COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3497-10
Bill No.: Truly Agreed To and Finally Passed CCS for HCS #2 for SS for SCS for SB 718
Subject: Economic Development; Tax Credits; Taxation and Revenue
Type: Original
Date: June 2, 2008

Bill Summary: This proposal provides for tax incentives for business development.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	($66,068 to $30,066,068)	($68,889 to $30,068,889)	($70,956 to $30,070,956)
Total Estimated Net Effect on General Revenue Fund*	**($66,068 to $30,066,068)**	**($68,889 to $30,068,889)**	**($70,956 to $30,070,956)**

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

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 12 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 FTE**	**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**	**(Unknown)**	**(Unknown)**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

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 makes a change to the Neighborhood Assistance Tax (NAP) credit program by permanently re-allocating credits. These program changes would require an FTE plus expense and equipment (E&E) to administer this increased activity. DED would be required to issue letter rulings under changes to 135.682, RSMo. Changes to 135.815, RSMo, requires forfeiture of tax credits by anyone hiring illegal aliens.

DED assumes a positive impact on GR resulting from increases to the Missouri Quality Jobs and Enhanced Enterprise Zone tax credit caps and extension of the MQJ program. DED assumes the re-allocation of a portion of the Neighborhood Assistance Tax Credit cap to the Development Tax Credit will have no fiscal or administrative impact on DED.

Over all costs would include one FTE and associated costs and total roughly $85,000 per year. DED assumes these costs would be offset by an unknown but positive economic benefit to Missouri.

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 floor space expense for their additional FTEs..

Officials from the **Department of Revenue (DOR)** assume the proposal would not fiscally impact their agency.

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal modifies various tax credit programs. These changes may induce economic activity which may indirectly generate additional general and total state revenues. BAP defers to the Department of Economic Development for an estimate of any such revenues.

This proposal excludes sales to or by public utilities and telecom providers from local sales tax. BAP defers to the Department of Revenue for an estimate of any such revenues.

ASSUMPTION (continued)

This proposal modifies the Enhanced Enterprise Zone Tax Benefit Program by prohibiting taxpayers from simultaneously receiving a tax credit under this program and the Quality Jobs Program.

This proposal increases the annual cap on the Enhanced Enterprise Zone Program from $14 million to $24 million. This will reduce general and total state revenues by $10 million annually.

This proposal exempts from property tax property within an ultimate airport boundary. BAP defers to the State Tax Commission for an estimate of any such revenues.

This proposal exempts from state and local sales and use taxes all personal property included on the United States munitions list that is sold to or purchased by a foreign government for a governmental purpose. This may reduce general and total state revenues. BAP defers to the Department of Revenue for an estimate of reduced revenues.

This proposal modifies the Quality Jobs Program by raising the cap on the annual amount of tax credits issued from $40 million to $60 million. This will reduce general and total state revenues by $20 million annually.

Officials from the **Department of Natural Resources (DNR)** state changes made in section 447.708 could result in changes in the number or locations of entities utilizing the tax credits, which could change the number of people enrolling in the Brownfield Voluntary Cleanup Program. DNR is unable to determine the number of sites that may enroll based on the changes in the tax credits. Oversight activities of these sites would be addressed with existing resources. DNR would not anticipate a direct fiscal impact from these provisions.

Section 144.057 would authorize a state and local sales and use tax exemption on all tangible personal property included on the United States munitions list, as provided in 22 CFR 121.1, sold to or purchased by any foreign government or agency or instrumentality of such foreign government which is used for a governmental purpose.

DNR's Parks and Soils Tax Fund is derived from one-tenth of one percent sales and use tax pursuant to Section 47(a) of the Missouri Constitution. Therefore, any additional sales and use tax exemption would be an unknown loss to the Parks and Sales Tax Fund.

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 credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock

ASSUMPTION (continued)

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.

Officials from the **Office of the Secretary of State (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 SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $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.

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.

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, also without this proposal, the Neighborhood Assistance Program would revert from its cap of $16 million in FY 2007, to $18 million in FY 2009. Therefore, based upon the reallocation of the $32 million of tax credits within Section 32.105, Oversight will reflect a potential loss of $2 million annually from the DTC, and an offsetting $2 million savings from the NAP.

Oversight assumes the proposal removes the Brownfield 'Demolition' tax credit and incorporates it into the Brownfield 'Remediation' tax credit. According to DED's Tax Credit Analysis page, the issuances for the demolition tax credit in the past three years has been $0 in FY 2005, $37,500 in FY 2006 and $0 again in FY 2007. Therefore, Oversight will not assume any savings will be realized from the removal of this program. Oversight will utilize DED's estimate of no impact for the changes to the Brownfield Remediation since the program is discretionary. Oversight already reflected a $0 to Unknown cost for this program since there is no annual limit and that analysis is still appropriate. Oversight assumes the changes made in this substitute may increase the utilization of the program, but that is at the discretion of the Department of Economic Development.

ASSUMPTION (continued)

In response to a previous version of this proposal, officials from the **Department of Revenue** stated the addition of Section 144.057 (sales tax exemption on munitions) would have no fiscal impact on the state. DOR stated this exemption is already in place with a letter ruling, and this section simply adds the language to statutes. Therefore, **Oversight** will not assume a loss of revenue from this section.

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.

Oversight will range the fiscal impact of the 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.

The **City of St. Louis** did not respond to our request for fiscal impact.

Possessor interest in property in or on ultimate airport boundary;

Officials from the **State Tax Commission** (TAX) assumed this proposal would have no fiscal impact on their organization. In response to a similar proposal from this year (HCS for HB 1836), TAX officials stated that the proposal would nullify the assessment of this type of property, and could have a fiscal impact to local governments. TAX officials were not able to provide an estimate of the number or current assessed valuation of eligible properties.

Oversight assumes that this part of the proposal could apply to certain leased real property which is on or adjacent to a commercial airport and owned by a political subdivision. The proposal would specify a method for determining the assessed valuation for tax purposes of such properties. Oversight assumes the assessed valuation of such properties would be reduced if this proposal was implemented. The proposal would become effective after 2008 taxes are determined and would become effective for 2009 taxes in FY 2010. Accordingly, Oversight concludes that the fiscal impact to local governments and the Blind Pension Fund for years after FY 2009 is unknown.

ASSUMPTION (continued)

Sections 94.900 & 94.902 - Authorizes sales tax in Harrisonville and Raytown;

In response to a similar proposal from this year (HB 1867), officials of the **City of Harrisonville** assumed the only fiscal impact would be the costs related to an election to determine if the citizens wanted a sales tax for public safety.

Oversight assumes this part of the proposal as written is discretionary and would have no fiscal impact unless the governing body of the city would seek voter approval to impose a sales tax for public safety purposes. **Oversight** assumes if the voters were to approve a sales tax there would be revenue generated and there would be costs related to providing public safety services. **Oversight** assumes that the local annual fund balance would be either a positive unknown or a zero balance.

Oversight assumes if the citizens would approve a sales tax for public safety, the Department of Revenue would retain a 1% collection fee which would be deposited into the State's General Revenue Fund.

Oversight has no way to determine if the city were to receive voter approval to impose a public safety sales tax; therefore, for the purposes of this fiscal note fiscal impact will be shown as zero.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2009 (10 Mo)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Savings - Neighborhood Assistance Program, cap reallocated from $18 million to $16 million annually (32.105)	$0 to $2,000,000	$0 to $2,000,000	$0 to $2,000,000
Loss - Development Tax Credit program, cap reallocated from $4 million to $6 million (32.105)	$0 to ($2,000,000)	$0 to ($2,000,000)	$0 to ($2,000,000)

Costs - Department of Economic Development			
Personal Service (1 FTE)	($31,075)	($38,409)	($39,561)
Fringe Benefits	($13,741)	($16,984)	($17,494)
Expense and Equipment	($20,001)	($13,496)	($13,901)
ITSD Hours	($1,251)	$0	$0
Total Costs - DED	($66,068)	($68,889)	($70,956)
FTE Change - DED	1 FTE	1 FTE	1 FTE
Loss - increase in tax credits under Enhanced Enterprise Zone program from $14 million to $24 million annually (135.967)	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
Loss - change in cap of $40 million to $60 million under Quality Jobs program (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	**($66,068 TO $30,066,068)**	**($68,889 to $30,068,889)**	**($70,956 to $30,070,956)**
Estimated Net FTE Change for General Revenue Fund	1 FTE	1 FTE	1 FTE

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.**

BLIND PENSION FUND

Revenue reduction - property taxes (from Section 137.115)	$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO THE BLIND PENSION FUND	**$0**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
LOCAL GOVERNMENTS			
Revenue reduction - property taxes (from Section 137.115)	$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**$0**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - Small Business

Small businesses that qualify for the various programs changed or enacted by this proposal may be positively fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

This act increases the annual cap on the amount of tax credits the Department of Economic Development may authorize for the Enhanced Enterprise Zone Program from fourteen million dollars to twenty-four million dollars. The fiscal year cap on economic development tax credits that are approved as part of the Neighborhood Assistance Program is increased from four million dollars to six million dollars.

The city of Harrisonville is authorized to impose, upon voter approval, a sales tax of up to one half of one percent for the operation of public safety departments including employee compensation, pension programs, health care, employment of additional police officers, and additional equipment and facilities. The city of Raytown is authorized to impose, upon voter approval, a sales tax of up to one half of one percent for the purpose of improving public safety in the city, including expenditures on equipment, city employee salaries and benefits, and facilities for police, fire and emergency medical providers.

The provision providing for any municipality in a county under the authority of the East-West Gateway Council of Governments to create a TIF commission in the same manner as the creation of a TIF commission in St. Louis County is repealed. The provision requiring any city, town, or village under the authority of such Council to obtain permission of the county TIF commission is also repealed.

FISCAL DESCRIPTION (continued)

Beginning August 28, 2008, any city, town, or village in St. Louis County, St. Charles County, or Jefferson County shall, prior to adoption of an ordinance approving the designation of a redevelopment area or approving a redevelopment plan/project, create a commission of twelve people. Six members shall be appointed by the county executive or presiding commissioner, three members shall be appointed by the cities, towns, and villages in the county which have TIF districts, two members shall be appointed by the school boards in the county, and one member shall represent all other taxing districts in the proposed redevelopment area and be appointed in a manner agreed upon by all such districts. A city, town, or village that creates such a commission must send notice to the county executive or presiding commissioner, school districts, and other taxing districts.

Any commission created by a city, town, or village in such counties shall, within 15 days of receiving a redevelopment plan and a request by the applicable city, town, or village, fix a time and place for the required public hearing. The hearing shall be held no later than 75 days from the commission receiving the plan and request. The commission shall vote and make recommendations to the governing body of the city, town, or village requesting the hearing within 30 days after the hearing. If the commission fails to vote within 30 days, the plan will be deemed rejected.

Section 99.825 is currently doubly-enacted, so one version of the section is repealed. Any public hearing of a commission created by a city, town, or village in St. Louis County, St. Charles County, or Jefferson County shall not be continued for more than thirty days unless requested by the chief elected official of the municipality creating the commission and approved by the majority of the commission.

Changes may be made to the redevelopment plan without further hearing provided there is no enlargement of the boundaries of the redevelopment area, substantial effect on the general land use, change in the nature of the redevelopment project, or increase in the total redevelopment costs approved by the commission to be paid by TIF, excluding interest and finance costs, by more than 10% and notice of such changes is given to each affected taxing district by mail and publication in the newspaper.

After adoption of an ordinance approving a redevelopment plan, alterations to the plan may be made provided they do not: enlarge the boundaries of the redevelopment area, substantially affect the general land use, change the nature of the redevelopment project, or increase the total redevelopment costs approved by the commission to be paid by TIF, excluding interest and finance costs, by more than 10% may be adopted.

FISCAL DESCRIPTION (continued)

The act allows community improvement districts (CID) to exist in special business districts within the City of St. Louis. Currently, any CID in St. Louis which is also in a special business district cannot levy a CID sales tax unless special assessments imposed on real property or businesses within the special business district are repealed. Sales by public utilities and providers of communications, cable, or video services will be exempt from the CID sales tax.

The director of the Department of Economic Development is authorized to issue letter rulings regarding the New Markets Tax Credit Program. The letter rulings are binding in a court of law and must be issued within sixty days of a request. The department can refuse to issue the letter ruling for good cause, but must explain the reason for refusal. Letter rulings are closed to the public, however information can be released as long as anything which would identify the applicant or is otherwise protected is redacted.

Any applicant for state tax credits who purposely and directly employs unauthorized aliens must forfeit any tax credits issued to such applicant which have not been redeemed, and any tax credits redeemed by such applicant will be recaptured for the period of time in which the applicant employed unauthorized aliens.

The act specifies that the true value in money for property tax assessment purposes of any possessory interest in real property located on or within the ultimate airport boundary shown by a federal airport layout plan of the Kansas City International Airport will be the true value in money of the possessory interest in the real property less the total costs paid toward any new construction or improvements completed on the property after January 1, 2008, if included in the possessory interest, unless paid by the political subdivision, regardless of the year the costs were incurred.

An exemption from state and local sales and use tax is created for all tangible personal property included on the United States munitions list which is sold to or purchased by a foreign government for a governmental purpose. Currently, this exemption is granted by the Department of Revenue through a letter ruling.

Currently, some demolition activities associated with Brownfield redevelopment are separate from remediation activities. The act specifies that all demolition activities are part of remediation and allows remediation tax credits to include up to one hundred percent of demolition costs that are not directly part of the remediation, but which are necessary to accomplish the planned use of the facility. Demolition may occur on adjacent property that independently qualifies as abandoned or underutilized and is located in a municipality with fewer than 20,000 residents.

FISCAL DESCRIPTION (continued)

Currently, the Department of Economic Development cannot issue more than forty million dollars in tax credits annually under the Quality Jobs Act. The act increases the cap on the annual issuance of tax credits to sixty million dollars. Under current law, tax credits for job retention projects are only authorized through August 30, 2007. The act extends the authorization to August 30, 2013. Under the Quality Jobs Act, a project facility may include separate buildings if they are located within one mile of each other. The act allows a project facility to include separate buildings within the same county. Companies which lease or own facilities that produce electricity derived from qualified renewable energy sources, or which produce fuel for the generation of electricity from qualified renewable energy sources are allowed to participate in the quality jobs program as a technology business project if all other requirements of the program are met. Qualified renewable energy sources include open-looped biomass, close-looped biomass, solar, wind, geothermal, and hydropower but not ethanol distillation or production or biodiesel production.

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

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Office of Administration - Budget and Planning
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
State Tax Commission
Office of the Secretary of State
Department of Social Services
City of Harrisonville

NOT RESPONDING:
City of St. Louis

Mickey Wilson

Mickey Wilson, CPA
Director
June 2, 2008