COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1217-07
Bill No.: Truly Agreed To and Finally Passed SS for SCS for HCS for HB 327
Subject: Business and Commerce; Economic Development; Insurance Department; Taxation and Revenue
Type: Original
Date: June 5, 2007

Bill Summary: This proposal modifies provisions of certain Department of Economic Development programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(More than $1,582,294) - could exceed ($48,582,294)	(More than $1,613,665) - could exceed ($73,113,665)	(More than $1,636,388) - could exceed ($97,136,388)
Total Estimated Net Effect on General Revenue Fund*	**(More than $1,582,294) - could exceed ($48,582,294)**	**(More than $1,613,665) - could exceed ($73,113,665)**	**(More than $1,636,388) - could exceed ($97,136,388)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Road Fund	(More than $5,902,502)	(More than $3,525,000)	(More than $3,548,000)
Various other State Funds	(More than $824,015)	(Unknown)	(Unknown)
Total Estimated Net Effect on Other State Funds*	**(More than $6,726,517)**	**(More than $3,525,000)**	**(More than $3,548,000)**

*** 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 41 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	22 FTE	22 FTE	22 FTE
Total Estimated Net Effect on FTE	**22 FTE**	**22 FTE**	**22 FTE**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government*	**$941,714 to (Unknown)**	**$1,834,000 to (Unknown)**	**$1,857,000 to (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

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal modifies various sections pertaining to tax increment financing. For municipalities within the East-West Gateway, they must create a TIF commission through which all recommendations for proposed redevelopment must first be approved. The proposal prohibits any new TIF projects in one hundred year flood plains as well as Greenfield areas within the East-West Gateway region. (99.820 - 99.841)

The proposal modifies several definitions to include charitable organizations that are exempt from federal income tax in the list of companies and/or individual taxpayers who are eligible for a variety of tax credit programs. This would open up these programs to a new section of eligible participants. This increase would not necessarily increase the cost of the programs, simply the pool from which those programs can award benefits.

The proposal creates the Distressed Areas Land Assemblage Tax Credit program. The program provides for a 50% tax credit on acquisition costs and 100% on interest costs incurred on an eligible parcel of land for a period of five years. The tax credits may be carried forward for six consecutive years or until the credit is fully used, whichever occurs first. The total aggregate amount of tax credits authorized under this program shall not exceed $100 million dollars and the

ASSUMPTION (continued)

proposal sets an annual cap of $12 million dollars for the program. This proposal could therefore lower general and state revenues by that amount. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate. (99.1200)

The proposal modifies the tax credits available for small businesses. The proposal provides credit for up to thirty percent of an investment made for such business in distressed and/or rural communities. The amount of tax credits currently available for this program is $13 million annually with at least $4 million for investments in distressed communities. The legislation reduces that annual cap to $10 million. The proposal could therefore increase general and state revenues by $3 million, assuming the program is fully utilized. This program may stimulate other economic activity, but Budget and Planning does not have the data to estimate the induced revenues, the Department of Economic Development may have such an estimate. (135.403)

The proposal creates a tax credit program that allows credit for individuals who make their homes accessible for disabled persons living with them. The annual cap for the credits is $100,000. The credits are available only in the event that there are credits remaining under the $10 million dollar cap for similar programs. This proposal could therefore lower general and total state revenues by that amount, assuming the unused portion of the other credit has not been included in estimated decreases to general and total state revenues. (135.562)

The proposal creates a tax credit program for contributing to the preservation of civil war sites. The credit shall be allowed in an amount equal to fifty percent of the contribution, it is transferable, sellable and assignable and may be carried forward for five years until fully claimed. The annual cap for the credit is set at $100,000 and thus, could lower general and state revenue by that amount. This program may stimulate other economic activity, but Budget and Planning does not have the data to estimate the induced revenues, the Department of Natural Resources and the Department of Economic Development may have such an estimate. (135.571)

The proposal increases the tax credit for contributions to maternity homes; the current annual cap is set at $2 million, this proposal raises that limit to $3 million. The proposal could therefore lower general and state revenues by $1 million. (135.600)

The proposal creates the Qualified Beef Tax Credit which allows credits for qualifying sales of qualifying beef animals. The proposal includes a carry back provision for three years as well as a carry forward provision for five years. The annual cap for the program is set at $10 million with an aggregate cap not exceeding $30 million; therefore this proposal could lower general and state revenue by that amount. (135.660)

ASSUMPTION (continued)

The proposal creates a state program similar to the federal New Markets Tax Credit Program which authorizes tax credits to any investor who makes investments in low income communities. This legislation could have a negative impact on general revenue up to $15 million dollars in any fiscal year. The credit may be taken against any state tax liability - income tax except withholding, corporate franchise tax, financial institution tax, public utility tax, or insurance retaliatory tax. Budget and Planning defers to the departments of Economic Development and Insurance for more specific estimates on the impact of these tax credits. (135.662)

The proposal creates an income tax, corporate franchise tax or financial institutions tax credit up to $20,000 or 20% of the costs, whichever is less, of developing a qualified alternative fuel vehicle refueling property using qualified Missouri contractors and materials. This program is capped at $3 million in 2008, $2 million in 2009, and $1 million in 2010. This proposal could therefore lower general and state revenues by those amounts each year. (135.710)

The proposal expands on the tax credits awarded for investment in film production. Beginning January 1, 2008, tax credits issued under this program shall not exceed $10,500,000 per year. This proposal could therefore lower general and state revenues by $9 million. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate. (135.750)

The proposal modifies the enhanced enterprise zone program by increasing the annual cap of tax credits available from $7 million dollars to $25 million dollars. This proposal could therefore lower general and state revenues by $18 million. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate. (135.967)

The proposal modifies the reporting requirements of the Department of Revenue with regard to the Homestead Preservation Tax Credit. The Department of Revenue would be required to report to the General Assembly and the Budget and Planning office the amount required to offset any increase in property taxes for eligible taxpayers. This proposal would have no direct impact on general and total state revenues. But, the General Assembly could choose to appropriate, and the Governor could approve, the extra spending required for this proposal. Budget and Planning defers to the Department of Revenue and the State Tax Commission for an estimate of the extra spending. Further, because fewer seniors may choose to utilize the Senior Property Tax Credit, general and total state revenues could actually increase. Therefore, the net fiscal impact of this proposal is unknown. (137.106)

ASSUMPTION (continued)

The proposal exempts motor fuel sold for use in operating public transportation systems and school buses from the state motor fuel tax. The proposal could therefore lower motor fuel tax revenues by an unknown amount. Budget and Planning does not have data to estimate the potential loss of revenues, the Department of Revenue may have such an estimate. (142.815 and 142.817)

The proposal provides a deduction from Missouri adjusted gross income of $1,500 or 10% of the purchase price, whichever is less, for the purchase of a qualifying hybrid vehicle. According to a 5/4/2006 article published on the Auto Channel website , 199,148 new hybrids were registered in 2005, more than double the amount in 2004. However, Missouri was not among the Top Ten states for registration, which accounted for 62% of total registrations. Budget and Planning estimates Missouri had 0.9% of the registrations, or roughly 1,800 registrations. At $1,500 for each, this would reduce Missouri AGI by $2,700,000 and reduce general and total state revenues by $162,000 (at the 6% tax rate). It is likely sales of these cars will climb as their popularity increases. (143.114)

The proposal provides an income tax credit of up to $500 per taxpayer, but no less than $50, for the purchase of E-85, biodiesel, or biodiesel blended gasoline. The aggregate amount of tax credits which may be redeemed in any fiscal year shall not exceed $500,000. This proposal could therefore lower general and total state revenues by that amount. (143.128)

The proposal authorizes a sales tax exemption for personal property and utilities used in the research and development of agricultural, biotechnology and plant genomics products as well as certain diesel-powered motor vehicles. Budget and Planning does not have the data to estimate the loss of revenues resulting from these exemptions, the Department of Revenue may have such an estimate. (144.030)

The proposal authorizes an exemption from state and local sales and use tax for the cost of certain materials used in the manufacturing, processing, compounding, mining, or production of a product. Data from the US Department of Energy, Energy Information Administration (EIA) indicates that in 2005, total revenues including sales taxes from sales of electricity to end users in Missouri in the industrial sector amounted to $766 million. This translates to sales of $720 million, at state and average local taxes of 6.45 percent. The resulting estimated loss of state and local sales taxes in the industrial sector would therefore be $46 million assuming similar electricity usage in 2007.

ASSUMPTION (continued)

($) millions	2005
Industry Sales	720
Sales Tax Rate	6.45%
Industry Revenues	766
State and Local Sales Taxes from Industrial electricity sales	46

Budget and Planning has no means to determine other loss of revenue from other utilities, chemicals, machinery equipment and materials used in industry (in addition to losses to local transportation districts), but notes that such loss could be substantial. (144.054)

The proposal provides a sales tax exemption for E-85 vehicles for FY 08. The proposal could therefore lower general and state revenues by an unknown amount. Budget and Planning does not have data to estimate the potential loss of revenues, the Department of Revenue may have such an estimate. (144.061)

The proposal provides a sales tax exemption for aviation fuel used in a transoceanic flight. The proposal could therefore lower general and state revenues by an unknown amount. Budget and Planning does not have data to estimate the potential loss of revenues, the Department of Revenue may have such an estimate. (144.806)

The proposal allows the creation of vocational school districts within certain counties. (178.715)

The proposed legislation extends the date for the Missouri Community College Job Training program until 2028 and the date for community college districts to sell certificates until 2018. (178.895 and 178.896)

The proposal modifies the amount that may be spent on administrative costs for the Family Development Account Program; it decreases the amount that may be spent for such purposes in the first two years of the program to 15% (from 20% currently) and to 10% for subsequent years (from 15% currently). (208.755)

The proposal modifies various provisions pertaining to transportation districts and creates the Regional Railroad Authorities Act. (238.202 - 238.275 and 388.700 - 388.745)

The proposal removes outdated language pertaining to the Missouri Training and Employment Council and adds Workforce Investment Board language. (620.504 - 620.509 and 620.521 - 620.529)

ASSUMPTION (continued)

The proposal modifies the Missouri Quality Jobs Program by increasing the annual cap of tax credits available from $12 million dollars to $30 million dollars. This proposal could therefore lower general and state revenues by $18 million. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate. (620.1881)

The proposal creates a tax credit program for small business retention and flood survivor relief. The limit for tax credits per company, per year is set at $250,000 per year but may be increased to $500,000 if approved by the quality jobs advisory task force. The aggregate cap for all such tax credits is $500,000 per year. This proposal could therefore lower general and state revenues by that amount. (620.1881)

The proposal modifies the Quality Jobs program by offering tuition reimbursement programs and creates a tax credit program for companies who pay a portion of an employee's tuition (50% of the expenses related to that tuition). The annual cap for the program is $250,000, and there is a limit of $5000 per employee and $25,000 per company. (620.1881)

The proposal creates the Small Business and Entrepreneurial Growth Act which mirrors the provisions of the Missouri Quality Jobs act but is aimed at small businesses that are not eligible for that program. Provided the qualifications are met, companies are allowed to retain withholding taxes for a period of one year; this proposal could therefore lower general and state revenues by an unknown amount every year. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate. (620.1892)

The proposal prohibits any person, firm, LLC or corporation to purchase more than twenty tickets at one time except those purchased through a group sales office and deletes language making scalping illegal. (Section 1 and 578.395)

The proposal modifies provisions of income, sales and use and corporate franchise tax statutes to exclude certain business contacts from consideration in the determination of whether or not nexus exists for tax purposes. This proposal will reduce general and total state revenues by an unknown, perhaps significant, amount.

Also note that, in several sections the following language is added "Notwithstanding any other law to the contrary, any tax credits granted under this section may be assigned, transferred, sold, or otherwise conveyed without consent or approval". This will likely ensure that a greater percentage of the tax credits issued will be redeemed. To the extent the amounts currently redeemed are less than 100% of the allowable amounts, this proposal will reduce general and

ASSUMPTION (continued)

total state revenue.

Officials from the **Department of Economic Development (DED)** assume the change to the Missouri Quality Jobs (MQJ), Enhanced Enterprise Zone (EEZ), and New Jobs Training (NJTC) programs will create positive direct net economic benefit to Missouri. DED assumes the EEZ will create new jobs directly and for every 10 new jobs created, an additional 7 jobs will be created indirectly from the impact of the credit. The MQJ will create 8 new indirect jobs for each 10 jobs create by the direct impact of the credit. As an example: 4,200 direct and indirect jobs would in place at the end of 10 years if $12 million in new MQJ credits were issued over 5 years. If $18 million in EEZ credits were issued for five years, this would result in 3,800 new jobs at the end of 10 years. DED assumes the NJTC would create an estimated 1600 new jobs per year and an estimated $8 million in direct economic benefits plus $4 million in indirect benefits per year. Future NJTC benefits would begin to decline in FY 2009 if the program is not extended.

DED assumes the need for four employees plus E & E to administer the Distressed Areas Land Assemblage Tax Credit , Disability Access Tax Credit, Qualified Equity Investment tax credit, and the increase in the Film Production tax credit cap. DED assumes all changes will make the over all impact unknown. DED also assumes the need for one person to administer the Small Business Entrepreneurial Growth Act and one to administer the Small Business Tax Credit plus $5,000 in expenses for the Small Business Tax Credit review committee. While the over all cost is shown as unknown, the administrative costs would be in the $500,000 range. DED assumes the numerous other changes to this version will not change our impact statement.

Sections 135.535 & 135.562 - Since this proposal utilizes unused Rebuilding Communities tax credits for another program, this will result in an increased utilization of the tax credits. This program could result in an additional $100,000 in tax credits being used for persons that modify a home for a disabled person. However, since **Oversight** has already reflected the potential loss of the Rebuilding Communities tax credit program of up to annual limit, Oversight will assume this proposal does not increase the annual limit (of $8 million), and therefore, the fiscal impact of the proposal has already been reflected in a prior fiscal note. Therefore, even though this proposal will increase utilization of the tax credit program, Oversight will not reflect an additional loss of revenue to the General Revenue Fund.

Section 135.750 - Film tax credits - **Oversight** assumes the increase in the cap is for tax years beginning January 1, 2008, therefore, Oversight will show the fiscal impact of this change starting in FY 2009.

ASSUMPTION (continued)

Section 142.817 - Sales tax exemption for motor fuel for Public Mass Transportation;

In response to a similar proposal from this year (SB 501), officials at the **Missouri Department of Transportation** (**MoDOT**) assumed this legislation exempts motor fuel used for certain public transportation purposes from motor fuel tax.

MoDOT calculated that in Fiscal Year 2006 that transit authorities consumed an estimated 9,943,211 gallons of gasoline at the State Gas Tax Rate of $.17 per gallon for a total of $1,690,346 in gas tax being paid. MoDOT then calculated the loss of that money for the state, cities and counties.

In response to a similar proposal from this year (SB 501), officials at the **Department of Revenue** (**DOR**) assumed no fiscal impact to the DOR from this proposal. DOR assumes this legislation establishes an exemption. Exemptions reduce state tax due, therefore it will reduce state revenues.

The excise tax section anticipates additional refunds to process due to this exemption. This may impede process time. DOR currently does not track fuel usage, therefore, cannot determine the loss of fuel tax revenues the state will experience due to this exemption. Due to the Statewide Information Technology Consolidation, the department's response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 1 existing CIT III for 1 month at a rate of $4,186

In response to a similar proposal from this year (SB 501), officials at the **City of Kansas City** stated this bill applies to a city transportation authority. The City of Kansas City does not operate a transportation authority, those mass transit services are provided by the Kansas City Area Transportation Authority, which is partially funded by Kansas City. Any savings enjoyed by the KC ATA may be indirectly enjoyed by the City of Kansas City through greater services for the money now spent for transportation services if the KC ATA has additional funds available.

Oversight assumes the motor fuel tax exemption will be a loss to the Road Fund.

ASSUMPTION (continued)

Sections 143.006, 144.605 & 147.010 - Nexus;

Officials from the **Department of Revenue** state sections 143.006, 144.605 & 147.010 would allow corporations and individuals to not have nexus in Missouri, for income tax purposes if they:

Is a related taxpayer within the meaning of the definition found in subdivision (9) of section 135.100, RSMo, in regard to either a distribution facility in this state or a data storage facility in this state;

(a) Utilizes such distribution facility;
(b) Utilizes property at such distribution facility that is used at, or distributed from, that facility;
(c) Sells property shipped or distributed from such distribution facility;

Oversight assumes if certain companies are considered to not have nexus as a result of this proposal, this would decrease tax collections by an unknown amount.

Section 144.030 - Sales tax exemption on Railroad rolling stock;

In response to a similar proposal from this year, officials from the **Department of Transportation** state this part of the proposal would expand the current sales tax exemption of commercial motor vehicles licensed for a gross weight of 24,000 pounds or more or trailers used by motor carriers solely in the transportation of person or property in interstate commerce. The proposal would delete the word "solely" and "in interstate commerce", resulting in expansion of the sales tax exemption for those commercial motor vehicles purchased by any motor carrier who transports persons or property, whether in interstate or intrastate commerce. MODOT has no basis for estimating the negative impact therefore, there is a negative unknown fiscal impact from this proposal.

Section 144.054 - Sales tax exemption on materials used in manufacturing;

Section 144.054 creates a sales tax exemption for energy used in the manufacturing of a product. Officials from the Department of Revenue stated there currently is an exemption under Section 144.030.2 (12), which companies have to qualify for. DOR assumes this new section in statutes would expand this exemption and make it easier to qualify for. DOR could not provide an estimate of the loss of revenue from this section of the proposal. Since some of the energy used in the manufacturing of a product is already exempt from sales tax, **Oversight** will not be able to utilize the estimate provided by BAP or calculate an estimate based on information provided by

ASSUMPTION (continued)

the Statistical Abstract of the United States. Therefore, Oversight must simply assume an unknown amount of loss in revenue to the state and local political subdivisions from this section.

Section 178.715;

Officials from the **Department of Higher Education (DHE)** state the impact of this legislation on their agency is unknown, but it may be significant. Section 178.715 allows for the establishment of at least one vocational school district, which is a new category of post-secondary institution, in one or more specific counties in Missouri. It is not clear whether one institution is to serve all of the counties listed in the legislation or if each county could establish its own institution. Three of the counties listed in this amendment overlap with an existing community college district. This may cause conflict if the same types of programs are offered in both districts.

If a vocational school district or multiple vocational school districts are established, the DHE would be required to establish standards for organization of the district(s), conduct a study to determine if the standards were met , and monitor the establishment of the vocational school district(s). Program approval may be required by the DHE and the availability of state aid for these districts may need to be considered. Considering the scope of this legislation, 1.0 FTE would be necessary to develop, administer, and monitor the standards for establishment of this new type of institution.

Based on the requirements contained in this legislation, the DHE has projected that 1.0 FTE at the Research Associate level, currently estimated at $49,593 in salary plus benefits and associated expense and equipment, would be necessary to implement the provisions of this legislation. This represents costs for the first year (FY 2008) with corresponding anticipating increases for FY 2009 and FY 2010.

Sections 178.895 & 178.896 - Community College Job Training program;

Oversight assumes extending the sunset date in which community colleges may sell certificates for the Community College New Jobs Training program from 2008 to 2018 will have a negative fiscal impact to the state, but would be in fiscal years beyond the scope of this fiscal note.

Sections 620.1878 - 620.1881- Quality Jobs Program;

Oversight assumes the new Small business job retention and flood survivor relief within the Quality Jobs program (620.1881.3 (5)) will be using existing credits under the new $30 million cap. Therefore, Oversight will not reflect a potential fiscal impact of $250,000 or $500,000

ASSUMPTION (continued)

annually from this program.

Officials from the **Department of Revenue** state section 620.1881 requires a tax clearance prior to the issuance of any tax credits. Customer Assistance anticipates an increase in contacts on the delinquency phone lines. Therefore, Customer Assistance would require 2 Tax Collection Technician I (1 for Quality Jobs and 1 for Enhanced Enterprise) for every additional 15,000 contacts. Customer Assistance also anticipates additional contacts in the field offices and would require 1 Tax Processing Technician I for every additional 4,800 contacts in the field. Customer Assistance expects most customers to contact our offices by phone, therefore, believe the field contacts could be handled with existing staff.

Officials from the **Office of Administration Information Technology (ITSD DOR)** estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 4 existing CIT III for 8 months, 2 CIT III for 1 month, and an additional 3 CIT III for 2 months at a rate of $159,068.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in these program and take advantage of these tax credits. The department can not estimate how much would be lost in premium tax revenue as a result of tax credits. Credits cannot exceed total tax liability (both Premium tax and Retaliatory tax). Premium/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 by these tax credits each year.

In 620.1881.2 it states that DOR can issue a refundable tax credit. The department has not dealt with refundable tax credits through Premium Tax before and assumes any refundable credit will be paid from General Revenue and not the County School Funds.

The department will require minimal contract computer programming to add these new tax credits to the premium tax database and should be able to do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State - Administrative Rules (SOS)** assume 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 $2,500. 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, we 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.

Section 137.106;

Officials from the **Department of Revenue** state their Taxation section cannot provide an administrative impact, as the intent of this legislation is unknown. The language states DOR is to provide the levels of appropriation...but it does not appear the legislature is required to appropriate any funds. If the intent was known, DOR could provide a better explanation of the anticipated outcome.

Oversight assumes the amendment only requires information to be calculated and provided by the DOR. Oversight assumes the amendment would not have a fiscal impact.

Sections 135.710, 143.114, 143.128, 144.030, 144.061;

Officials from the **Department of Revenue (DOR)** state for section 135.710, Personal Tax would require 1 Tax Processing Technician I for every 6,000 credits claimed. Personal Tax would also require 1 Tax Processing Technician I for every 2,000 credits claimed due to the equal apportionment among all applicants.

Corporate Tax would require 1 Tax Processing Technician 1 for tracking, processing, and corresponding.

However, based on information received in the FY06 session, there are approximately 800 taxpayer's who qualify for this tax credit; therefore, Taxation anticipates, being able to handle this new credit, with existing staff.

ASSUMPTION (continued)

DOR states section 143.114 Personal Tax would require Taxation to add a line to the Form MO-A. Personal Tax will require 2 Temporary Tax Employee for key-entry, 1 Tax Processing Tech I for every 19,000 returns to be verified, and 1 Tax Processing Tech I for every 2,400 pieces of correspondence. They will also require 2 Temporary Tax Employees for key-entry of 1040P and PTC forms, and 1 Tax Processing Tech I for every additional 5,000 returns to be verified on the 1040P/PTC forms.

DOR states section 143.128 - Personal Tax would require 1 Tax Processing Technician for every 4,000 credits claimed.

Officials from the **Department of Transportation (MoDOT)** state Section 144.030 (40) creates various sales tax incentives for certain energy uses, particularly all new motor vehicles that can operate on E85 fuel. We assume this legislation will likely encourage consumers to purchase E85 vehicles instead of gasoline-only vehicles on those models which have that substitute. We also assume E85 and sister model sales will remain constant over time. The minimum loss of sales tax revenue to the road fund due to exempting sales tax on the purchase of any new motor vehicle that can operate on E85 fuel would be $2,983,502 in FY 2008. MoDOT assumes the loss of sales tax revenue for other funds would be $426,215 to General Revenue, $568,286 to School Fund, $142,072 to Conservation Fund, $113,567 to Parks and Soils Fund, and $568,286 to Cities and Counties.

Officials from the **Department of Natural Resources (DNR)** state regarding the Tax Credits - Alternative Fuel Facilities, DNR may be requested to provide information regarding eligible "Qualified alternative fuel vehicle refueling property".

Regarding the Hybrid Motor Vehicles: Income Tax Deduction, DNR may also be asked to provide information regarding eligible "Qualified hybrid motor vehicles".

DNR states the would not anticipate a significant direct fiscal impact from this amendment.

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

Section 143.114: Purchase of hybrid vehicle

Officials at the **Department of Revenue** (**DOR**) assume this legislation allows any taxpayer who purchases a qualified hybrid vehicle, a subtraction from the Missouri Adjusted Gross Income of up to $1,500 or 10% of the purchase price (whichever is less) of the qualified vehicle, for the tax year in which the purchase was made. This deduction will begin on or after January 1, 2008.

ASSUMPTION (continued)

DOR is to establish procedures by which the deduction may be claimed.

DOR's Personal Tax - would require Taxation to add a line to the Form MO-A. Personal Tax will require 2 Temporary Tax Employee for key-entry, 1 Tax Processing Tech I for every 19,000 returns to be verified, and 1 Tax Processing Tech I for every 2,400 pieces of correspondence. They will also require 2 Temporary Tax Employees for key-entry of 1040P and PTC forms, and 1 Tax Processing Tech I for every additional 5,000 returns to be verified on the 1040P/PTC forms..

Officials from the **Office of Administration - Budget and Planning (BAP)** stated this amendment creates several tax incentives for the use of alternative fuels - tax credits for the installation of equipment needed to provide such fuel (the cap for this program is set at three million dollars and decreases by one million each year after until it is phased out completely), tax deductions for the purchase of a hybrid vehicle, and a tax credit for any individual who purchases alternative fuel (the annual cap for the program is set at five hundred thousand dollars). The proposal also exempts sales of E85 vehicles from state sales tax. The proposal could therefore lower general and state revenues by an unknown amount. Budget and Planning does not have the data to estimate the loss, the Department of Revenue may have such an estimate.

In response to a similar proposal from this year, SB 40, BAP assumed the legislation provides a deduction from Missouri adjusted gross income, up to $1,500, for the purchase of a qualifying hybrid vehicle. According to a 5/4/2006 article published on the Auto Channel website, 199,148 new hybrids were registered in 2005, more than double the amount in 2004. However, Missouri was not among the Top Ten states for registration, which accounted for 62% of total registrations. BAP estimates Missouri had 0.9% of the registrations, or roughly 1,800 registrations. At $1,500 dollars for each, this would reduce Missouri AGI by $2,700,00, and reduce general and total state revenues by $162,000 (at the 6% tax rate). It is likely sales of these cars will climb as their popularity increases.

Oversight researched the number of hybrids sold in the United States in 2006 and found it was 252,636. Oversight recognizes that it is difficult to determine the number of those hybrids that are sold in Missouri since the figures are not tracked. Oversight used 2% of all hybrids sold as the number sold in Missouri. For the purpose of this note it was determined 5,053 hybrids were sold in Missouri and assumed each taxpayer would take the maximum reduction of $1,500 for a total reduction to taxpayers AGR of $7,579,500. Oversight recognizes that since the number of hybrids being sold is increasing, the loss to state revenue "could exceed" $341,078 assuming a 4.5% marginal tax rate starting in Fiscal Year 2009.

ASSUMPTION (continued)

Section 99.812;

Officials from the **Department of Conservation** assume this amendment would not fiscally impact their agency.

Section 144.806;

Officials from the **Department of Transportation** state this creates a sales and use tax exemption for purchases of aviation fuel for transoceanic flights in the Aviation Trust Fund. In FY 2006, we received an estimated $400,000 in jet fuel sales tax in to the fund. It would be difficult to estimate what percentage of this figure came from transoceanic flights.

Oversight assumes that currently there are no transoceanic flights originating from Missouri, and therefore, assume this amendment would have no fiscal impact at the current time.

Sections 388.700 - 388.745;

Officials for the **State Tax Commission (TAX)** state this proposal appears to allow a railroad authority to be organized and operated as a political subdivision. TAX assumed that only property acquired by a railroad authority to expand their services would be exempt from property taxes. TAX assumes that all property currently owned by the railroad would still be subject to property taxes.

Officials from the **Department of Transportation** did not respond to our request for fiscal impact regarding this part of the bill.

Oversight will assume this part of the bill is permissive to every municipality and county in the state (to form a regional railroad authority). Therefore, Oversight will assume this part of the bill will have no direct fiscal impact on local political subdivisions, unless they choose to create such an authority. It is also permissive to the state of Missouri to transfer or cause to be transferred any property to such authority.

Section 135.600;

Officials from the **Department of Social Services** did not respond to our request for fiscal impact.

Oversight assumes raising the annual limit on the Maternity Homes tax credit could reduce total state revenues by up to $1 million annually.

ASSUMPTION (continued)

Section 135.571;

Officials from the **Department of Revenue** assume section 135.571 Personal Tax would require 1 Tax Processing Technician for every 6,000 credits claimed.

Similar to the funding for the tax credit in Section 135.562, since this proposal utilizes unused Neighborhood Assistance Program credits for another program, this will result in an increased utilization of the tax credits. This program could result in an additional $100,000 in tax credits being used for persons who contribute to an organization for the preservation of Missouri's Civil War Sites. However, since **Oversight** has already reflected the potential loss of the Neighborhood Assistance Program tax credit program of up to annual limit, Oversight will assume this proposal does not increase the annual limit, and therefore, the fiscal impact of the proposal has already been reflected in a prior fiscal note. Therefore, even though this proposal will increase utilization of the tax credit program, Oversight will not reflect an additional loss of revenue to the General Revenue Fund.

Sections 620.504 - 620.509;

Officials from the **Department of Labor and Industrial Relations** assume this would not fiscally impact their agency.

Oversight could not find legislation previously filed that would be similar to this. Oversight assumes the board will incur some meeting and travel reimbursement expenses under the Department of Economic Development; however, Oversight assumes this amount will be minimal and will not reflect a fiscal impact from this part of the bill.

Section 135.400;

Officials from the Department of Economic Development stated this creates the Small Business Tax Credit Review Committee in DED. DED anticipates meeting and travel costs below those usually projected because some of the 5 member committee are DED employees. However, DED will be providing support for this new $10 million per year tax credit program. DED anticipates the need for one Economic Development Incentive Specialist III and associated costs. Committee support costs are projected to be a flat $5,000 per year.

This section states that $10 million of credits each fiscal year shall be available effective August 28, 2007; therefore, **Oversight** will assume these credits could be redeemed in fiscal year 2008. Oversight will range the fiscal impact of the tax credits from $0 (no credits being redeemed in a given year) to the annual limit of $10,000,000.

ASSUMPTION (continued)

Section 578.395;

Officials from the **Department of Public Safety** and the **Office of the State Courts Administer** each assume the proposal would not fiscally impact their respective agencies.

Section 142.815;

Officials from the **Department of Agriculture** assume this amendment would not fiscally impact their agency.

Officials from the **Department of Transportation (MoDOT**) state according to DESE they expect a 1.03% bus travel growth annually. The total bus miles traveled during the 2004-05 school year was 126,067,918. The average school bus gets 7 miles per gallon. Total gallons used (126,067,918/7 = 18,009,702.57). That would be an income loss of $3,061,649.44.

Adding the 1% growth rate the impact would be $2,577,000 for FY 08 - partial year, $3,122,000 for FY 09, and $3,154,000 for FY 2010. MODOT provided the following allocation of lost revenues (rounded):

	FY 2008	FY 2009	FY 2010
Road Fund	($1,887,000)	($2,287,000)	($2,310,000)
Cities	($387,000)	($468,000)	($473,000)
Counties	($303,000)	($367,000)	($371,000)
Total	($2,577,000)	($3,122,000)	($3,154,000)

Officials from the **Department of Elementary and Secondary Education** (DESE) assume this proposal would create a savings to school districts and a loss to the state. DESE calculates that total miles traveled by school district owned and contracted buses were 126,067,918 for the 2005-2006 school year. By dividing total miles by an average of 7 miles per gallon, this yields 18,009,703 gallons of fuel used annually. Multiplying gallons of fuel used by 17 cents per gallon (the current Missouri fuel tax) results in an estimated annual fuel tax exemption for school districts of $3,061,650.

The above estimate assumes that school bus contractors have arrangements or can make arrangements so that the Missouri fuel tax will not be paid by the school bus contractors thereby reducing the cost of bus transportation to school districts. For example, it is a practice by some

ASSUMPTION (continued)

school districts to purchase fuel used by contractors.

In response to a similar proposal from this year (SB 421), officials from the **Parkway School District** assumed this proposal would result in a savings of approximately $50,000 per year to their organization. No other school districts responded to our request for information.

Oversight assumes the school districts would realize the full savings from the proposal, and that administrative costs to the state and the school districts would be minimal.

Section 135.660;

Officials from the **Office of the State Treasurer** assume this amendment would not fiscally impact their agency.

Officials from the **Department of Agriculture (MDA)** assume this proposal will give an incentive to Missouri's cattle industry to retain ownership and background and/or finish cattle in this state. The growth in the cattle industry as a result of this legislation should have a positive economic impact on the state.

We estimate that about 1.65 million head of beef animals are marketed each year in Missouri. The legislation does require that the "qualifying beef animals" be raised and backgrounded or finished in the state. A generally accepted definition of backgrounding is that the calves would be weaned for a minimum of 45 days. Backgrounding could include those weaned up to an estimated 800 lbs which would then go to a feedlot for finishing.

Assuming:
45% of the 1.65 million are currently sold as weaned calves and also assuming that with this program 20% of those would be backgrounded and would put on an additional 300 lbs. (1.65m x 45% x 20% x 300lbs x $.10 = $4,455,000).

50% of the 1.65 million are currently sold as weaned calves and also assuming that with this program 5% of those backgrounded calves would be finished and would put on an additional 400 lbs (1.65m x 50% x 5% x 400lbs x $.10 = $1,650,000).

Total tax credit cost $6,105,000.

This tax credit is for tax years beginning on or after January 1, 2009. Therefore, **Oversight** assumes the earliest a credit could be utilized on a tax return would be in fiscal year 2010. Oversight will reflect the potential loss of income from this amendment of up to $10 million,

ASSUMPTION (continued)

which is the annual cap on the program.

Officials from the **Department of Revenue** assume Personal Tax would require 1 Tax Processing Technician I for every 6,000 credits claimed for verification/processing purposes.

Oversight assumes the many changes made to the various programs (including opening up the programs to charitable organizations or adding language making credits sellable or transferable) may increase the utilization of the programs and therefore increase the issuances of the tax credits. However, the fiscal notes from when these programs were created or last updated, reflected the potential loss of income to the state of $0 up to the annual limits. Therefore, while these changes may result in increased utilization of the programs, Oversight will not reflect additional fiscal impact.

In summary, the **Department of Economic Development** assumes the need for four employees plus E & E to administer the Distressed Areas Land Assemblage Tax Credit , Disability Access Tax Credit, Qualified Equity Investment tax credit, and the increase in the Film Production tax credit cap. DED assumes all changes will make the over all impact unknown. DED also assumes the need for one person to administer the Small Business Entrepreneurial Growth Act and one to administer the Small Business Tax Credit plus $5,000 in expenses for the Small Business Tax Credit review committee. While the over all cost is shown as unknown, the administrative costs would be in the $500,000 range.

In summary, the **Department of Revenue** assumes the need for 14 full time equivalents plus 8 temporary employees. DOR assumes the cost of these additional FTE to be roughly $650,000 per year.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued.

Oversight will range the fiscal impact of the new program and the expansion of the existing programs from $0 (no additional tax credits will be issued) to the annual limit on the new program or the change in annual limits on the existing programs.

ASSUMPTION (continued)

Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal, however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
Savings - Rebuilding Communities tax credit program (Section 135.535)	$0 to $100,000	$0 to $100,000	$0 to $100,000
Savings - Neighborhood Assistance Program tax credit (Section 135.571)	$0	$0 to $100,000	$0 to $100,000
Costs - Department of Economic Development (DED)			
Personal Service	($231,070)	($285,603)	($285,603)
Fringe Benefits	($104,582)	($129,264)	($129,264)
Expense and Equipment	($125,091)	($104,229)	($107,356)
Total Costs - DED	($460,743)	($519,096)	($522,223)
FTE Change - DED	6 FTE	6 FTE	6 FTE
Costs - Department of Revenue			
Personal Service (14 FTE)	($285,996)	($351,774)	($360,569)
Temporary Employees (2 temps)	($53,300)	($65,559)	($67,198)
Fringe Benefits	($149,494)	($183,877)	($188,474)
Expense and Equipment	($109,253)	($40,419)	($41,632)
Total Costs - DOR	($598,043)	($641,629)	($657,873)
FTE Change - DOR	14 FTE	14 FTE	14 FTE
Costs - Department of Higher Education			
Personal Service (1 FTE)	($30,042)	($37,132)	($38,245)
Fringe Benefits	($13,597)	($16,806)	($17,310)
Expense and Equipment	($5,954)	($309)	($318)
Total Costs - DHE	($49,593)	($54,247)	($55,873)
FTE Change for DHE	1 FTE	1 FTE	1 FTE

Cost - Department of Agriculture			
Personal Service (1 FTE)	($27,467)	($33,949)	($34,967)
Fringe Benefits	($12,432)	($15,365)	($15,826)
Expense and Equipment	($7,801)	($8,302)	($8,549)
Total Costs - AGR	($47,700)	($57,616)	($59,342)
FTE Change for AGR	1 FTE	1 FTE	
Loss - DED Distressed Areas Land Assemblage Tax Credit (Section 99.1200)	$0	$0 to ($12,000,000)	$0 to ($12,000,000)
Loss - DED new tax credit for investment in Missouri Small Businesses (Section 135.403)	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
Loss - DED tax credits for making all or portion of dwelling accessible to an individual with a disability (135.562)	$0 to ($100,000)	$0 to ($100,000)	$0 to ($100,000)
Loss - DED tax credit for contribution to organization for the preservation of Missouri's Civil War sites (Section 135.571)	$0	$0 to ($100,000)	$0 to $100,000
Loss - Dept. of Social Services Increase the Maternity Homes tax credit from $2 million to $3 million (Section 135.600)	$0 to ($1,000,000)	$0 to ($1,000,000)	$0 to ($1,000,000)
Loss - Qualified Beef Tax Credit (Section 135.660)	$0	$0	$0 to ($10,000,000)
Loss - tax credit for qualified equity investments (Section 135.662)	$0	$0	$0 to ($15,000,000)
Loss - tax credit for installation of alternative fuel vehicle refueling station (Section 135.710)	$0	$0 to ($3,000,000)	$0 to ($2,000,000)

Loss - DED Film production credits cap raised from $1.5 million to $10.5 million (135.750)	$0	$0 to ($9,000,000)	$0 to ($9,000,000)
Loss - DED Enhanced Enterprise Zone program (increase annual cap from $7 million to $25 million) Section 135.967	$0 to ($18,000,000)	$0 to ($18,000,000)	$0 to ($18,000,000)
Loss - DOR In Corporate Income Tax resulting from changes to Nexus (Sections 143.006, 144.605 & 147.010)	(Unknown)	(Unknown)	(Unknown)
Loss - DOR Income tax deduction for purchase of qualified hybrid vehicle (Section 143.114)	$0	(Could exceed $341,077)	(Could exceed $341,077)
Loss - DOR Tax credit for E-85 fuel (Section 143.128)	$0	$0 to ($500,000)	$0 to ($500,000)
Loss - DOR Sales tax exemption expanded by ‘rebuttable presumption’ language (144.030.2 (12))	(Unknown)	(Unknown)	(Unknown)
Loss - DOR Sales tax exemption for property and utilities used in development of agricultural, biotechnology, and plant genomics products (144.030.2 (33))	(Unknown)	(Unknown)	(Unknown)
Loss - DOR Sales tax exemption for energy used in manufacturing (Section 144.054)	(Unknown)	(Unknown)	(Unknown)

Loss - DOR Sales tax exemption in FY 2008 for new motor vehicles designed to operate on E-85 (Section 144.061)	($426,215)	$0	$0
Loss - DED Missouri Quality Jobs Act (increase to annual cap in 620.1881.5 from $12 million to $30 million)	$0 to ($18,000,000)	$0 to ($18,000,000)	$0 to ($18,000,000)
Loss - DED Small Business and Entrepreneurial Growth Act - retention of withholding tax (Section 620.1892)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**(More than $1,582,294) - could exceed ($48,582,294)**	**(More than $1,616,665) - could exceed ($73,113,665)**	**(More than $1,636,388) - could exceed ($97,136,388)**
Estimated Net FTE Change for General Revenue Fund	22 FTE	22 FTE	22 FTE

Note: The fiscal note 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.

OTHER STATE FUNDS

Loss - School District Trust Fund Various sales tax exemptions	(Unknown)	(Unknown)	(Unknown)
Loss - School District Trust Fund Sales tax exemption on E85 vehicles (Section 144.061)	($568,286)	$0	$0

Loss - Conservation Fund Various sales tax exemptions	(Unknown)	(Unknown)	(Unknown)
Loss - Conservation Fund Sales tax exemption on E85 vehicles (Section 144.061)	($142,072)	$0	$0
Loss - Parks and Soil Fund Various sales tax exemptions	(Unknown)	(Unknown)	(Unknown)
Loss - Parks and Soil Fund Sales tax exemption on E85 vehicles (Section 144.061)	($113,657)	$0	$0
ESTIMATED NET EFFECT ON ALL OTHER STATE FUNDS	**(More than $824,015)**	**(Unknown)**	**(Unknown)**

ROAD FUND

Loss - Department of Transportation Motor Fuel Tax (Section 142.817)	($1,032,000)	($1,238,000)	($1,238,000)
Loss - DOR Sales tax exemption for railroad rolling stock (Section 144.030.2 (11)	(Unknown)	(Unknown)	(Unknown)
Loss - DOR Sales tax exemption new diesel-powered motor vehicles with a gross vehicle rating not exceeding 8,500 lbs (144.030.2 (40))	(Unknown)	(Unknown)	(Unknown)
Loss - DOR Sales tax exemption in FY 2008 for new motor vehicles designed to operate on E-85 (Section 144.061)	($2,983,502)	$0	$0

Loss - MoDOT Motor Fuel tax exemption for school bus operation (Section 142.815)	($1,887,000)	($2,287,000)	($2,310,000)
ESTIMATED NET EFFECT TO THE ROAD FUND	**(More than $5,902,502)**	**(More than $3,525,000)**	**(More than $3,548,000)**

FISCAL IMPACT - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
LOCAL POLITICAL SUBDIVISIONS			
Savings - School Districts Motor Fuel tax exemption for school districts (Section 142.815)	$2,577,000	$3,122,000	$3,154,000
Loss - Cities Motor Fuel Tax (Section 142.817)	($211,000)	($254,000)	($254,000)
Loss - Cities - Motor fuel tax exemption for school bus operation (142.815)	($387,000)	($468,000)	($473,000)
Loss - Counties Motor Fuel Tax (Section 142.817)	($166,000)	($199,000)	($199,000)
Loss - Counties - Motor fuel tax exemption for school bus operation (Section 142.815)	($303,000)	($367,000)	($371,000)
Loss - Local Governments Sales tax exemption (Section 144.054)	(Unknown)	(Unknown)	(Unknown)
Loss - Cities and Counties Sales tax exemption on E85 vehicles (Section 144.061)	($568,286)	$0	$0
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**$941,714 to (Unknown)**	**$1,834,000 to (Unknown)**	**$1,857,000 to (Unknown)**

FISCAL IMPACT - Small Business

Small businesses that qualify for the various programs added or changed in this proposal could be fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

This bill changes the laws regarding economic development programs.

HUNTING HERITAGE PROTECTION AREAS ACT

The Hunting Heritage Protection Areas Act is established which specifies that, subject to all applicable state, federal, and local laws in effect as of the effective date of the bill, the discharge of a firearm for hunting, sport, and other lawful purposes will not be prohibited in specified protected areas. Protected areas will include all land located within the 100-year flood plain of the Missouri and Mississippi rivers as designated by the Federal Emergency Management Agency.

Areas exempt from the provisions of the bill include:

(1) Areas designated as urbanized areas by the 2000 United States census;

(2) Land used by a facility that is regulated by the Federal Energy Regulatory Commission;

(3) Land used for the operation of a port of commerce or a customs port;

(4) Land within the city boundaries of Kansas City or St. Louis; and

(5) Land located within one-half mile of an interstate highway in existence on the effective date of the bill.

New tax increment financing (TIF) projects are prohibited after the effective date of the bill, except for:

(1) Improving existing flood or drainage protection; and

(2) Constructing or operating a renewable fuel production facility if no new development occurs as a result of the project.

FISCAL DESCRIPTION (continued)

TIF projects or districts approved prior to the effective date of the bill are allowed to make certain modifications.

TAX INCREMENT FINANCING

The bill:

(1) Requires any municipality in the counties of St. Louis, St. Charles, or Jefferson to establish a county tax increment financing commission in the same manner as St. Louis County. The bill specifies the membership of the 12-member commission;

(2) Requires municipalities in the counties of St. Louis, St. Charles, Franklin, or Jefferson to obtain permission from its county's tax increment financing commission before implementing a tax increment financing project;

(3) Defines "greenfield area" as it relates to tax increment financing projects and prohibits any new TIF project in any greenfield area located in the City of St. Louis or the counties of St. Louis, St. Charles, Franklin, or Jefferson; and

(4) Requires a two-thirds majority vote of a municipality's governing body to overturn a TIF commission's recommendation against a proposed TIF redevelopment plan, project, or area.

DISTRESSED AREAS LAND ASSEMBLAGE TAX CREDIT ACT

The Distressed Areas Land Assemblage Tax Credit Act is establishes which authorizes, beginning January 1, 2008, a tax credit equal to 50% of the costs and 100% of the interest incurred for the acquisition of an eligible parcel of land. Eligible parcels must be located within an eligible project area to be redeveloped and must be acquired before the applicant begins condemnation proceedings. Parcels acquired by the applicant from a municipal authority are not included. Applicants can receive these credits for up to five years after the land's acquisition, carried forward for up to six years, or sold.

The annual cap on the credits that can be issued is $12 million, and the cumulative cap is $100 million. If applications for the tax credit exceed $12 million in any given year, the Department of Economic Development can issue the entire amount to one applicant if there is only one eligible applicant or on a pro rata basis to all the eligible applicants. Any eligible amount which is not issued because of the $12 million annual limit will be carried forward and reserved for the benefit of the applicant in future years.

FISCAL DESCRIPTION (continued)

Eligible project areas must meet the following requirements:

(1) The area must consist of at least 100 acres, which can include parcels which are not eligible parcels;

(2) At least 80% of the area must be located within a Missouri qualified census tract area as designated by the United States Department of Housing and Urban Development;

(3) Eligible parcels acquired by the applicant within in the project area must be at least 75 acres; however, the parcels are not required to be contiguous;

(4) The average number of parcels per acre must be at least four; and

(5) Less than 5% of the acreage within the area's boundaries can consist of owner-occupied residences which the applicant has identified for acquisition.

No tax credits can be authorized for the program after August 28, 2013.

SMALL BUSINESS INVESTMENT TAX CREDITS

The bill:

(1) Reduces the amount of the tax credit for a qualified investment in a small business from 40% to 30% of the investment, unless the small business is located in a distressed community, in which case the tax credit is reduced from 60% to 40%. A tax credit equal to 40% of an investment made in a small business located in a rural area is allowed. Tax credits will only be issued on investments up to $100,000;

(2) Requires that $10 million in tax credits be available each fiscal year for qualified investments in small businesses, regardless of the location of the business. Currently, the total amount of tax credits cannot exceed $13 million with $4 million reserved for distressed communities;

(3) Removes the 50% tax credit for an investment in a community bank or community development corporation;

(4) Removes the requirement that $500,000 be available for tax credits for qualified investments in Missouri small businesses, community banks, or community development corporations from the Neighborhood Assistance Program; and

FISCAL DESCRIPTION (continued)

(5) Prohibits the department from issuing certificates without the approval of the Small Business Tax Credit Review Committee, which must review and determine the eligibility of all tax credit applications.

TAX CREDITS

The bill:

(1) Authorizes a tax credit, beginning January 1, 2008, for certain taxpayers who modify their homes to make them accessible to a disabled person living in the home. Taxpayers cannot receive this credit in two consecutive years. The tax credit has a cap of $2,500 per taxpayer and an annual cap of $100,000;

(2) Authorizes a tax credit, beginning on January 1, 2008, equal to 50% of the amount of a contribution made to an eligible organization for the preservation of a Missouri Civil War site. The tax credit is not refundable, but can be sold or carried forward for five years. A taxpayer can receive up to $25,000 in credits per tax year, and no more than $100,000 of credits can be issued in a tax year;

(3) Increases the cumulative amount of tax credits which may be claimed by all taxpayers contributing to maternity homes in any fiscal year from $2 million to $3 million and allows these credits to be sold;

(4) Establishes the Qualified Beef Tax Credit Act which authorizes a tax credit for each sale of a qualifying beef animal. From January 1, 2009, to December 31, 2016, the credit is equal to 10 cents per pound above 450 pounds when qualified beef cattle are sold and 10 cents per pound if the weight of the qualified beef animal at a subsequent sale is greater than the weight at the first qualifying sale. The tax credit must be claimed in the year in which the qualifying sale occurs. Any unused portion may be carried back three years, carried forward five years, or sold. The annual cap on the credits that can be issued is $10 million, and the cumulative cap is $30 million;

(5) Authorizes a tax credit equal to 7% of the adjusted purchase price paid to the issuer of a qualified equity investment for the third credit allowance date and 8% for the next four credit allowance dates. The tax credits are not transferable or refundable but may be carried forward for up to five years. No more than $15 million of these tax credits can be utilized annually; and

(6) Lowers the minimum budget expenditure, beginning January 1, 2008, from $300,000 to $50,000 for a qualified film production project less than 30 minutes in length or $100,000 for a project longer than 30 minutes. The bill removes the individual project credit cap of $1 million

FISCAL DESCRIPTION (continued)

and increases the total annual program cap from $1.5 million to $10.5 million. The credit will be equal to 35% of the qualifying expenses for the project, which cannot include wages for highly compensated individuals.

ENHANCED ENTERPRISE ZONE PROGRAM

The bill:

(1) Raises the cap on the amount of tax credits that can be issued in a calendar year from $7 million to $25 million;

(2) Changes the definition of "employee" as it applies to the Enhanced Enterprise Zone Program to a person employed by the enhanced business enterprise that is scheduled to work an average of at least 1,000 hours per year. Health insurance must be offered to employees at all times and must be partially paid by the employer. Currently, the definition of "employee" includes full-time, part-time, and seasonal employees;

(3) Adds educational services, religious organizations, and public administration to the list of entities which are prohibited from being enhanced business enterprises. However, the headquarters or administrative offices which would otherwise be excluded may qualify for benefits if the offices serve a multistate territory;

(4) Allows speculative industrial or warehouse buildings constructed by a public entity, or a private entity if the land is leased by a public entity, to be exempt from ad valorem taxes, upon the approval of the governing authority. If the speculative building is owned by a private entity, it cannot be exempt for more than two years. If it is owned or leased by a public entity, it cannot be exempt for more than five years. Currently, only enhanced business enterprises can be exempt from these taxes; and

(5) Requires the department 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, Financial Institutions, and Professional Registration that the applicant does not owe any delinquent insurance taxes prior to issuing any tax credits. The amount of tax credits issued will be reduced by any tax delinquency.

MISSOURI HOMESTEAD PRESERVATION ACT

For all years after 2007, the Director of the Department of Revenue is required to calculate the levels of appropriation necessary to establish the homestead exemption limit anywhere between

FISCAL DESCRIPTION (continued)

.01% and 5% for reassessment years and between .01% and 2.5% for alternate years.

TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS FOR ALTERNATIVE FUELS

The bill:

(1) Authorizes a tax credit, beginning January 1, 2008, to January 1, 2011, for eligible applicants who install and operate a qualified alternative fuel station. This credit may be claimed for any tax year in which the applicant is constructing the station. The credit is equal to the lesser of $20,000 or 20% of the total direct costs for the purchase and installation of any alternative fuel storage and dispensing equipment. The costs of purchasing land or an existing alternative fuel station or the construction or purchase of a structure are not considered eligible costs. The cumulative amount of tax credits which can be claimed cannot exceed $3 million in 2008, $2 million in 2009, or $1 million in 2010. Tax credits may be carried forward for two years and sold. Tax credits will be forfeited if a tax credit recipient stops selling alternative fuel;

(2) Authorizes an income tax deduction, beginning January 1, 2008, for the purchase of a qualified hybrid vehicle. The tax credit is equal to the lesser of $1,500 or 10% of the vehicle's purchase price and must be claimed in the tax year in which the vehicle is purchased;

(3) Authorizes a tax credit for the purchase of E-85, biodiesel, or biodiesel-blended fuel. For 2008, the tax credit will be 25 cents per gallon for E-85 fuel and 5 cents per gallon for biodiesel or biodiesel-blended fuel purchased by the taxpayer; for 2009 and 2010, 20 cents for E-85 fuel and 3 cents for biodiesel or biodiesel-blended fuel; and for 2011 and beyond, 15 cents for E-85 fuel and 5 cents for biodiesel or biodiesel-blended fuel. The amount of tax credits claimed per taxpayer must be from $50 to $500. The tax credit is not refundable but can be carried forward for three years and will be available to taxpayers who choose to take the standard deduction. No more than $500,000 in tax credits can be redeemed in any one fiscal year;

(4) Exempts new diesel-powered motor vehicles with a gross vehicle rating of less than 8,500 pounds from state and local sales and use taxes; and

(5) Exempts new motor vehicles designed to operate on E-85 fuel from the state sales tax in Fiscal Year 2008.

FISCAL DESCRIPTION (continued)

TAX EXEMPTIONS

The bill:

(1) Exempts motor fuel used for public school district buses from the motor fuel tax;

(2) Exempts motor fuel used for public mass transportation from the motor fuel tax;

(3) Exempts motor vehicles licensed for a gross weight of 24,000 pounds or more or trailers used by common carriers to transport people or property from state and local sales and use taxes. Currently, these vehicles are only exempt if they are engaged solely in interstate commerce;

(4) Specifies that the raw materials used during the primary manufacturing of automobiles will be assumed to contain at least 25% recovered materials. Currently, electricity used in the primary manufacturing of automobiles cannot be assessed local or state sales taxes if the raw materials used in the processing contain at least 25% recovered materials;

(5) Exempts personal property and utilities used in the research and development of agricultural/biotechnology and plant genomics products and utilities used in the research and development of prescription pharmaceuticals from state and local sales and use taxes;

(6) Exempts from state and local sales and use taxes the cost of all utilities, chemicals, materials, and equipment used in the manufacturing, processing, compounding, mining, or production of any product; the costs for processing recovered materials; or the costs for research and development related to the manufacturing, processing, compounding, mining, or producing any product; and

(7) Exempts all aviation jet fuel sold to an airline for immediate use by an aircraft during a transoceanic flight from local and state sales and use taxes. The fuel must be delivered from the seller directly to an aircraft and cannot be stored by the purchaser or a third-party.

ESTABLISHING NEXUS FOR THE PURPOSES OF TAXATION

The bill makes several changes to establishing substantial nexus with regard to state income, use, and corporate franchise taxes.

For the purposes of the state's income tax and corporate franchise tax, the bill specifies that whether a corporation or individual has substantial nexus with Missouri will be determined without regard to whether the corporation or individual is deemed to be a related taxpayer in

FISCAL DESCRIPTION (continued)

regard to either a distribution or data storage facility in Missouri. Using a distribution facility or selling property shipped from the distribution facility will not be considered either.

Currently, for the purposes of the state use tax, distributing direct mail advertising or catalogs; using media-assisted means such as computer-assisted shopping, telephones, television, radio, magazine or newspaper advertisements; or being owned or controlled by the same interests which own or control any seller engaged in the same or similar line of business in Missouri are defined as ways one can engage in business activities in Missouri. The bill eliminates these activities from the definition of "engages in business activities within this state" and instead specifies that whether a person engages in business activities in Missouri and whether the person has substantial nexus with Missouri will be determined without regard to whether the person is deemed to be a related taxpayer with regard to either a distribution or data storage facility in Missouri. Using a distribution facility or selling property shipped from the distribution facility will not be considered either.

VOCATIONAL SCHOOL DISTRICTS

The counties of Butler, Stoddard, Wayne, Ripley, New Madrid, Pemiscot, Dunklin, Mississippi, Cape Girardeau, Bollinger, and Scott are allowed to organize a vocational school district. The Coordinating Board for Higher Education must establish specified standards for the district.

NEW JOBS TRAINING PROGRAM

The bill allows community college districts to sell New Jobs Training Program certificates until July 1, 2018, and extends the program until July 1, 2028.

FAMILY DEVELOPMENT ACCOUNT PROGRAM

The bill revises the definition of "community-based organizations" as it applies to the Family Development Account Program to include any nonprofit corporations formed under Chapter 355, RSMo, for which the Department of Economic Development can approve to implement the program.

Currently, no more than 20% of the moneys in the reserve fund account may be used for the administrative costs of the program during its first two years and 15% in subsequent years. The bill reduces the amount to 15% for the first two years and 10% for subsequent years.

FISCAL DESCRIPTION (continued)

TRANSPORTATION DEVELOPMENT DISTRICTS

Currently, the qualified electors of a proposed transportation district include anyone living within the proposed district who is a registered voter or, if no one living within the proposed district is eligible to vote, people who own property within the proposed district. The bill revises the definition of "qualified electors" to include anyone residing within the district who is registered to vote and owners of real property. Owners of real property will receive one vote per acre, and any registered voter who also owns property must choose whether to vote as an owner or a registered voter.

Currently, a district must submit a proposed project, with proposed plans and specifications, to the Highways and Transportation Commission for its approval before construction or funding for a project can begin. The bill allows the commission to give preliminary approval to the project subject to the district provides the plans and specifications. After receiving preliminary approval, the district can impose and collect taxes and assessments as specified in the commission's preliminary approval.

Owners of all the property located within a district are allowed, by unanimous petition filed with the district's board of directors, to remove any property from the district if the removal will not materially affect any of the district's obligations.

The bill allows a district to establish different classes of property within the district in order to impose different special assessment rates.

REGIONAL RAILROAD AUTHORITIES ACT

The bill:

(1) Establishes the Regional Railroad Authorities Act to preserve, improve, and continue rail service for agriculture, industry, or passenger traffic and to preserve railroad right-of-way for transportation uses when determined to be practical and necessary for the public welfare;

(2) Authorizes all Missouri cities and counties to form an authority, which must be organized by a resolution;

(3) Requires each authority to establish a board of at least five commissioners and specifies the powers of the board;

FISCAL DESCRIPTION (continued)

(4) Specifies the powers of the authority, including the ability to exercise the power of eminent domain;

(5) Authorizes the state, any political subdivision, or municipal corporation to transfer any property within the district to the authority;

(6) Specifies that the authority is subject to tort liability under Chapter 537;

(7) Allows the state to make grants to the authority, when appropriated;

(8) Allows the authority to issue revenue bonds; and

(9) Exempts the authority from taxation and assessments.

MISSOURI WORKFORCE INVESTMENT BOARD

The Missouri Workforce Investment Board is established to provide workforce investment activities that increase the employment, retention, and earnings of participants and improve the quality of the workforce, reduce welfare dependency, and enhance productivity and competitiveness.

The board must meet the requirements of the federal Workforce Investment Act (WIA) of 1998. The bill specifies the membership and terms of the board members. The board will assist the Governor with the functions described in Section 111(d) of the WIA 29 USC 2821d, must meet at least quarterly, and must submit an annual report of its activities to the Governor and the General Assembly.

The bill repeals the Missouri Training and Employment Council Act and the Missouri Training and Employment Council.

QUALITY JOBS PROGRAM

The bill:

(1) Increases the cap on the amount of tax credits that can be issued in a calendar year for the Quality Jobs Program from $12 million to $30 million;

(2) Expands the types of projects which are eligible to receive benefits to include small business job retention and flood survivor relief projects. A qualified company may receive a tax credit for

FISCAL DESCRIPTION (continued)

the retention of jobs and flood survivor relief in this state for each job retained over a three-year period. The bill specifies the requirements which must be met including that the qualified company has fewer than 100 employees, the company's average wage must meet or exceed the county average wage, all of the company's facilities are located in Missouri, and that its facilities were directly damaged by flood water rising above the level of a 500-year flood at least two years, but no more than eight years, before an application to the program is made. The qualified company must also invest at least $2 million in capital improvements in facilities and equipment located at facilities that are not located within a 500-year flood plain. The tax credit will be up to 100% of the withholding taxes generated by the full-time jobs at the project facility during a three-year period. The calendar year annual maximum amount of tax credits which can be issued to a qualified company cannot exceed $250,000. The department can propose that this amount be doubled; however, this must be approved by the Quality Jobs Advisory Task Force. The total annual program cap is $500,000;

(3) Prohibits a qualified company from participating in the program's Small Business Job Retention and Flood Survivor Relief project if it received any state or federal benefits, incentives, tax relief, or abatement for locating its facility to a flood plain;

(4) Expands the types of projects which are eligible to receive benefits to include tuition reimbursement. A qualified company may receive a tax credit for providing tuition reimbursement to eligible employees. The credit will be up to 50% of the expenses actually incurred in reimbursing tuition expenses, but cannot exceed $5,000 per employee. A qualified company can receive up to $25,000 in credits per tax year. The total amount of credits issued in any tax year cannot exceed $250,000. These credits are not refundable, but can be sold or carried forward for five years;

(5) Requires any taxpayer who participates in the program and knowingly hires illegal immigrants to forfeit the program's benefits and repay the state an amount equal to any tax credits redeemed or withholding taxes already retained;

(6) Allows tax credits to offset taxes due from financial institutions under Chapter 148. Currently, the credits can only be used to offset state income taxes imposed by Chapter 143;

(7) Changes the definition of "employee" from a person employed by a qualified company to a person employed by a qualified company on a full-time basis, who receives an annual salary equal to or less than the average salary for the county in which the employee is employed or deemed to be employed;

FISCAL DESCRIPTION (continued)

(8) Changes the definition of "withholding tax" to a computation using a schedule determined by the Department of Economic Development based on average wages. Currently, the definition is the state tax imposed by Sections 143.191 - 143.265;

(9) Allows the calendar year's maximum amount of quality jobs tax credits issued to a qualifying company that participates in both the Quality Jobs Program and the New Job Training Program to be increased by an amount equivalent to the withholding tax retained by that company under the New Job Training Program if the combined benefits do not exceed the projected state benefits of the project;

(10) Requires that if the calendar year's annual maximum amount of quality jobs tax credits issued to any qualified company is increased by $1 million, the number of new jobs must exceed 500. Currently, this increase in tax credits can occur by receiving the approval of the department and the Quality Jobs Advisory Task Force;

(11) Specifies the way in which the county average wage will be calculated when a qualified company relocates employees from one county to another;

(12) Revises the definition of "full-time employee" from an employee who works an average of 35 hours per week to an employee of the qualified company that is scheduled to work an average of 35 hours per week, but leaves the remaining requirements of the definition unchanged;

(13) Changes the calculation of new direct local revenue so that local earnings taxes are excluded;

(14) Specifies that no jobs created before the notice of intent will be deemed new jobs;

(15) Specifies the way in which new payroll will be calculated;

(16) Adds educational services, religious organizations, public administration, and utilities regardless of whether or not they are regulated by the Missouri Public Service Commission to the list of entities which are prohibited from being qualified companies. However, headquarters or administrative offices which would otherwise be excluded may qualify for benefits if the offices serve a multistate territory;

(17) Expands the definition of "technology business project" to include a qualified company that researches, develops, or
manufactures power system technology for aerospace, space, defense, hybrid vehicles, or implantable or wearable medical devices;

FISCAL DESCRIPTION (continued)

(18) Requires the department to give preference to qualified companies and projects targeted at an area of the state which has recently been classified as a disaster area by the federal government;

(19) Allows qualified companies to retain withholding taxes once the minimum number of new jobs has been attained and the county average wage has been exceeded; and

(20) Requires the department 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, Financial Institutions, and Professional Registration that the applicant does not owe any delinquent insurance taxes prior to issuing any tax credits. The amount of tax credits issued will be reduced by any tax delinquency.

SMALL BUSINESS AND ENTREPRENEURIAL GROWTH ACT

The Small Business and Entrepreneurial Growth Act is established for small business employers who expand their business by increasing the number of jobs and meeting certain qualifications. Beginning January 1, 2008, a qualified employer can retain the Missouri withholding tax from the salaries of newly created jobs for one year. If the employer pays more than 50% of the premiums for health insurance for all employees, the withholding tax can be retained for two years.

TICKET SALES AND SCALPING

The bill decriminalizes ticket scalping by repealing Section 578.395 and prohibits any person or corporation from purchasing more than 20 tickets at one time. A ticket agent will be allowed any number of tickets to be purchased through a group sales office. Any number of tickets can be purchased through a group sales office.

The provisions regarding tax credits for equity investments, qualified film production projects, installation and operation of a qualified alternative fuel station, E-85 fuel, biodiesel, and biodiesel-blended fuel will expire six years from the effective date. The provisions regarding the tax credit for home modifications for a disabled person will expire on December 31, 2013.

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 Administration - Budget and Planning
Department of Revenue
Department of Insurance, Financial Institutions and Professional Registration
Office of the Secretary of State
Department of Higher Education
Department of Transportation
Department of Labor and Industrial Relations
Department of Natural Resources
State Tax Commission
Department of Conservation
Office of the State Treasurer
Department of Public Safety
Office of the State Courts Administrator
Department of Agriculture
Department of Elementary and Secondary Education
City of Kansas City

NOT RESPONDING: Department of Social Services

Mickey Wilson
Mickey Wilson, CPA
Director
June 5, 2007