COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2577-01
Bill No.: SB 706
Subject: Business and Commerce; Economic Development; Economic Development, Dept.; Insurance Dept.; Taxation and Revenue - General; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use
Type: Original
Date: March 28, 2007

Bill Summary: Would modify provisions of sales and use tax law and the quality jobs act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue *	(More than $10,946,063)	(More than $20,925,154)	(More than $20,930,411)
Total Estimated Net Effect on General Revenue Fund *	**(More than $10,946,063)**	**(More than $20,925,154)**	**(More than $20,930,411)**

*** The fiscal impact of additional tax credits 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 11 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Conservation Commission	(Unknown)	(Unknown)	(Unknown)
Parks and Soul	(Unknown)	(Unknown)	(Unknown)
School District Trust	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on Other State Funds	**(Unknown)**	**(Unknown)**	**(Unknown)**

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	3.0	3.0	3.0
Total Estimated Net Effect on FTE	**3.0**	**3.0**	**3.0**

☒ 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 *	**(Unknown)**	**(Unknown)**	**(Unknown)**

*** The fiscal impact of additional tax credits 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 the Secretary of State** (SOS) provided the following response:

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 SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, 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.

Officials from the **Department of Economic Development** (DED) stated that this proposal would raise the cap on Missouri Quality Jobs tax credits from $12 million to $75 million. This negative $63 million impact on GR could be offset by some positive but unknown economic benefits. This bill is different from other versions so DED does not currently have any data to project the impact of the changes in this bill.

DED anticipates the need for two people to implement this legislation.

DED submitted a cost estimate to implement this proposal including two additional FTE Economic Development Specialist II and related equipment and expenses totaling $158,453 for FY 2008, $179,054 for FY 2009, and $180,100 for FY 2010. DED estimated the tax credit usage at $13 million for FY 2008 and $25 million for FY 2009 and for 2010.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional positions to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DED equipment and expense estimates in accordance with OA budget guidelines.

ASSUMPTION (continued)

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 the Department of Economic Development forecast of tax credit issuances and an estimated redemption total of 83 percent of tax credits issued. Therefore, Oversight would assume that $10,790,000 of credits would be redeemed in FY 2008, and $20,750,000 would be redeemed in FY 2009 and again in FY 2010.

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.

Officials from the **Department of Elementary and Secondary Education** and the **Department of Labor and Industrial Relations** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Department of Insurance, Financial Institutions, and Professional Registration** (DIFP) assume this proposal could have an unknown negative fiscal impact on several state funds and to local governments.

DIFP officials stated that it is unknown how many insurance companies would choose to participate in this program and take advantage of the tax credits. Premium tax revenue is split 50/50 between the state General Revenue Fund and the County Foreign Insurance Fund, except for domestic Stock Property and Casualty Companies who pay premium tax to the state County Stock Fund. The state County Foreign Insurance Fund is distributed to school districts throughout the state and the County Stock Fund receiptss are distributed to the school district and county treasurer of the county in which the principal office of the insurer is located.

DIFP would require minimal contract computer programming to add this new tax credit to the premium tax database and could do so with existing resources. 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 **Department of Revenue** (DOR) stated that this proposal would exempt all utilities used in producing products from taxation; therefore, it would reduce total state revenues. On the other hand, new language was added to the Quality Jobs Act requiring a taxpayer to obtain a no-tax-due before any credits can be issued. That may cause an increase in state revenues with the payment of delinquent tax plus interest.

DOR Customer Assistance (CA) anticipates an increase in contacts on the delinquency phone lines. Therefore, CA would require 1 Tax Collection Technician I for every additional 15,000 contacts. CA 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. CA expects most customers to contact our offices by phone, therefore, believes the field contacts could be handled with existing staff.

DOR submitted an estimate of the cost to implement this proposal including one additional Tax Collections Tech I, temporary employees wages, and related equipment and expenses totaling $37,623 for FY 2008, $39,742 for FY 2009, and $40,935 for FY 2010.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional positions to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR equipment and expense estimates in accordance with OA budget guidelines.

Officials from the **Department of Higher Education** (DHE) stated that the impact of this proposal on their organization is unknown, but could be significant. The proposal allows for the establishment of a vocational school district or districts, which would be a new category of post-secondary institution in one or more specific counties in Missouri.

ASSUMPTION (continued)

Three of the counties overlap with an existing community college district. This could cause conflict if the same types of programs are potentially offered in both districts. If a vocational school district or multiple vocational school districts are established, DHE would be required to establish standards for organization of the district or districts, conduct a study to determine if the standards were met , and monitor the establishment of the vocational school district. Program approval may be required by the DHE and the availability of state aid for the district or districts may need to be considered. Considering the scope of this legislation, it has been determined that 1.0 FTE would be necessary to develop standards, administer and monitor the establishment of this new type of institution.

DHE submitted a cost estimate including one additional FTE and the related equipment and expenses totaling $49,593 for FY 2008, $54,247 for FY 2009, and $55,873 for FY 2010. DHE did not estimate the cost of additional state support for the newly created institution.

Oversight notes that the conditions in the proposal appear similar to existing statutes for regional institutions of higher education and assumes that the creation of one additional institution could be accomplished with existing resources. If unanticipated costs are incurred or if multiple proposals are enacted which increase the DHE workload, resources could be requested through the appropriation process.

Officials from the **Office of Administration**, **Division of Budget and Planning** (BAP) assume this proposal would have no fiscal impact to their organization.

BAP officials stated that the proposal would exempt purchases of certain energies, gases, utilities, and chemicals used in the manufacture or processing of products including those consumed in the processing of recovered materials from state and local sales and use taxation. BAP defers to the DOR for an estimate of lost state and local revenues.

The proposal makes several changes to the Missouri Quality Jobs program, including increasing the annual cap of tax credits available from $12 million to $75 million dollars. This proposal could therefore lower general and state revenues by $63 million annually. This program may stimulate other economic activity, but Budget and Planning does not have data to estimate the induced revenues. BAP assumes the Department of Economic Development may have such an estimate.

Officials from **Butler County**, **New Madrid County**, and **Pemiscot County** did not respond to our request for information.

ASSUMPTION (continued)

In response to similar proposals, officials from the **Department of Conservation** and the **Department of Natural Resources** stated that the proposed legislation could have a fiscal impact on their organizations due to reduced sales tax revenues. However, no estimate of the impact was provided.

Oversight assumes this proposal would result in an unknown negative fiscal impact on the state's General Revenue Fund and other state funds which receive sales tax revenues, and on local governments.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
Costs - Department of Economic Development (DED)			
Personal Service (2.0 FTE)	($65,540)	($81,007)	($83,438)
Fringe Benefits	($28,877)	($35,692)	($36,763)
Expense and Equipment	($30,458)	($26,207)	($26,994)
Total Costs - DED	($124,875)	($142,906)	($147,195)
Revenue reduction - Tax credits for quality job creation.	($10,790,000)	($20,750,000)	($20,750,000)
Cost - Department of Revenue			
Personal Service (1.0 FTE)	($17,820)	($22,026)	($22,686)
Fringe Benefits	($7,851)	($9,704)	($9,996)
Expense and Equipment	($5,517)	($518)	($534)
Total costs - DOR	($31,188)	($32,248)	($33,216)
Revenue reduction - Sales tax exemption for energy costs used in manufacturing.	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	**(More than $10,946,063)**	**(More than $20,925,154)**	**(More than $20,930,411)**
Estimated Net FTE change for General Revenue Fund	3.0 FTE	3.0 FTE	3.0 FTE
CONSERVATION COMMISSION FUND			
Revenue reduction - sales tax exemption	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON THE CONSERVATION COMMISSION FUND	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - State Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
PARKS AND SOIL FUND			
Revenue reduction - sales tax exemption	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON PARKS AND SOIL FUND	**(Unknown)**	**(Unknown)**	**(Unknown)**
SCHOOL DISTRICT TRUST FUND			
Revenue reduction - sales tax exemption	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**(Unknown)**	**(Unknown)**	**(Unknown)**

Note: This does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
LOCAL GOVERNMENT			
Loss – Local Sales Tax Revenues Sales Tax Exemption	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which qualify for the tax credits.

FISCAL DESCRIPTION

This proposal would modify provisions of sales and use tax law and the quality jobs act.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Department of Economic Development
Department of Elementary and Secondary Education
Department of Higher Education
Department of Insurance, Financial Institutions, and Professional Registration
Department of Labor and Industrial Relations
Department of Revenue

NOT RESPONDING

Office of Administration
Division of Budget and Planning
Butler County
New Madrid County
Pemiscot County

Mickey Wilson

Mickey Wilson, CPA
Director
March 28, 2007