COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3497-04
Bill No.: Perfected SS for SCS for SB 718
Subject: Business and Commerce; Economic Development; Employers-Employees; Tax Credits
Type: Original
Date: February 19, 2008

Bill Summary: This proposal modifies provisions of certain tax credit programs administered by the Department of Economic Development.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	($62,957) to ($33,562,957)	($69,289) to ($33,569,289)	($71,367) to ($33,571,367)
Total Estimated Net Effect on General Revenue Fund*	**($62,957) to ($33,562,957)**	**($69,289) to ($33,569,289)**	**($71,367) to ($33,571,367)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

*** 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 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1 FT**	**1 FTE**	**1 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 2009	FY 2010	FY 2011
Local Government*	**$0**	**$0**	**$0**

*** 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 **Department of Revenue** assume the proposal will not fiscally impact their agency.

In response to a previous version of this proposal, officials from the **Office of Administration - Budget and Planning (BAP)** stated the proposal extends the sunset on the jobs retention portion of the Quality Jobs program, raises the cap on the Enhanced Enterprise Zone program from $14 million to $24 million, and raises the cap on the Quality Jobs program from $40 million to $60 million. This program may therefore reduce general and total state revenues by $30 million. However, these increases may induce additional revenues that could offset these losses. BAP defers to the Department of Economic Development for any such estimate.

Officials from the **Department of Economic Development (DED)** state the bill increases the caps on annual issuance of tax credits under the Enhanced Enterprise Zone (EEZ) from $14 million to $24 million and Missouri Quality Jobs (MQJ) Acts from $40 to $60 million plus extends the program to August 30, 2013. The bill also increases the annual cap on the Incubator Tax Credit by $1.5 million. These changes will require one FTE Economic Development Incentive Specialist II (at $36,204 annually) plus expense and equipment to administer. There will be no impact from the Development Tax Credit/Neighborhood Assistance Program change. DED assumes a total cost for the additional FTE of roughly $85,000 annually.

DED anticipates a positive $6.42 million per year increase in GR from EEZ cap increase, $22.78 million increase in GR per year from the MQJ cap increase, DED anticipates no impact from the reallocation of the NAP credit cap for Development Tax Credits (DTC), and DED anticipates the increase of $1.5 million in the Incubator Tax Credit Cap will cost $1.5 million per year while realizing that some of this cost could be offset by some positive but indeterminable economic benefits to the state.

Oversight has, for fiscal note purposes only, changed the starting salary for DED’s Economic Development Incentive Specialist II 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 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight also assumes DED will not incur additional office space expense for the one additional FTE and has removed it from their estimate.

In response to a previous version of this proposal, 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 this program and take advantage of the tax

ASSUMPTION (continued)

credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted tax credits each year.

Regarding changing the sunset date of tax credits for job retention projects authorized under the Missouri Quality Jobs Act from 2007 to 2013, **Oversight** assumes there would be no net fiscal impact as the credit would be issued under one program or another, but would still be under the over-all $40 million (now changed to $60 million) annual limit.

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 118 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 98.5 percent of tax credits issued. Therefore, under this proposal, if $33,500,000 of credits are issued, Oversight would assume $33,000,000 of credits to be redeemed, reducing Total State Revenues

Oversight will range the fiscal impact of the two programs from $0 (no additional tax credits will be issued) to the change in annual limits. 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.

Oversight assumes that without the changes to Section 32.105, the Development Tax Credit program's annual limit would return from $6 million a year to $4 million a year. However, this proposal makes the $6 million annual cap permanent. Oversight will show this as a potential loss of $2 million annually, because for FY 2008, the program cap is $4 million, however, now under this proposal, for Fiscal Years 2009 and beyond, the program's annual cap would be $6 million.

Regarding Senate Amendment 6, **Oversight** assumes the number of repayments and the amounts repaid would be minimal, and has not included any repayments or program expenditures in this fiscal note.

Oversight assumes the other amendments to the perfected bill will not have a fiscal impact. They may increase the utilization of the programs; however, Oversight has already reflected a potential impact of the programs up to the stated annual limits.

ASSUMPTION (continued)

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Costs - DED			
Personal Service (1 FTE)	($31,075)	($38,409)	($39,561)
Fringe Benefits	($14,065)	($17,384)	($17,905)
Expense and Equipment	($17,817)	($13,496)	($13,901)
Total Costs - DED	($62,957)	($69,289)	($71,367)
FTE Change - DED	1 FTE	1 FTE	1 FTE
Loss - increase in tax credits under the Development Tax Credit program from $4 million to $6 million (32.105)	$0 to ($2,000,000)	$0 to ($2,000,000)	$0 to ($2,000,000)
Loss - increase in tax credits under Enhanced Enterprise Zone program from $14 million to $24 million annually (Section 135.967)	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
Loss - increase in tax credits under the Small Business Incubator program from $500,000 to $2 million annually (Section 620.495)	$0 to ($1,500,000)	$0 to ($1,500,000)	$0 to ($1,500,000)
Loss - increase in tax credits under Quality Jobs program from $40 million to $60 million annually (Section 620.1881)	$0 to ($20,000,000)	$0 to ($20,000,000)	$0 to ($20,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($62,957) TO ($33,562,957)**	**($69,289) TO ($33,569,289)**	**($71,367) TO ($33,571,367)**

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 2009 (10 Mo.)	FY 2010	FY 2011
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the Development Tax Credits, Quality Jobs program, Small Business Incubator Program or the Enhanced Enterprise Zone credits may be positively fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

The proposal increases the cap on annual issuance of tax credits for the enhanced enterprise zone tax credit program from fourteen million to twenty four million dollars. Under current law, no new tax credits may be approved by the department of economic development for job retention projects, authorized under the Missouri Quality Jobs Act, after August 30, 2007. This act extends the sunset to August 30, 2013. The maximum amount of tax credits which may be issued annually under the Missouri quality jobs act is increased from forty million dollars to sixty million dollars. Also, the maximum amount of tax credits which may be issued under the Small Business Incubator program is increased from five hundred thousand to two million dollars.

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

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Office of Administration
Department of Insurance, Financial Institutions and Professional Registration

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