

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5386-01
Bill No.: SB 1182
Subject: Business and Commerce; Economic Development; Science and Technology;
 Taxation and Revenue
Type: Original
Date: March 15, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(\$55,892 to \$10,055,892)	(\$60,220 to \$10,060,220)	(\$61,786 to \$10,061,786)
Total Estimated Net Effect on General Revenue Fund	(\$55,892 to \$10,055,892)	(\$60,220 to \$10,060,220)	(\$61,786 to \$10,061,786)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the State Treasurer** and the **Office of the State Auditor** each assume the proposal will not fiscally impact their respective agencies.

Officials from the **Office of Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$1,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Coordinating Board for Higher Education** state 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.

ASSUMPTION (continued)

Officials from the **University of Missouri** assume they will incur no additional costs as a result of the passage of this bill.

Officials from the **Department of Revenue** state while there will be programming costs involved with the credit, these will be absorbed by the department.

Officials from the **Department of Economic Development (DED)** state 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 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 a 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 proposal creates the qualified business technology tax credit program which is authorized to issue \$10 million in tax credits per year. DED assumes the need for one Economic Development Incentive Specialist II to administer the tax credit program plus necessary expenses and equipment. DED assumes a cost to the General Revenue Fund of roughly \$85,000 per year for the additional FTE.

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, DED will 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. Economic output represents the total value of the production of goods and services.

Oversight has, for fiscal note purposes only, changed the starting salary for DED's Economic Incentive Specialist II to correspond to the second step above minimum for comparable positions

ASSUMPTION (continued)

in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight also assumes DED will not incur additional office space expense as a result of this one FTE.

Oversight assumes the new tax credit program 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.

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.

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Costs</u> - Department of Economic Development (DED)			
Personal Service (1 FTE)	(\$26,804)	(\$32,969)	(\$33,793)
Fringe Benefits	(\$11,810)	(\$14,526)	(\$14,889)
Expense and Equipment	<u>(\$17,278)</u>	<u>(\$12,725)</u>	<u>(\$13,104)</u>
<u>Total Costs</u> - DED	(\$55,892)	(\$60,220)	(\$61,786)
<u>Loss</u> - tax credits issued by the Missouri Discovery Alliance	\$0 to <u>(\$10,000,000)</u>	\$0 to <u>(\$10,000,000)</u>	\$0 to <u>(\$10,000,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	(\$55,892 to <u>\$10,055,892</u>)	(\$60,220 to <u>\$10,060,220</u>)	(\$61,786 to <u>\$10,061,786</u>)

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal creates the Missouri Discovery Alliance within the Department of Economic Development as a replacement for the Missouri Technology Corporation and the Missouri Discovery Fund. The Missouri Discovery Alliance shall have the same authorizations and authorities as the Missouri Technology Corporation had.

This act defines the term "technology commercialization" as the process of moving investment-grade technology from a business, university, or laboratory into the marketplace for application. The Missouri Discovery Alliance may contract with not-for-profit organizations to achieve: 1) the enhancement of technology application; 2) technology commercialization; 3) the enhancement of technology development; and 4) the enhancement of technology business recruitment. Any contract entered into by the Missouri Discovery Alliance and a not-for-profit organization shall require the not-for-profit organization to provide at least a one hundred percent match for any funding received from the Alliance through the Missouri Discovery Fund.

This act sets out the necessary items to be included in the articles of incorporation for the Missouri Discovery Alliance. The Alliance may: 1) establish a statewide business modernization network to assist Missouri businesses in identifying ways to enhance productivity and market competitiveness; 2) identify scientific and technological problems and opportunities related to Missouri's economy and formulate proposals to overcome such problems and realize opportunities; 3) Determine specific areas in which financial investment in scientific and technological research and development will contribute to improvement or could be enhanced; 4) assist in establishing cooperative associations for the purpose of coordinating research and development programs that will aid in the creation of jobs; 5) make and direct seed capital or venture capital investments in Missouri business investment funds or businesses which would result in growth and job creation.

The Missouri Discovery Alliance is allowed to authorize up to ten million dollars in tax credits per fiscal year to investors in qualifying companies. Investors contributing the first five hundred

DESCRIPTION (continued)

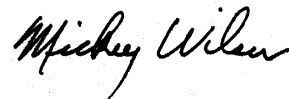
thousand dollars may be issued either a thirty or forty percent tax credit depending on whether the qualified company is located in a rural or distressed area or not. A reserve of tax credits is permitted for investors who contribute the first five million dollars to the qualified company. Investors may be issued either a thirty or forty percent tax credit depending on whether the qualified company is located in a rural or distressed area or not. The Discovery Alliance may issue tax credits for fifty percent of the cost of a technology commercialization infrastructure project. A fifty percent tax credit may be issued to business firms for expenditures related to industrial research conducted at a public research institution or private not-for-profit research institution, as long as the collaborative research project is approved by the Alliance.

The tax credits provided under this act may be used against the taxpayers income tax liability, are non-refundable, but may be carried forward for three years until used. The tax credits are fully transferrable.

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
Office of the Governor
Coordinating Board for Higher Education
Office of the State Treasurer
Office of the Secretary of State
Office of the State Auditor
University of Missouri
Department of Revenue



Mickey Wilson, CPA
Director
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