DED stated the bill will likely have local impact, but this would be unknown to DED.

In response to a similar bill from this year (HB 1782), officials from **Hickory County** assume the bill will not fiscally impact their county.

Officials from the **Office of the Secretary of State - Missouri State Library** state this part of the proposal creates a 'Missouri Economic Development Code', and enables the appointment of a commission to oversee development projects. Public library districts would be represented on this commission in their respective areas. This would allow public library districts a voice in the tax incentive projects proposed in their districts. Some library districts will lose funds from tax incentives allowed for new development projects. The commission is also authorized to include construction or renovation of public facilities in these development projects. As these projects may be funded through tax incentives, this would enable public library projects to be financed through these tax incentives. Also, the commission may offer obligation bonds to finance projects, and these bonds do not need voter approval. This would provide an alternative method to library districts to fund construction of facilities through obligation bonds.

Numerous other cities and counties did not respond to **Oversight's** request for fiscal impact. Oversight assumes the proposal is permissive and that local political subdivisions will not incur costs unless they vote to create such a commission. Therefore, Oversight will not reflect a fiscal impact to the local political subdivisions.

Sections 100.255, 100.275, 100.281, 100.286, 100.297 & 100.760 - Missouri Development Finance Board;

In response to a similar proposal from this year (HCS for HB 2040), officials from the **Office of Administration - Budget and Planning (BAP)** stated this legislation increases the bonding authority in Section 100.297 by $25 million. Current legislation authorizes $50 million for this program which the board has never fully utilized. Since the inception of this program, only once has the board issued tax credits as guarantees to bond holders. In order for this increase to have a

ASSUMPTION (continued)

negative impact to general revenue, there would have to be major loan defaults in excess of $50 million, which is highly improbable.

BAP assumes a $10 million cost to the state from the increase in tax credits in section 100.286.

According to the Department of Economic Development's Form 14s, the Missouri Development Finance Board Contribution Tax Credit has a $10 million annual cap; however the statutory limitation can be exceeded with the consent of the Directors of Economic Development and Revenue and the Commissioner of Administration. The amount of tax credits issued under this program for the past three years has been $11.2 million in FY 2003, $39.4 million in FY 2004 and $29.0 million in FY 2005. DED projected issuances of $10 million in FY 2006 and $15.2 million in FY 2007.

Oversight will range the fiscal impact of this part of the proposal from $0 to ($10,000,000), however, it appears the annual limitation of the program apparently has little bearing in the amount of credits issued.

Oversight will assume no fiscal impact from the increase in the bond issue level.

Sections 135.400, 135.403 - Tax Credits For Small Businesses;

This proposal creates a new program - the Missouri Small Business Investment Tax Credit program, which can issue up to $10 million in tax credits annually. The proposal deletes the Capital Tax Credit Program, which had a cumulative cap of $13 million which had already been exhausted. **Oversight** will assume a cost to the state of up to $10 million for the new tax credits.

Section 135.442 - Community Assistance Program & Section 135.444 - Small Business Incubators Act;

The proposal limits the total amount of tax credits granted under the Community Assistance Program and the Small Business Incubator Program to $26 million for Fiscal Year 2008 and after. Therefore, **Oversight** will assume a loss to the General Revenue Fund of up to $26 million in FY 2008.

ASSUMPTION (continued)

In response to a similar proposal from this year (HCS for HB 2040), officials from the **Department of Revenue (DOR)** stated Personal Tax will require 1 Tax Processing Technician I for every 6,000 credits claimed.

Section 135.446 - Development Tax Credit;

Oversight will range the fiscal impact of this program from $0 to a loss of $6,000,000.

Section 135.449 - Youth Opportunities, Family Development Account and Small Business Incubator Tax Credit;

This part of the bill prohibits tax credits from being approved, awarded, or issued after January 1, 2007, to any person or entity claiming a tax credit under the Youth Opportunities and Violence Prevention Act, Family Development Account Program, or the current Small Business Incubator Program established in Section 620.495, RSMo. **Oversight** assumes this will result in a savings to the General Revenue Fund.

According to the DED, the Small Business Incubator Tax Credit Program issued tax credits of $79,000 in FY 2003, $262,000 in FY 2004 and $362,000 in FY 2005. In FY 2006, DED projects to issue $500,000 in credits for FY 2006 and FY 2007. Therefore, **Oversight** will reflect a savings of $500,000 annually from the repeal of this program.

Section 135.566 - Disabled Employee Tax Credit;

In response to a similar proposal from this year (HB 1870), officials from the **Department of Health and Senior Services** as well as the **Department of Labor and Industrial Relations** each assumed the proposal would not fiscally impact their respective agencies.

In response to a similar proposal from this year (HCS for HB 2040), officials from the **Office of Administration - Budget and Planning (BAP)** stated this legislation authorizes tax credits to employers who hire disabled workers. There is no cap on the total amount of tax credits which can be issued for this program. These tax credits could negatively impact General Revenue, but BAP has no data to provide an estimate. BAP defers to other departments for specific projections.

ASSUMPTION (continued)

In response to a similar proposal from this year (HCS for HB 2040), officials from the **Department of Revenue (DOR)** stated this legislation would require a significant amount of documentation on each credit claimed. Personal Tax would require 1 Tax Processing Technician I for every 4,000 credits claimed and the Corporate Tax Section would require 1 Tax Processing Technician to administer the credit.

The tax credit is for all years beginning on or after January 1, 2006, therefore, **Oversight** assumes a potential impact to revenue in FY 2007. According to the U.S. Census Bureau's Statistical Abstract of the United States, 2006, there were 23,081,000 civilians ages 16 to 74 who have a condition which prevents them from working or limits the amount of work they can do. Assuming that Missouri represent 2 percent of the population, this would equate to 461,620 Missourians who meet this definition. Also according to the Statistical Abstract, 11.6 percent of those persons are employed full time, which would equate to 53,547 Missourians with the above characteristics that work full time. <u>If a $2,000 credit were issued on behalf of all of these workers, this would equate to over $107.1 million in tax credits annually.</u> This does not count those people who do not work full time and would still be eligible for the other tax credits.

Oversight is not sure if the definition of 'Disabled Employee' utilized in the bill would be comparable to the definition of 'Persons with a Work Disability' utilized by the U.S. Census Bureau, therefore, Oversight will assume the loss in revenue from the tax credits will be an unknown amount, over $100,000. This tax credit is limited to the newly hired disabled employees who haven't worked for the employer in the previous 12 months.

<u>Section 135.662 - Qualified Equity Investment Tax Credit;</u>

In response to a similar proposal from this year (HCS for HB 2040), officials from the **Office of Administration - Budget and Planning (BAP)** stated the proposal is similar to the Federal New Markets Tax Credit Program which authorizes tax credits to any investor who makes investments in low income communities.

BAP stated the legislation creates the equity investment program and could have a negative impact on General Revenue. It appears this credit is capped at $3 million annually. The credit may be taken against any state tax liability - income tax, corporate franchise tax, financial institution tax, public utility tax, or insurance retaliatory tax.

Oversight will range the fiscal impact of this proposal from $0 (no tax credits utilized) to a $3

ASSUMPTION (continued)

million loss of income from the new credits. Since the credits are for tax years beginning on or after January 1, 2007, Oversight will assume the fiscal impact of the tax credits will start in FY 2008.

In response to a similar proposal from this year (HCS for HB 2040), officials from the **Department of Revenue (DOR)** stated as the bill is worded, Personal Tax would require 1 Tax Processing Technician I for every 4,000 credits claimed.

Section 135.700 - Grape Grower/Wine Producer Tax Credit;

The actual amount of tax credits issued under this program in FY 2005 was $313,683. For fiscal years 2006 and 2007, DED is projecting tax credit issuances of $300,000 each year. Therefore, **Oversight** will assume placing an annual cap of $500,000 will not result in a savings to the General Revenue Fund.

Officials from the **Department of Agriculture** assume no fiscal impact from this proposal.

Section 135.903 - Rural Empowerment Zones;

In response to a similar proposal from this year (HB 1104), officials from the **Department of Economic Development (DED)** stated income tax exemptions are authorized for businesses located in designated rural empowerment zones that hire specific numbers of new employees. This exemption could reduce Total State Revenue but the reduction could be offset by individual income tax paid by new employees hired. DED stated the impact is unknown and unpredictable. DED states it is also unknown how many new zones will be designated or the number of businesses in any newly created zones.

In a similar proposal from 2004 (HB 1597), the Department of Economic Development assumed that the new rural empowerment zones would be similar in cost to satellite enterprise zones. The estimated cost of each satellite enterprise zone at the time was $60,000 to unknown. DED stated they are currently no longer able to provide **Oversight** an estimated cost of additional satellite enterprise zones in the state since the old program was replace. Therefore, Oversight will assume a $60,000 to unknown cost for each of the potential empowerment zones. The proposal adds 2 counties to the list of Rural Empowerment Zones. Therefore, this totals $240,000 to Unknown of lost revenue for the state (2 counties x 2 zones per county x $60,000 to unknown cost).

ASSUMPTION (continued)

Obviously, there will be some positive financial benefit to the state for companies that create ten new full-time jobs within one year from the date the tax abatement begins. However, this potential positive benefit is considered an indirect benefit, and Oversight will only reflect the direct fiscal impact of the proposal.

Oversight will reflect the fiscal impact of this proposal from as a range from $0 (no qualifying counties will apply for the status or no businesses will qualify under the program) to a negative Unknown - could exceed $240,000 in costs.

Oversight assumes the proposal will not fiscally impact the counties, since it is permissive in nature.

Section 135.950, 135.967 - Enhanced Enterprise Zones;

Oversight assumes no fiscal impact from these sections.

Section 135.1170 - Youth Jobs Pilot Program;

Oversight will range the fiscal impact of this part of the proposal from $0 to a loss of $100,000 (annual cap) starting in FY 2008 since it is for all tax years beginning on or after January 1, 2007.

In response to a similar proposal from this year (HCS for HB 2040), officials from the **Department of Revenue** stated this proposal places the limit on the amount of taxpayer's claim. Due to the limit issue and the lack of certification, Personal Tax will require 1 Tax Processing Technician for every 6,000 claims.

Officials from the **Department of Elementary and Secondary Education (DESE)** state this part of the proposal would allow a taxpayer to claim a tax credit equal to 35% of the amount paid to a qualified high school student in wages for summer employment. The amount of the tax credit shall not exceed the taxpayer's state tax liability and such taxpayer shall not be allowed to claim a credit in excess of $10,000. The cumulative amount of tax credits claimed by all taxpayers under this program shall not exceed $100,00 in any one fiscal year.

The proposal requires DESE to establish a procedure by which a taxpayer can determine if a student is a qualified high school student, and by which such taxpayer can then claim a tax credit.

ASSUMPTION (continued)

DESE does not currently collect individual student records and would have no knowledge of a student's GPA. DESE would have to collect the GPA of every student, in addition to parental approval, and develop a system which has the ability to cross reference minimum attendance requirements, and free or reduced lunch eligibility. Adding an additional element to student data collection will cost approximately $100,000. In addition DESE would require 1.0 FTE director to implement this program and review claim forms annually.

School districts will likely incur costs to collect and send data to the department on a continual basis. A big issue for school districts will be parental approval. Grade point averages and free and reduced lunch status are not items of public information. The National School Lunch Act does not allow the dissemination of free and reduced lunch status. Parental approval would be required for every child.

In response to a similar proposal from this year (HCS for HB 2040), officials from the **Office of Administration - Budget and Planning (BAP)** stated this legislation will establish a tax credit for employers who hire high school students for summer employment in the Youth Jobs Pilot Program. To qualify, a business must pay a student a minimum of $100, and cannot receive credits totaling more than $100,000 in a given year. General Revenue could be reduced up to $100,000 each year.

Section 144.054 - Several Sales Tax Exemptions;

In response to a similar proposal from this year (HCS for HB 2040), officials from the **Office of Administration - Budget and Planning (BAP)** stated this part of the proposal could negatively impact general revenue, but BAP has no data to provide an estimate. BAP defers to other departments for specific projections.

Oversight has no information to estimate the fiscal impact from this part of the proposal, but assume the loss to the state and local sales tax funds could be substantial. Therefore, will reflect an unknown loss at the state and local level from this part of the proposal.

Sections 290.140 & 290.152 - Changes the laws regarding the release of information about an employee to a prospective employer or law enforcement agency;

Oversight assumes there would be no fiscal impact to state or local governments from this part

ASSUMPTION (continued)

of the proposal.

Sections 135.400, 135.403, 348.251 - 348.275, 620.030, 620.500, 620.503, 620.1003 & 620.1007 - Missouri Discovery Alliance;

Section 135.400 creates a new program - the Missouri Small Business Investment Tax Credit program, which can issue up to $10 million in tax credits annually. The proposal deletes the Capital Tax Credit Program, which had a cumulative cap of $13 million which had already been exhausted. **Oversight** will assume a cost to the state of up to $10 million for the new tax credits.

In response to a similar proposal from this year (HB 1928), officials from the **Coordinating Board for Higher Education** stated given the nature and responsibilities of the Missouri Discovery Alliance, it is possible that the CBHE may be involved with the efforts of this group. However, as that involvement is unknown, the fiscal impact is unknown.

In response to a similar proposal from this year (HB 1928), officials from the **University of Missouri** assumed they will incur no additional costs as a result of the passage of this bill.

In response to a similar proposal from this year (HCS for HB 2040), officials from the **Office of Administration - Budget and Planning (BAP)** state the legislation grants the Discovery Alliance board the authority to charge fees for each application it receives for funding a project and assess or charge other fees as the alliance determines to be reasonable and necessary to carry out its purpose, including fees on the issuance of tax credits. These fees and charges could negatively impact general revenue, but BAP has no data to provide an estimate. BAP defers to the Department of Economic Development for specific projections.

In response to a similar proposal from this year (HCS for HB 2040), officials from BAP assumed Section 348.274.1 could have a negative impact on general revenue of $10 million annually from the issuance of new tax credits.

In response to a similar proposal from this year (HB 1928), officials from the **Department of Economic Development (DED)** stated the bill deletes the Missouri Technology Corporation (MTC) and creates the Missouri Discovery Alliance in its place. Funding of $200,000 for MTC was requested in the DED FY 2007 budget request and approved as part of the Governor's recommendation to the General Assembly and if approved, would be used to fund the new Missouri Discovery Alliance. Funding for approved Innovation Centers currently exists in House

ASSUMPTION (continued)

Bill 1007 totaling $1,441,150. The funds for Innovation Centers would remain in the DED budget to be used for innovation center funding in conjunction with the new Missouri Discovery Alliance. Since funding has existed in the past for these programs and the programs are just being transferred to an newly named entity, DED considers this a cost neutral transaction and projects no cost in the fiscal note due to the deletion of MTC and the creation of a new entity similar to MTC.

DED states the bill creates the qualified business technology tax credit program which is authorized to issue $10 million in tax credits per year. DED has worked with the Missouri General Assembly to craft this bill which should spur economic activity in the state. DED worked with our Missouri Economic Research and Information Center to project benefits of this proposal. While DED projects a positive economic benefit to Missouri based on the creation of this business technology tax credit, we show it as cost neutral for purposes of this fiscal note. DED projects the credit is not a cost to the state, but a long-term investment in the development of the technology industry sector. The development of these industries will bring revenue to the state of Missouri, through the creation of technology businesses, hiring of employees, and an increase in the local tax base. DED estimates that if the program is fully utilized, the tax credits would generate an economic output totaling $708 million each year over a 10-year period.

DED states the bill enhances existing requirements under 620.500 RSMo. The operation of Small Business Assistance Office within DED would be re-established. This bill allows DED to contract with institutions of higher education to provide assistance from regional offices. Funding of approximately $500,000 for contracting with regional offices would need to be added to the DED budget in order to fund these contracts. Currently Universities operate Small Business Development Centers (SBDC). DED makes the assumption that the Universities will continue to financially support the SBDCs and the therefore additional funds for contracting with universities for SBDC regional operations are not included in this fiscal note.

If existing SBDC programs are dropped by universities, DED may have to request budget approval of the funds for contracting for SBDC operations. This SBDC contract funding request would be pursued through the normal budget process should universities drop existing programs.

The changes to the Small Business Development Centers has no fiscal impact but does make minor changes to statute. The changes do require some additional reporting by the SBDCs

DED anticipates charging a 2.5% fee on the $10 million credits authorized in Section 348.274.1, which would result in a positive $250,000.

ASSUMPTION (continued)

DED assumes the costs of these credits will be offset by positive, but unknown economic benefit to Missouri.

Oversight assumes the new tax credit programs will create some positive fiscal benefit to the state; however, Oversight considers the new jobs and tax revenue that may be generated from the new tax credits to be indirect fiscal benefits, and therefore, have not reflected DED's positive estimates in the fiscal note. Oversight will range the fiscal impact of the new tax credits from $0 to the annual cap of $10 million for each of the new tax credit programs.

Oversight could not determine the tax years for which the tax credits may be issued, therefore, Oversight will assume tax credits could be issued in calendar 2006 and may be used against taxes in FY 2007.

Sections 313.820 - Gaming Proceeds in St. Charles;

In response to a similar proposal from this year (SB 561), officials from the **Missouri Gaming Commission** stated the proposal would not fiscally impact their agency.

In response to a similar proposal from this year (SB 561), officials from **St. Charles County** assume the proposal would not fiscally impact their county.

According to the Gaming Commission, the admission fee revenue for the last three fiscal years for the St. Charles has been:

	FY 2003	FY 2004	FY 2005
St. Charles (Ameristar)	$9,903,354	$10,551,008	$10,613,823

Oversight will assume the fiscal impact of this proposal has already been reflected in the fiscal note prepared in 2005 for SB 272, which as a potential unknown loss to the City of St. Charles starting in FY 2008. Therefore, Oversight will not reflect an additional fiscal impact from this proposal.

Sections 620.1878, 620.1881 - Quality Jobs;

The proposal increases the annual tax credits from this program from $12 million to $24 million. Therefore, **Oversight** will assume a loss to General Revenue of up to $12 million annually.

ASSUMPTION (continued)

In response to a similar proposal from this year (HCS for HB 2040), officials from the **Department of Revenue (DOR)** stated this part of the proposal changes the amount of tax credits from $12 million to $24 million. This effectively doubles the program and will result in the need for 1 Tax Processing Technician I.

DOR's Taxation anticipates administration of the bill much the same as the Quality Jobs Act is administered. A new form would be created, a new system for tracking purposes would be needed, and 1 Tax Processing Technician I would be required to administer this new "Act", so as not to impose on the production of the existing withholding tax requirements.

Section 620.1892 - Small Business and Entrepreneurial Growth Act;

In response to a similar proposal from this year (HCS for HB 2040), officials from the **Office of Administration - Budget and Planning (BAP)** stated this legislation will allow a small business employer, beginning after January 1, 2007, to retain all taxes withheld for newly created jobs for a period of one year or two years if the employee provides health insurance and pays more than 50 percent of the premiums for all employees. These retentions could negatively impact general revenue; however BAP has no data to provide an estimate and defers to the Department of Economic Development.

Officials from the **Department of Economic Development (DED)** assume an unknown cost to administer the credit. DED assumes the program would be administered by the Division of Workforce Development.

This proposal does not have a program limit, therefore, **Oversight** will range the potential loss of revenue to the General Revenue Fund from $0 (no companies qualifying) to a negative Unknown amount. Oversight assumes the amount of lost income tax withholding revenue could be substantial.

Section 1- Exemption from Sales and Use Taxes of Utilities;

Officials from the **Department of Economic Development** assume no fiscal impact from this part of the proposal.

In response to a similar proposal from this year (HCS for HB 2040), officials from the

ASSUMPTION (continued)

Department of Revenue assumed no fiscal impact from this part of the proposal.

Section 2- Tax Credits for Federal Grants Received;

Officials from the **Department of Economic Development** states Section 2, which creates a tax credit with a two million dollar cap to be administered by DED, would have no no administrative costs. DED may request funding for staff and expenses through the normal budget process if work dictates the need. DED assumes the credit cost may be offset by some positive but indeterminable benefits to Missouri.

In response to a similar proposal from this year (HCS for HB 2040), officials from the **Office of Administration - Budget and Planning** stated this section allows any small business which receives a federal innovation research, technology transfer, or Broad Agency grant may receive a tax credit for up to 50 percent of the grant. This program is capped at $2 million.

Oversight will assume a fiscal impact of up to $2 million in tax credits annually.

Repeal of Section 135.766 - Guarantee Fee Tax Credits;

In FY 2005, $103,591 of these tax credits were issued. DED projects $100,000 of these credits to be issued in FY 2006 and FY 2007. Therefore, **Oversight** will reflect a savings of $100,000 annually for the repeal of this program.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Economic Development's, Department of Revenue's and the Department of Elementary and Secondary Education's authority to promulgate rules, regulations, and forms. SOS estimates the departments could require approximately 108 new pages of regulations in the Code of State Regulations at a cost of $27.00 per page, and 162 new pages in the Missouri Register at a cost of $23.00 per page. Costs due to this proposal are estimated to be $6,642, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a

ASSUMPTION (continued)

result of this proposal, however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

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

Officials from the **Department of Revenue** state this legislation will require modifications to individual and corporate income tax systems. Taxation estimates these modifications will require a MINITS programming costs of $46,170 (1,384 hours). COINS will also need to be modified for a programming cost of $23,085 (692 hours). The department proposes to cover these costs with current IT staff. Effective July 1, 2006, our IT staff will be moved to OA pursuant to consolidation, but we have no reason to believe this transfer will limit our ability to absorb these costs. In the event multiple new credits/deductions are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

Officials from the **Department of Insurance (INS)** state the bill has various revisions to existing tax credits/programs and adds five new tax credit programs relating to INS

1) Community Assistance Program tax credit (Section 135.442)
2) Small Business Incubator tax credit (Section 135.444)
3) Development Tax Credit Program (Section 135.446)
4) Hiring Disabled Employee tax credit (Section 135.566)
5) Qualified equity investments tax credit (Section 135.662)

INS assumes an unknown reduction of premium tax revenue as a result of using tax credit.

It is unknown how many insurance companies will choose to participate in these programs and take advantage of the tax credits. INS can not estimate how much would be lost in premium tax (and retaliatory tax for the credit created in Section 135.662) revenue as a result of tax credits. Premium tax (and retaliatory 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.

ASSUMPTION (continued)

INS will require $2,164 for contract computer programming to add these new tax credits to the premium tax database.

Officials from the **Department of Natural Resources** assume the proposal would not result in any significant direct fiscal impact from the proposal.

In response to a similar proposal from this year (HCS for HB 2040), officials from the **Office of Administration - Budget and Planning (BAP)** provided the following chart regarding the fiscal impact of the proposal. Officials from DED state they agree with these estimates.

Section	Program	Comments	Fiscal Impact Net of Bond Guaranty Increase	Fiscal Impact with Bond Guaranty Increase
32.105	Affordable Housing Assistance Act	Transfer to 135.466	$6,000,000	$6,000,000
32.110	Affordable Housing Assistance Act	Transfer to 135.448	$26,000,000	$26,000,000
99.845	Housing Authority Law	Increase amount of TIF that can be redirected from future GR collections	($18,000,000)	($18,000,000)
99.960	Housing Authority	Reduces cap of net revenues which can be diverted from future GR collections for MODESA/MORESA	$50,000,000	$50,000,000
99.1045	MORESA	Eliminates old cap and combines MORESA and MODESA	$12,000,000	$12,000,000
100.286	MDFB	MDFB authorized to issue tax credits	($10,000,000)	($10,000,000)

100.297	MDFB	Increases Bond Issue level but also increases tax credit in conjunction with those loans	$0 *	($25,000,000)
135.446	Community Assistance Program	Received from Section 32.105	($6,000,000)	($6,000,000)
135.448	Community Assistance Program	Received from Section 32.110	($26,000,000)	($26,000,000)
135.460	Youth Opportunities	YOP will be converted from a Calendar Year distribution to a Fiscal Year Distribution. No YOP credits will be allowed to be issued from 1/1/6 to 6/30/6. Positive impact on GR for 6 months	$2,200,000	$2,200,000
135.766	Guaranty Fee	Repealed	$103,000 **	$103,000
620.1181	Mo. Quality Jobs		($12,000,000)	($12,000,000)
620.495	Small Business Incubator Program	Part of the $26 Million cap moved to 135.448	$500,000	$500,000
	General Revenue Impact Increase/(Decrease)		$24,803,000	($197,000)
* This legislation increases the bonding authority in section 100.297 by $25 million. Current legislation authorizes $50 million for this program which the board has never fully utilized. Since the inception of this program, only once has the board issued tax credits as guarantees to bond holders. In order for this increase to have a negative impact to general revenue, there would have to be major loan defaults in excess of $50 million, which is highly improbable.				
** Represents actual issued. This program has no cap.				

FISCAL IMPACT - State Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
Savings - Department of Economic Development Removal of the Neighborhood Assistance Program (Sections 32.100 - 32.120)	$11,000,000	$11,000,000	$11,000,000
Savings - Department of Economic Development Removal of the Development Tax Credit Program (Sections 32.105)	$6,000,000	$6,000,000	$6,000,000
Savings - Department of Economic Development Removal of the Family Development Account (Section 135.449 and repeal of Sections 208.750, 208.755, 208.760, 208.765, 208.770 & 208.775)	$30,000	$30,000	$30,000
Savings - Department of Economic Development Removal of the Youth Opportunities Program (Section 135.449 and repeal of sections 620.1100 & 620.1103)	$4,500,000	$4,500,000	$4,500,000
Savings - Department of Economic Development Removal of the Small Business Incubator Program (Section 135.449 and repeal of Section 620.495)	$500,000	$500,000	$500,000
Savings - Department of Economic Development Removal of the Loan Guarantee Fee Tax Credit (Section 135.776)	$100,000	$100,000	$100,000

FISCAL IMPACT - State Government (continued)	FY 2007 (10 Mo.)	FY 2008	FY 2009
Costs – Office of the Lieutenant Governor (MLG)			
Personal Service (1 FTE)	($50,000)	($51,250)	($52,531)
Fringe Benefits	($22,030)	($22,581)	($23,145)
Equipment and Expenses	($18,500)	($16,000)	($16,000)
Total Costs – MLG (Section 26.700)	($90,530)	($89,831)	($91,676)
Cost to Mo. Military Commission from one added member cost (Section 41.1010)	($1,025)	($1,056)	($1,087)
Costs – Department of Revenue			
Personal Service (7 FTE)	($137,473)	($169,092)	($173,319)
Fringe Benefits	($60,571)	($74,502)	($76,364)
Equipment and Expenses	($59,638)	($20,303)	($20,912)
Total Costs – DOR (Various Sections)	($257,682)	($263,897)	($270,595)
Costs - Department of Elementary and Secondary Education (DESE)			
Personal Service (1 FTE)	($45,838)	($56,381)	($57,790)
Fringe Benefits	($20,182)	($24,825)	($25,445)
Expense and Equipment	($8,344)	($6,566)	($6,763)
Data system updates	($100,000)	$0	$0
Total Costs - DESE (Section 135.1170)	($174,364)	($87,772)	($89,998)
Costs - Department of Economic Development			
Costs to implement the Small Business and Entrepreneurial Growth Act (Section 620.1892)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Loss - Department of Economic Development			
Increase State TIF from $32 million to $50 million (Section 99.845)	$0 to ($18,000,000)	$0 to ($18,000,000)	$0 to ($18,000,000)

FISCAL IMPACT - State Government (continued)	FY 2007 (10 Mo.)	FY 2008	FY 2009
Loss - Missouri Finance Development Board			
Increase Infrastructure tax credit program from $10 million to $20 million (Section 100.286)	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
Loss - Department of Economic Development			
Community Assistance Program and the Small Business Incubator Program (Sections 135.442 - 135.444, 135.448)	$0	$0 to ($26,000,000)	$0 to ($26,000,000)
Loss - Department of Economic Development			
Development Tax Credit Program (Sections 135.446)	$0 to ($6,000,000)	$0 to ($6,000,000)	$0 to ($6,000,000)
Loss - Department of Economic Development			
Tax Credit for a Disabled Employee (Section 135.566)	(More than $100,000)	(More than $100,000)	(More than $100,000)
Loss - Department of Economic Development			
Tax Credit for Qualified Equity Investment (Section 135.662)	$0	$0 to ($3,000,000)	$0 to ($3,000,000)
Loss - Department of Economic Development			
Two additional Rural Empowerment Zones (Section 135.903)	$0 to (Unknown - could exceed $240,000)	($0 to (Unknown - could exceed $240,000)	$0 to (Unknown - could exceed $240,000)

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2007 (10 Mo.)	FY 2008	FY 2009
<u>Loss</u> - Department of Elementary and Secondary Education			
Youth Jobs Pilot Program (Section 135.1170)	$0	$0 to ($100,000)	$0 to ($100,000)
<u>Loss</u> - Department of Revenue			
Numerous sales tax exemptions (Section 144.054)	(Unknown)	(Unknown)	(Unknown)
<u>Loss</u> - Department of Economic Development			
Missouri Small Business Investment tax credit program (Section 135.403)	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
<u>Loss</u> - Department of Economic Development			
Missouri Discovery Alliance tax credit program (Section 348.274)	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
<u>Loss</u> - Department of Economic Development			
Quality Jobs program (Section 620.1881)	$0 to ($12,000,000)	$0 to ($12,000,000)	$0 to ($12,000,000)
<u>Loss</u> - Department of Economic Development			
Small Business and Entrepreneurial Growth Act (Section 620.1892)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)

FISCAL IMPACT - State Government (continued)	FY 2007 (10 Mo.)	FY 2008	FY 2009
Loss - Department of Economic Development			
Small Business Innovative Research, Small Business Technology Transfer or Broad Agency Announcement Grant tax credit (Section 2)	$0 to ($2,000,000)	$0 to ($2,000,000)	$0 to ($2,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**$21,506,399 to (More than $46,733,601)**	**$21,587,444 to (More than $75,762,556)**	**$21,576,644 to (More than $75,763,356)**

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.

INSURANCE DEDICATED FUND			
Cost - Dept. of Insurance			
Reprogramming costs (Various Sections)	($2,164)	$0	$0
ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	**($2,164)**	**$0**	**$0**
VARIOUS OTHER STATE FUNDS			
Loss - Department of Revenue			
Numerous sales tax exemptions (Section 144.054)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO VARIOUS OTHER STATE FUNDS	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - Local Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
CITIES AND COUNTIES			
Loss - Cities Numerous sales tax exemptions (Section 144.054)	(Unknown)	(Unknown)	(Unknown)
Loss - Counties Numerous sales tax exemptions (Section 144.054)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO CITIES AND COUNTIES	**(Unknown)**	**(Unknown)**	**(Unknown)**
SCHOOL DISTRICTS			
Costs - to assist DESE to administer the Youth Jobs Pilot program (135.1170)	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT TO SCHOOL DISTRICTS	**\$0 to (Unknown)**	**\$0 to (Unknown)**	**\$0 to (Unknown)**

FISCAL IMPACT - Small Business

Small businesses that qualify for the various tax credit programs could be fiscally impacted as a result of this proposal.

DESCRIPTION

This proposal makes various changes to economic development programs.

Sections 41.655, 41.1010, 42.007 160.053 & 168.021 - changes the law regarding military facilities and personnel;

This bill changes the laws regarding military facilities and personnel. In its main provisions, the bill:

DESCRIPTION (continued)

(1) Allows Johnson County to utilize existing airport zoning regulations but changes the composition of the airport zoning commission and the board of variance;

(2) Makes the chairman of the Missouri Veterans Commission, or the chairman's designee, an ex officio member of the Missouri Military Preparedness and Enhancement Commission, and vice versa;

(3) Requires the State Board of Education to promulgate a rule that will permit the spouse of a United States military member stationed in Missouri who has relocated within one year of application for a Missouri teacher's certificate and is a holder of a valid teacher's license from another state and has undergone a background check through the other state's licensing process to receive a provisional license for immediate assumption of classroom duties pending completion of a Missouri background check; and

(4) Exempts the children of military personnel who have completed an accredited prekindergarten or kindergarten program in another state from the kindergarten entry birthday cutoff.

Sections 99.845, 99.847 - tax increment financing;

The bill:

(1) Specifies the manner in which the incremental increase in the general revenue portion of state sales tax revenues will be calculated; and

(2) Increases the amount of new state revenue approved for disbursement from the Missouri Supplemental Tax Increment Financing Fund from $32 million to $50 million annually;

Sections 99.918, 99.960, 99.963, 99.975, 99.980 - MISSOURI DOWNTOWN ECONOMIC STIMULUS ACT (MODESA); the bill:

(1) Specifies the manner in which the incremental increase in the general revenue portion of state sales tax revenues will be calculated;

(2) Eliminates the requirement that the Department of Economic Development submit MODESA applications to the Missouri Development Finance Board;

DESCRIPTION (continued)

(3) Allows the department to determine whether or not a particular applicant will receive funding from the State Supplemental Downtown Development Fund, rather than having the board do so as currently required;

(4) Reduces the amount of other net new revenues approved for disbursements from the State Supplemental Downtown Development Fund from $108 million to $58 million; however, this amount must include the other net new revenues approved for disbursement from the State Supplemental Rural Development Fund; and

(5) Specifies that the State Supplemental Downtown Development Fund will consist of other net new revenues generated annually by the development projects up to an amount approved by the department, rather than requiring that the first $150 million of other net new revenues generated annually by the projects be deposited into the fund.

Sections 99.1045, 99.1048, - MISSOURI RURAL ECONOMIC STIMULUS ACT (MORESA) the bill:

(1) Changes the amount of other net new revenues approved for disbursements from the State Supplemental Rural Development Fund from $12 million to $58 million; however, this amount must include the other net new revenues approved for disbursement from the State Supplemental Downtown Development Fund; and

(2) Specifies that the State Supplemental Rural Development Fund will consist of other net new revenues generated annually by the development projects up to an amount approved by the department, rather than requiring that the first $12 million of other net new revenues generated annually by the projects be deposited into the fund.

Sections 99.1082, 99.1090, 99.1092 - DOWNTOWN REVITALIZATION PRESERVATION PROGRAM;

The bill specifies the manner in which the incremental increase in state sales tax revenue will be calculated.

Sections 99.1100 - 99.1130 - Missouri Economic Development Code;

This bill establishes the Missouri Economic Development Code and specifies that if provisions of this code are inconsistent with the provision of any other law, the code will be controlling.

DESCRIPTION (continued)

Each municipality or county may create a Missouri economic development code job creation commission, but it will only be able to conduct business if it is approved by the governing body by order or ordinance. In order to be approved, the governing body must make certain findings which are specified in the bill. Each commission will be governed by a board of commissioners.

This code cannot be used for any residential development project if the taxes that would normally go to the school district would be used to finance the project. In this case, all the school boards of all the school districts located in the area of the project must consent to the project.

This code cannot be used in conjunction with any other redevelopment program authorized under Chapter 99, RSMo. These programs include tax increment financing and the Missouri Downtown Economic Stimulus Act.

The bill specifies:

(1) The board's membership and powers;

(2) The items which must be included in a development plan and the findings which must be made for a municipality or county to adopt the plan. The findings must include a cost-benefit analysis of the economic impact the development plan will have on the municipality, county, and school districts that are within the development area. The initial development or redevelopment of a gambling establishment is prohibited. The development project must be completed and all debts retired within 25 years;

(3) The requirements for public hearings related to the project;

(4) The manner in which obligations may be issued and retired; and

(5) The manner in which payments in lieu of taxes and economic activity taxes will be allocated during the time development financing is undertaken.

Sections 100.255, 100.275, 100.281, 100.286, 100.297 & 100.760 - MISSOURI DEVELOPMENT FINANCE BOARD; the bill:

(1) Allows bonds issued by the Missouri Development Finance Board to mature within 40 years, rather than 30 as currently required;

DESCRIPTION (continued)

(2) Specifies that any proceedings involving the validity or enforceability of any security for any bond issued by the board will be deemed to have been completed by the development agency in accordance with the laws under which the proceedings were authorized. These proceedings are not subject to legal challenge after the board issues the bonds on behalf of the development agency unless the challenge is brought within 90 days of the proceeding's end;

(3) Allows the security for any bond issued by the board to include a pledge of payments in lieu of taxes or economic activity tax revenues generated within a redevelopment area, even if the infrastructure facilities that are financed with the bonds are located within the redevelopment area generating the taxes or revenues;

(4) Removes the limit on loans the board can approve for infrastructure facility projects. Currently, the loan limit is $10 million;

(5) Changes the limit on tax credits given to entities which donate money to certain funds. Currently, the total tax credits awarded annually are equal to $10 million or 5% of the average growth in general revenue receipts in the three preceding fiscal years, whichever is less. The bill increases this to $20 million or 5% of the average growth in general revenue receipts in the three preceding fiscal years, whichever is less;

(6) Increases the aggregate principal amount of revenue bonds outstanding at any time with respect to which a tax credit can be issued from $50 million to $75 million; and

(7) Reduces the conditions which the board must find before agreeing to issue business use incentive for large-scale development (BUILD) tax credits to an eligible industry. Currently, the board must find that there is at least one other state that the eligible industry is considering for the project's location and a significant disparity must exist between the applicant's projected costs if the project is located in Missouri and if it is located in the competing state. Both of these are eliminated from the list of conditions which must exist before BUILD tax credits can be agreed to.

Section 135.442 - COMMUNITY ASSISTANCE PROGRAM;

The proposal establishes the Community Assistance Program which will issue tax credits for contributions to projects that include community development, education, physical revitalization, job training, and youth development. These tax credits may be carried over for the next five tax periods, sold, or transferred. The tax credit's value will be equal to 30% of the contribution for in-kind contributions; 50% of the contribution for monetary contributions; or 70% of the

DESCRIPTION (continued)

contribution for monetary contributions to a rural community project;

Limits the total amount of tax credits granted under the Community Assistance Program and the Small Business Incubator Program to $26 million for Fiscal Year 2008 and after;

Section 135.444 - SMALL BUSINESS INCUBATORS ACT;

The proposal establishes the Small Business Incubators Program which consists of a loan, loan guarantee, and grant program for the establishment and operation of small business incubators. A local sponsor can submit an application to the Department of Economic Development to obtain a loan, loan guarantee, or grant. The bill specifies the requirements of the application, criteria which must be met in order to accept an application, the purposes for which a loan or grant can be used, and the responsibilities of the local sponsor. The Missouri Small Business Incubator Fund is established which will consist of appropriations, gifts, and other contributions. Taxpayers who make a contribution to the fund or to an approved local sponsor are entitled to a tax credit equal to 50% of the contribution. These tax credits may be carried over for the next five tax periods, sold, or transferred;

Limits the total amount of tax credits granted under the Community Assistance Program and the Small Business Incubator Program to $26 million for Fiscal Year 2008 and after;

Section 135.446 - DEVELOPMENT TAX CREDIT;

the bill establishes the Development Tax Credit Program. Any business firm may apply to the department to conduct economic development projects. The department will approve applications on a case-by-case basis giving priority to manufacturing, processing, or assembly; corporate headquarters; services in interstate commerce; and warehouse or distribution projects proposing wages above the average for the area and which provide health benefits. These tax credits may be carried over for the next five tax periods, sold, or transferred. Tax credits approved for all economic development projects cannot exceed $6 million in any fiscal year. Tax credits for economic development projects will be equal to the lesser of $10,000 per quality job created or retained; 50% of the purchase price of new capital improvements or equipment; $500,000 per project; or the least amount needed to cause the project to occur;

Section 135.449 - YOUTH OPPORTUNITIES, FAMILY DEVELOPMENT ACCOUNT, AND SMALL BUSINESS INCUBATOR TAX CREDIT;

Prohibits tax credits from being approved, awarded, or issued after January 1, 2007, to any

DESCRIPTION (continued)

person or entity claiming a tax credit under the Youth Opportunities and Violence Prevention Act, Family Development Account Program, or the current Small Business Incubator Program established in Section 620.495, RSMo;

Section 135.566 - DISABLED EMPLOYEE TAX CREDIT;

This proposal authorizes a tax credit for hiring a disabled employee against a company's corporate income tax; corporate franchise tax; financial institutions tax; or bridge, express, and public utility company tax. Individuals are excluded from this tax credit. The amount of the credit is based on the disabled employee's average hours worked per week in a taxable year. If the average is at least 10 hours, the credit will be $750 per disabled employee; $1,000 if the average is at least 20 hours; and $2,000 if the average is at least 40 hours. The credit is not refundable, cannot be carried over, or transferred.

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

Section 135.662 - QUALIFIED EQUITY INVESTMENT TAX CREDIT;

Beginning January 1, 2007, this bill authorizes a tax credit equal to 5% of the adjusted purchase price paid to the issuer of a qualified equity investment. The tax credits are not transferable or refundable, but may be carried forward until used. The bill allows for state recapture of credits where permissible under federal law.

The provisions of the bill will expire six years from the effective date

Section 135.700 - GRAPE GROWER/WINE PRODUCER TAX CREDIT;

Transfers the tax credit program for grape and wine producers from the department to the Missouri Agriculture and Small Business Development Authority and requires that activities qualifying the grower or producer for the tax credit be pre-approved by the authority based on established priority criteria. These tax credits may be transferred or sold and no more than $500,000 can be issued in one year.

Section 135.903 - RURAL EMPOWERMENT ZONES;

This proposal adds Oregon and St. Clair counties to the list of counties that qualify as a Rural Empowerment Zone.

DESCRIPTION (continued)

Section 135.950, 135.967 - ENHANCED ENTERPRISE ZONES;

The bill:

(1) Changes the definition of "employee" to include only full-time workers. The current definition includes full-time, part-time, and seasonal employees; and

(2) Requires the Department of Economic Development to verify through the Department of Revenue that the tax credit applicant does not owe any delinquent taxes, interest, or penalties and to verify through the Department of Insurance that the applicant does not owe any delinquent insurance taxes prior to issuing any tax credits. If the applicant is delinquent, the amount of tax credits issued will be reduced by the applicant's tax delinquency.

Section 135.1170 - YOUTH JOBS PILOT PROGRAM;

This proposal authorizes a tax credit for employers who hire qualified high school students for summer jobs in Jackson County, St. Louis County and St. Louis City. The tax credit is equal to 35% of the wages paid to the student employee, but can only be claimed if the employer pays the student at least $100. An employer can claim up to $10,000 per year. The program has a cumulative annual cap of $100,000.

To qualify, a student must be currently enrolled as a junior or senior in high school, meet minimum attendance requirements, earn a grade point average of 2.0 or better, and be eligible for the free or reduced lunch program. The Department of Elementary and Secondary Education must establish a procedure by which an employer can determine if he or she is eligible to receive the tax credit based on if the student employee qualifies. The department must also track students for whom employers receive this tax credit.

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

Section 144.054 - SEVERAL SALES TAX EXEMPTIONS;

This proposal grants a sales/use tax exemption to motor vehicles over 24,000 pounds, trailers used by common carriers, utilities consumed in the manufacturing, processing, compounding, mining, or producing of pesticides, pet food, livestock or poultry feed, any product purchased for use in the research and development of agricultural biotechnology products, prescription pharmaceuticals for consumption by humans or animals, and tangible personal property purchased for use or consumption directly in the research and development of agricultural

DESCRIPTION (continued)

biotechnology products.

Sections 290.140 & 290.152 - Changes the laws regarding the release of information about an employee to a prospective employer or law enforcement agency;

This proposal would provide limited immunity from liability for the disclosure of job-related information about a current or former employee. An employer or designated agent who discloses job-related information to a prospective employer of a former or current employee would be presumed to be acting in good faith and immune from civil liability for the disclosure or its consequences. Job-related information would be defined as education, training, experience, qualifications, conduct, and job performance for the purpose of evaluating the person for employment. The presumption of good faith would be rebuttable, and immunity would be lost upon a showing, by clear and convincing evidence, that the information disclosed by the former employer or agent was knowingly false; disclosed with reckless disregard for the truth; deliberately misleading; rendered with malicious purpose toward the former or current employee; or the disclosure was in violation of a nondisclosure agreement or applicable law.

Sections 135.400, 135.403, 348.251 - 348.275, 620.030, 620.500, 620.503, 620.1003 & 620.1007 - MISSOURI DISCOVERY ALLIANCE;

Section 135.400 allows for $10,000,000 in tax credits each year for qualified investments in Missouri Small Businesses. The proposal deleted the Capital Tax Credit Program, which had a $13 million cumulative cap which had been exhausted.

This substitute creates the Missouri Discovery Fund and establishes the Missouri Discovery Alliance in the Department of Economic Development to assist with the recruitment, relocation, and expansion of technology businesses. The alliance replaces the Missouri Technology Corporation, and the substitute establishes a 13-member board of directors for the alliance. If an innovation center's annual report of its activities and operational plans to coordinate with the small business development centers is not approved by the department or the alliance, the department can withhold 75% of the state-allocated center's funding until the report is accurate and complete. The innovation center must provide 100% match for any funding received from the discovery fund. Beginning July 1, 2008, existing and new innovation centers established after that date will receive funding through the Missouri Discovery Fund for no more than five years.

The alliance may authorize up to $10 million in tax credits annually. A taxpayer will receive a 30% tax credit for a contribution toward the first $500,000 in venture capital contributed to a

DESCRIPTION (continued)

qualifying company or a 40% tax credit if the company invested in is located in a rural area or distressed community. The alliance can reserve tax credits for investors who have a net loss of investment within five years of contributing the first $5 million in venture capital to an approved company. A taxpayer will receive a 50% tax credit for contributions to a technology commercialization infrastructure project or for expenditures for industrial research conducted at a public research institution or private not-for-profit collaborative research project approved by the alliance. The credits can be used against current income tax, carried over for three consecutive years, or transferred.

The substitute also establishes the Small Business Tax Credit Review Committee and authorizes a 30% tax credit for a qualified investment of up to $100,000 in a Missouri small business or a 40% credit if the investment is in a business in a distressed community. The tax credit can be held as a guarantee on a loan from a financial institution to a qualified business and only issued and redeemed if the small business defaults on the loan within the first five years of the loan.

Sections 313.820 - Gaming Proceeds in St. Charles;

This part of the proposal limits the expenditure of funds derived from admission fees for St. Charles City and St. Charles County. The proposal further puts a limitation on the amount of expenditures other than capital, cultural, and special law enforcement purpose expenditures is phased-in over a period of years based upon a percentage of the revenue received from excursion gambling boat admission fees in fiscal year 2007.

Section 447.708 - BROWNFIELD REDEVELOPMENT;

The bill allows tax credits for abandoned property and redevelopment projects to include up to 100% of the demolition costs that are not directly part of the remediation activities if the demolition is necessary to accomplish the planned use of the facility where the remediation activities are occurring.

Section 620.517 - MISSOURI WORKFORCE INVESTMENT ACT OF 2006;

This section creates a Missouri Workforce Investment Board to perform functions and activities so designated under the federal Workforce Investment Act of 1998. The Governor shall establish membership requirements of this board on federal law through executive order.

DESCRIPTION (continued)

Sections 620.1878, 620.1881 - QUALITY JOBS;

The bill:

(1) Excludes educational services, religious organizations, and public administration from the definition of "qualified company";

(2) Allows the annual maximum amount of tax credits issued to any qualified company for a project to be increased to $1 million if the number of new jobs will increase by 500;

(3) Allows the qualified company to begin retaining withholding taxes when it reaches the minimum number of new jobs and the average wage exceeds the county average wage;

(4) Prohibits the qualified company from receiving tax credits or withholding taxes if the average wage is below the county average wage, if the qualified company has not maintained the required employee insurance, or if the number of new jobs does not meet the minimum. If a qualified company initially filed a notice of intent and received approval from the department for high impact benefits and the minimum number of jobs is below the required minimum, the company will not receive tax credits for the balance of the benefit period but may continue to retain withholding taxes if it otherwise meets the requirements of a small and expanding business under the program;

(5) Increase the maximum amount of tax credits issued annually from $12 million to $24 million; and

(6) Requires the Department of Economic Development to verify through the Department of Revenue that the tax credit applicant does not owe any delinquent taxes, interest, or penalties and to verify through the Department of Insurance that the applicant does not owe any delinquent insurance taxes prior issuing any tax credits. If the applicant is delinquent, the amount of tax credits issued will be reduced by the applicant's tax delinquency.

Section 620.1892 - SMALL BUSINESS AND ENTREPRENEURIAL GROWTH ACT;

This proposal establishes the Small Business and Entrepreneurial Growth Act for small business employers who expand their business by increasing the number of jobs and meeting certain qualifications. A qualified employer can retain the Missouri withholding tax from the salaries of the newly created jobs for one year; or if the employer pays one half the cost of the premiums for health insurance for all employees, the withholding tax can be retained for two years.

DESCRIPTION (continued)

Section 1- EXEMPTION FROM SALES AND USE TAXES OF UTILITIES;

There shall be a rebuttable presumption that the raw materials used in the primary manufacture of automobiles contain at least twenty-five percent recovered materials.

Section 2- TAX CREDITS FOR FEDERAL GRANTS RECEIVED;

Any small business which receives a federal Small Business Innovative Research, Small Business Technology Transfer, or Broad Agency Announcement grant may be issued a tax credit equal to 50% of the grant amount. The total amount of tax credits available shall not exceed $2 million.

OTHER PROVISIONS

The bill repeals:

(1) Tax credits for neighborhood assistance;

(2) Tax credits for homeless assistance;

(3) Youth Opportunities and Violence Prevention Act;

(4) Small business guaranty fees;

(5) Family Development Account Program; and

(6) Small Business Incubators Act.

(7) Missouri Training and Employment Act

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
Office of Administration - Budget and Planning
Department of Insurance
Office of the State Treasurer
Office of the Secretary of State
Department of Agriculture
Department of Natural Resources
Missouri Veterans Commission
Department of Elementary and Secondary Education
Department of Labor and Industrial Relations

Mickey Wilson

Mickey Wilson, CPA
Director
April 17, 2006