COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.:	3929-07
Bill No.:	Perfected SS for SCS for SB 898
Subject:	Agriculture; Agriculture Dept.; Boards, Commissions, Committees, Councils; Conservation Dept.; Emergencies; Environmental Protection; Motor Fuel; Natural Resources Dept.; Revenue Dept.; Tax Credits; Taxation and Revenue - Sales and Use; Motor Vehicles; Taxation and Revenue - General; Taxation and Revenue - Income; Buses; Education, Elementary and Secondary; General Assembly; State Auditor
Type:	Original
Date:	March 13, 2008

Bill Summary: Modifies provisions pertaining to the administration of agriculture incentives and programs. Would create various tax incentives for certain energy uses. Creates the Farm Mentoring and Education Authority to administer agricultural education programs to incubate new farms. Prohibits the Department of Agricultural from participating in the National Animal Identification System (NAIS) without specific statutory authorization to do so. Requires the Department of Natural Resources to establish time lines for processing certain permits for concentrated animal feeding operations (CAFOs) and modifies penalties for offenses by these operations. Would exempt motor fuel used for school buses from the motor fuel tax. Requires the claiming of any state tax credit by a member of the Missouri General Assembly or the member's family to be included in the member's financial interest statement. Requires reporting of taxpayer information regarding the utilization of state tax credits. Authorizes a tax credit equal to 100% of the state sales tax paid on any automobile assembled and purchased in Missouri. Sunsets all tax credits now or hereafter August 28, 2011.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 31 pages.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(Greater than $9,270,399 to $12,719,399)	(Greater than $10,194,884 to $13,143,884)	(Greater than $10,177,575 to $12,126,575)
Total Estimated Net Effect on General Revenue Fund*	**(Greater than $9,270,399 to $12,719,399)**	**(Greater than $10,194,884 to $13,143,884)**	**(Greater than $10,177,575 to $12,126,575)**

***Note: Section 348.505, SA 15 – 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.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Farm Mentoring and Education Fund	$0	$0	$0
Natural Resources Protection Water Pollution Permit Fee (0568) Fund	$0 to ($14,770)	$0 to ($18,256)	$0 to ($18,803)
Road Fund	($2,241,956)	($2,241,956)	($2,241,956)
Various Other Funds	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on Other State Funds	**(Unknown)**	**(Unknown)**	**(Unknown)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Federal Funds	($450,000)	($450,000)	($450,000)
Total Estimated Net Effect on All Federal Funds	**($450,000)**	**($450,000)**	**($450,000)**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	4.7	12.7	12.7
Total Estimated Net Effect on FTE	**4.7**	**12.7**	**12.7**

☒ 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*	**$2,241,956 to (Unknown)**	**$2,241,956 to (Unknown)**	**$2,241,956 to (Unknown)**

***Note: Section 348.505, SA 15 – 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** and **State Treasurer's Office** assume no fiscal impact to their agency.

Officials from the **Secretary of State's Office (SOS)** assume this bill requires the Department of Agriculture and the Department of Revenue to promulgate rules. These rules will be published by our division in the Missouri Register and the Code of State Regulations. Based on experience with other divisions, the rules, regulations and forms issued by the various agencies could require as many as 125 pages in the Code of State Regulations. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the Missouri Register is $23.00. The estimated cost of a page in the Code of State Regulations is $27.00. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn.

Oversight assumes the SOS could absorb the costs of printing and distributing packets and sections of the State Manual related to this proposal. If multiple bills pass which require the printing and distribution of packets at substantial costs, the SOS could request funding through the appropriation process.

Officials from the **Department of Revenue (DOR)** assume Personal Tax would require 1 Tax Processing Technician I for every 6,000 credits claimed due to Section 135.633.

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 proposal could be implemented utilizing 4 existing CIT II for 1 month for modifications to MINITS, COINS, CAFÉ, MITS and Corporate E-file. The estimated cost is $16,744.

Section 135.633

Officials from the **Department of Agriculture** assume the demand for the MELO tax credits will far exceed the cap of $300,000.

ASSUMPTION (continued)

In response to a similar proposal, CCS for HCS for SCS for SB 156, 0534-14 (FY 07), officials from the **Department of Agriculture** assume General Revenue collections will be reduced by the amount of the tax credits but somewhat offset by the amount of economic activity generated.

The proposal caps the tax credits at $300,000.

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 100 percent of tax credits issued. Therefore, under this proposal, if $300,000 of credits are issued, Oversight would assume $0 to $295,500 (98.5%) of credits to be redeemed, reducing Total State Revenues.

Officials from the **Department of Natural Resources (DNR)** assume this proposal would authorize the Missouri Agriculture and Small Business Development Authority to issue tax credits to owners of livestock operations to partially offset certain expenses incurred for implementing odor abatement best management practices and systems.

The DNR assumes they would implement the provisions of this proposal utilizing existing resources.

Section 142.028

Officials from the **Department of Agriculture (MDA)** assume a qualified biomass ethanol plant will begin production in September 2010 with a 10 million gallon production annual capacity. At 20 cents-per-gallon the plant would earn $1.7 million in producer incentives in FY11.

Section 144.053 and 144.063

Officials from the **Department of Natural Resources (DNR)** assume this section of the proposal would exempt any new or used farm tractors, machinery, or equipment including parts, supplies, and fuel used to plant, harvest, process, or transport forestry products from state and local sales tax.

The proposal would exempt the purchase of fencing materials for agricultural purposes.

ASSUMPTION (continued)

The proposal would create a sales tax exemption for the purchase of motor fuel for agricultural purposes, which would sunset after 6 years.

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. The fiscal impact from the exemptions proposed in this proposal is unknown but taken in the aggregate with those sales and use tax exemptions in past and future legislative sessions would result in some loss to the Parks and Sales Tax Fund.

In response to a similar proposal in FY 07, HB 710, 1001-01, the **Department of Revenue** assumed even though this proposal would result in a loss of revenues; Taxation does not anticipate an impact.

Oversight could not find information regarding annual expenditures on agricultural fencing to formulate an estimate of the fiscal impact of this proposal. Therefore, Oversight will assume an unknown loss of revenue to the various state and local sales tax funds resulting from this proposal.

Section 206.546

Officials from the **Department of Natural Resources** assume currently political subdivisions and volunteer fire departments can request reimbursement from the Hazardous Waste Fund (HWF) for costs incurred from the response to a hazardous substance release if proof of an immediate need for funds is established or prompt reimbursement from the person having control over the hazardous substance is not anticipated.

If the person having control of the hazardous substance contests the costs associated with the cleanup, the volunteer fire department or political subdivision would bear the burden of proof to justify the costs. This proposal would require the volunteer fire district or political subdivision to specify costs and explain why such costs were reasonable and necessary.

The department would not anticipate a direct fiscal impact from this proposal.

Section 263.232

Officials from the **Department of Conservation (MDC)** assume sections 144.053 and 144.063 of this proposal would appear to have a negative impact on MDC funds. However, MDC is unable to provide the estimate and will rely on DOR for the fiscal impact of this proposal.

ASSUMPTION (continued)

Section 263.232 of this proposal would not appear to have fiscal impact on MDC funds. Spotted knapweed is uncommon on Missouri Department of Conservation lands. The Department is working to control sericea lespedeza and research and evaluation efforts are underway as well. Other provisions of this proposal would not appear to have significant impact on MDC funds.

Officials from the **Department of Natural Resources (DNR)** has identified spotted knapweed (Centaurea stoebe = Centaurea biebersteinii) in 9 state parks (Bennett Spring, Cuivre River, Hawn, Illiniwek SHS, Johnson's Shut-Ins, Meramec, Montauk, St. Joe and Stockton). To comply with the proposal DNR will need to conduct surveys at the parks listed and others to identify the extend of infestation. They have sericea lespedeza practically in every state park. It is estimated at least $100,000 to possible $200,000 to control the spread of these specific weeds.

Total costs are reflected as zero based on a decision made by the Oversight Subcommittee on February 1, 2000 in reference to a similar proposal (HB 1395) from the 2000 session.

Section 348.230, 348.235 & portions of 348.434

Officials from the **Department of Agriculture** assume subject to appropriations is the following:

There are approximately 109,000 dairy cows in the state. The state average cull rate on dairy cows is about 30%. University of Missouri Commercial Ag Dairy Economists estimate that of the replacement animals going back into the herd, about 15% are actually purchased and the other 85% are raised on the farm. Currently good replacement animals are selling for about $2,100 per head. Assuming a 8% interest rate and a 30% participation rate by dairy farmers.

109,000 head x 30% cull rate x 15% purchased x $2,100 per head x 8% interest rate x 30% participation rate = $247,212.

Assuming that Missouri will see a 5% increase in new dairies and expansions.

109,000 x 5% increase x $2,100 per head x 8% interest rate x 30% participation rate = $274,680.

TOTAL $247,212 + $274,680 = $521,892.

The maximum cumulative annual grant shall not exceed $50,000.

ASSUMPTION (continued)

Section 348.505

Officials from the **Department of Agriculture (AGR)** assume there is currently a waiting list for Family Farm Breeding Livestock Tax Credits of approximately $150,000.

In response to a similar proposal in FY 07, CCS for HCS for SCS for SB 156, 0534-14, the Family Farms Breeding Livestock Loan Program was passed in FY 06 with the tax credit annual limit of $150,000. Loan applications were approved for the $150,000 limit with 3 months after becoming effective. Therefore, the assumption is that the expansion would be utilized each year as well.

Section 135.710, 143.114 & 143.128

Officials from the **Office of the Secretary of State** (SOS) provided this 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 the SOS for Administrative Rules is less than $2,500. The SOS 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.

Officials from the Office of **Administration, Division of Budget and Planning** (BAP), assume there would be no added cost to their organization as a result of this bill. BAP officials assume the proposal would have the following fiscal impact to the state:

This proposal would create an income tax credit for the construction of an AFV refueling property, equal to the lesser of 20% of construction costs or $20,000. Tax credit claims would be capped at $3 million in FY09, $2 million in FY10, and $1 million in FY11. Therefore, this proposal would reduce general and total state revenues by those amounts.

Oversight will indicate a fiscal impact for this provision from $0 to the maximum amount of credits for each year.

ASSUMPTION (continued)

This proposal would also provide a deduction from Missouri adjusted gross income, up to $1,500, for the purchase of a qualifying hybrid vehicle. According to a 2/26/07 news release published by R.L. Polk , there were 254,545 hybrid vehicle registrations in 2006. Missouri was not among the top ten states cited in the article, which accounted for 155,979 of these registrations. BAP assumes Missouri accounted for 1/40 of the remaining registrations, or a total of 2,464. A separate article 9/17/07 from R.L. Polk projects an increase of 56.9 percent in 2007 for Midwestern states. Using this rate, BAP estimates 3,866 hybrid registrations in Missouri in 2007.

This proposal could reduce Missouri Taxable Income by (3,866 vehicles x $1,500 tax deduction per vehicle) = $5.8 million. Assuming a 4.5% effective tax rate, this provision could reduce general and total state revenues by ($5,800,000 x 4.5%) = $261,000 annually beginning in FY09.

Oversight notes that the proposal allows the deduction for vehicles purchased in tax years beginning January 1, 2009, and assumes that the fiscal impact of the proposal would begin in FY 2010.

This proposal would provide an income tax credit of up to $500 per taxpayer, but no less than $50, for the purchase of E-85, biodiesel, or bio-diesel blended gasoline. The aggregate amount of tax credits which may be redeemed in any fiscal year could not exceed $500,000. This provision could reduce general and total state revenues. This provision would become effective for 2009, resulting in a revenue reduction FY 2010.

Oversight will indicate a fiscal impact from $0 to $500,000 for FY 2010 and FY 2011.

Officials from the **Department of Conservation** (MDC) assume this proposal would have no fiscal impact on MDC funds.

Officials from the **Department of Natural Resources** and the **Department of Transportation** assume this proposal would have no significant impact on their organizations.

Officials from the **Department of Revenue** (DOR) assume this proposal would provide for additional tax deductions and credits which would reduce the amount of state tax due. Therefore, the proposal would reduce total state revenues.

ASSUMPTION (continued)

Alternative Fuel Vehicle Refueling Facility Tax Credit

From January 1, 2009, to January 1, 2012, an eligible applicant who installs and operates a qualified alternative fuel vehicle refueling property would be allowed an income tax credit for any tax year in which the applicant is constructing the refueling property. An "eligible applicant" would be business entity that is the owner of a qualified alternative fuel vehicle refueling property.

The credit could not exceed the lesser of $22,000 or 20% of the total costs directly associated with the purchase and installation of any alternative fuel storage and dispensing equipment on any qualified alternative fuel vehicle refueling property. The credits could only be claimed when the applicant files its return in the year the storage and dispensing facility was placed into service. Tax credits which could be claimed by all eligible applicants could not exceed $3 million for 2009, $2 million for 2010, and $1 million for 2011.

The credit would not be refundable but could be carried forward 2 subsequent tax years. The credits could be assigned, transferred, or sold. If the facility that received a credit ceases business, the entity would forfeit any credits. The Department of Revenue would apportion the credit equally among all eligible applicants.

The Department of Natural Resources would certify the credit to the applicant and the Department of Revenue; and the Department of Natural Resources and the Department of Revenue are to promulgate the rules.

DOR assumes that changes to individual income tax forms and instructions would be required; changes to corporate income tax forms and instructions would be required; changes to the MINITS system would be required; changes to the COINS and CAFÉ systems would be required; and Financial Institution Tax system changes would be required.

Hybrid Vehicle Purchase Tax Deduction

Beginning on January 1, 2009, any taxpayer who purchases a qualified hybrid vehicle would be allowed to deduct from the taxpayer's Missouri adjusted gross income an amount equal to $1,500 or 10% of the purchase price of the vehicle, whichever is less.

ASSUMPTION (continued)

The Department of Revenue would determine the means by which the taxpayer is to document the purchase in order to claim the deduction. The Department of Revenue would also promulgate the rules.

DOR assumes that changes to individual income tax forms and instructions would be required; changes to corporate income tax forms and instructions would be required, and changes would be required to the MINITS, Speed-up, COINS, and CAFÉ systems.

Alternative Fuel Purchase Tax Credit

Beginning January 1, 2009, a taxpayer who purchases E-85 gasoline would be be allowed to claim a tax credit. For 2009, the credit would be 25 cents per gallon of E-85 gasoline or 5 cents per gallon of biodiesel or biodiesel-blended fuel. For 2010 and 2011, the credit would be 20 cents per gallon of E-85 gasoline or 3 cents per gallon of biodiesel or biodiesel-blended fuel purchased by the taxpayer. For 2012 and years, the credit would be 15 cents per gallon of E-85 gasoline or 5 cents per gallon of biodiesel or biodiesel-blended fuel.

DOR provided the following estimate of administrative impact.

Alternative Fuel Vehicle Refueling Facility Tax Credit

Based on information received in the 2006 legislative session, there are only 800 taxpayer's who would qualify for this tax credit. Taxation anticipates absorbing this program with existing staff. Should the number of credits claimed exceed 4,000 the Department would have to request additional staff through the budget process.

Hybrid Vehicle Purchase Tax Deduction

Personal Tax would require two FTE Temporary Tax Employees for key-entry, one FTE Tax Processing Technician I for every additional 19,000 returns verified, and one FTE Tax Processing Technician I for every additional 2,400 pieces of correspondence.

ASSUMPTION (continued)

Alternative Vehicle Fuel Purchase Tax Credit

Personal Tax would require one FTE Tax Processing Technician I for every 4,000 credits claimed, and Customer Assistance would require one FTE Tax Collections Technician I for every additional 15,000 contacts, annually, on the delinquent tax phone line, one FTE Tax Collections Technician I for every additional 24,000 contacts, annually, on the income tax line, and three FTE Tax Processing Technician I for every additional 4,800 contacts in the field offices. Customer Assistance anticipates the increase in contacts to be significant enough to request one FTE Tax Processing Technician I for each of the larger field offices, Kansas City, St. Louis, and Springfield..

In summary, DOR provided an estimated cost to implement this proposal including eight additional FTE, with related equipment and expenditures, totaling $307,597 for FY 2009, $326,841 for FY 2010, and $336,645 for FY 2011.

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 estimate of equipment and expenditures in accordance with OA budget guidelines, and Oversight assumes that a limited number of additional employees in a given location could be accommodated in existing office space. If unforeseen expenses are incurred or if multiple provision are enacted which increase the DOR workload, resources could be requested through the budget process.

Oversight notes that DOR assumed it could implement the refueling facility tax credits with existing resources; therefore additional FTE and related equipment and expenditures are indicated for FY 2010 and FY 2011.

Section 261.112

Officials at the **Office of the State Treasurer** assume the fund is no longer exempt from the biennial transfer. The balance at the end of the biennium, except for gifts, donations, or bequests in excess of 200% of the previous fiscal year expenditures will be transferred to the general revenue fund. The impact to General Revenue due to the change is zero to unknown.

Officials at the **Department of Higher Education, University of Missouri - Columbia** and **Department of Agriculture** assume that there is no fiscal impact from this proposal.

ASSUMPTION (continued)

Oversight shows the cost to General Revenue from $0 up to the maximum allowed of $99,000. Oversight is assuming that the Farm Mentoring and Education Fund will use all money appropriated to it each year. Oversight assumes the transfer of funds in the biennium would not occur within the years covered by this fiscal note.

Section 267.168 (SA 3)

Officials from the **Missouri House of Representatives** and **Missouri Senate** assume no fiscal impact to their agencies.

Officials from **Department of Agriculture (AGR)** assume this proposal would prevent the AGR from participating in a voluntary national animal identification program and could slow the response time to disease threat and cut off markets to Missouri producers. Many of the disease control activities funded by this program would need to continue and be paid for out of state general revenue funding in order to ensure animal disease control. This proposal would also require the AGR to change "premises identification" to "property identification" in all regulations, policies, publications or correspondence. This would require the AGR to change publications, regulations, forms, i.e. health papers that have been standardized for program uniformity with other states to promote the movement of livestock and poultry and their products interstate for those citizens who wish to voluntarily participate in the program.

The analysis assumes that the federal funding received to implement the National Animal Identification System would be replaced by state general revenue funding. Otherwise, the state's animal disease control and eradication efforts and the state's ability to compete in national and international livestock would be seriously impaired.

Oversight assumes the loss in federal funding will be similar to what occurred in the Department of Agriculture's response to a similar proposal in 2007 (SB 428, 1607-02) and has included that dollar amount in this fiscal note instead of using an unknown loss amount. The Department of Agriculture has not included any loss of Federal Funding in their response.

ASSUMPTION (continued)

Ssections 640.710, 643.151 & 644.076 (SA 4)

Officials from the **Department of Agriculture, Office of State Courts Administrator, Department of Public Safety, Department of Health and Senior Services** and **State Treasurer's Office** assume no fiscal impact to their agencies.

Officials from the **Department of Natural Resources (DNR)** assume for purposes of this fiscal note, the department estimates that there are twelve (12) site specific CAFO permits per year that would not meet the 90-day deadline and would therefore have to be published according to this proposal. The average cost for one classified column is estimated to be $1,477 over ten days. Therefore, the anticipated fiscal impact from the publication provisions in this proposal would be up to $17,724 annually. If the intent of this proposal is to require that a display ad be published the cost would be increased significantly, as much as 5 times the estimated fiscal impact. The average cost of display ads is $6,877 per publication or $82,518 annually.

The proposed publication provision is an additional requirement in the permitting process that was not considered at the time the fee structure was developed.

As the Department continues to make improvements to the permitting process, it is possible that the number of instances that require publishing would decrease thereby reducing the potential fiscal impact from this proposal.

Section 348.515, 348.518, 348.521, 348.521, 348.524, 348.530 (SA 5)

Officials from the **Department of Agriculture (AGR)** assume this proposal allows farmers to continue to operate in those years with low commodity of livestock prices and or high feed and input costs. The proposal will also help ensure the long-term viability of Missouri small to medium farmers.

Based on the historical usage and payments for two other guarantee programs, AGR does not anticipate more than 1 default per year.

Section 231.444 (SA 13, SA 1 to SA 13)

Oversight assumes this portion of the proposal as written, does not require counties to request voter approval to impose levies for the purpose of purchasing road rock.

ASSUMPTION (continued)

Oversight assumes the decision by citizen petition, or the County Commission to seek voter approval to impose a levie would be discretionary.

Oversight cannot determine if any county would receive voter approval to impose the levy, and if they did, the amount of the revenue generated by the levy is indeterminable and unknown. Because this portion of the proposal is permissive Oversight assumes not state or local fiscal impact.

<u>Section 142.815 (SA 6)</u>

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume there should be no added cost to BAP as a result of this bill. BAP officials stated that the Department of Elementary and Secondary Education (DESE) may also want to comment on this proposal.

BAP officials assume that exempting motor fuel used to operate public school buses from the Motor Fuel Tax would mean fewer dollars deposited into the Motor Fuel Tax Fund for distribution to the State Highways and Transportation Department Fund, County Aid Road Trust Fund, and funds distributed to cities, towns and villages.

Officials from the **Missouri Department of Conservation** (MDC) assume this proposal would appear to have a negative fiscal impact on MDC funds since it appears to exempt motor fuel used in school buses from sales tax. However, MDC is unable to provide the estimated amount and will rely on DOR for the fiscal impact of this legislation.

Officials from the **Department of Revenue** (DOR) assume this proposal would create the need for form changes and minor Fuel Tax system changes, and for an informational bulletin to be sent to all the school districts in Missouri. DOR Division of Taxation does not anticipate a significant direct impact from this legislation.

DOR officials forwarded an estimate from the Office of Administration Information Technology (ITSD/DOR). ITSD/DOR assumes this proposal could be implemented utilizing 1 existing CIT III for 1 month for modifications to MINITS at a cost of $4,186. ITSD/DOR assumes the IT portion of this request could be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement.

DOR officials stated that any exemption of fuel tax would reduce the amount of funds distributed to MODOT and political subdivisions. Counties currently receive a 10% share of the proceeds while cities receive a 15% share, of the first 11 cents of the motor fuel tax. For the 6-cent motor fuel tax enacted in 1992, counties receive a 15% share of proceeds and cities receive a 15%

share.

Officials from the **Department of Transportation** (MODOT) assume this proposal would result in reduced collections for the Road fund and to local governments.

According to DESE they expect a 1.002% bus travel growth annually. The total bus miles traveled during the 2006-07 school year was 126,226,556. The average school bus gets 7 miles per gallon. Total gallons used (126,226,556/7=18,032,365.14). That would be an income lose of $3,065,502.07. Adding the 1% growth rate the impact would be ($3,077,776.34) (FY 09), ($3,083,931.90) (FY 10) & ($3,090,099.76) (FY 11) - Note this also includes the lost revenue to cities and counties.

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 126,045,655 for the 2006-2007 school year. By dividing total miles by an average of 7 miles per gallon, this yields 18,006,522 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 $3,061,109.

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 school districts to purchase the fuel used by contractors.

Oversight notes that school mileage reported by DESE did not increase from 2005-2006 to 2006-2007. Oversight assumes for the purposes of this fiscal note that school bus mileage will remain constant, that 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. Oversight also assumes the proposal would become effective as of August 28, 2008 and has reflected the fiscal impact for a full school year. Oversight has calculated the estimated impact of this proposal in the following table.

ASSUMPTION (continued)

	FY 2009	FY 2010	FY 2011
Road Fund	$2,241,956	$2,241,956	$2,241,956
Cities	$459,166	$459,166	$459,166
Counties	$359,986	$359,986	$359,986
Total	$3,061,109	$3,061,109	$3,061,109

Section 32.057 & 105.485 (SA 12)

Officials from the **Missouri Ethics Commission**, **Department of Revenue**, **Missouri House of Representatives** and the **Missouri Senate** each assume the proposal would not fiscally impact their respective agencies.

Section 135.805 (SA 14)

Officials from the **Office of the State Auditor (SAU)** state this legislation requires the auditor's office to build and maintain a large database of information related to tax credit issuance and redemption. This proposal will result in a tremendous amount of data coming to the auditor's office. Since this data will come from several different sources/departments, the information will be submitted in many different ways/formats. It could require significant time and resources to compile all of the different data into a single format so that it could be put on the web as required by the legislation. However, this work would be essential in order to present the information in a user friendly way that allows for searching the data to look for specific information. Although it is not specifically mentioned in the legislation, if tracking a credit from issuance to redemption is intended, a very complex system would be required as several years often occur from issuance to redemption, and with the selling and buying of tax credits, they may be redeemed by an entity different from that which it was issued to.

There are several unknowns related to this proposal that will affect the fiscal impact. The frequency that the information is to be updated on our web site (daily, weekly, monthly, etc) is a consideration. Since tax credits could be issued and redeemed on a very frequent basis by the various departments, the web site would have to be updated regularly to provide good information. Also, this proposal does not specifically include credits redeemed by the Department of Insurance, Financial Institutions and Professional Registration. It is unknown

ASSUMPTION (continued)

whether that ommission is intentional; however, were that department to be included, additional costs would be incurred for processing of the additional information and the format compatibility mentioned above.

This proposal will take staffing resources and computer resources to develop the system. In addition, ongoing costs related to maintenance of the information and system are expected. Overall, because of the volume and complexity of the data, the fiscal impact for the auditor's office is unknown, but may exceed $100,000 for staffing requirements, equipment purchases, and/or consulting fees.

Oversight assumes the State Auditor could utilize systems already in place and used by the Department of Economic Development and the Department of Revenue to create this database. Oversight assumes the SAU would require administering agencies to submit the necessary information in specific formats so as to diminish the amount of work needed to combine the information from various sources. Oversight assumes the SAU will incur some costs as a result of this proposal, but assume it to be less than $100,000 per year.

Officials from the **Department of Economic Development (DED)** state the Office of Administration - Information Technology Services Division estimate 100 hours of programming at a cost of $30 per hour to set up an interface with the existing DED Client Tracking System and pass the issued/authorized credit information to the State Auditor. Some continuing maintenance would also be required.

Officials from the **Department of Revenue**, **Department of Insurance, Financial Institutions and Professional Registration**, **Department of Social Services**, **Department of Natural Resources**, **Department of Elementary and Secondary Education**, **Department of Public Safety**, **Department of Higher Education**, **Department of Agriculture**, and the **Department of Health and Senior Services** each assume the proposal would not fiscally impact their respective agencies.

Section 348.505 (SA 15)

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal creates a tax credit equal to the sales tax paid on sales of new vehicles assembled and sold in Missouri. Data from the Department of Revenue indicate there were 11,979 new vehicles that were assembled in Missouri and sold by Missouri dealers during FY ‘06, accounting for $8,704,525 in state sales tax. In addition, there were 12,283 new ATV’s sold by Missouri dealers

ASSUMPTION (continued)

accounting for $2,352,691 in state sales tax. DOR does not have information on how many of these units were assembled in Missouri. Therefore, BAP estimates that general and total state revenues may be reduced by $8.7 million to $10 million annually.

Officials from the **Department of Revenue (DOR)** state they would require one Tax Processing Technician I (at $24,636 annually) for every 4,000 credits claimed. The total cost of this FTE, plus fringe benefits and expense and equipment is estimated to be roughly $40,000 annually.

DOR also states due to the Statewide Information Technology Consolidation, their response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed To and Finally Passed, the OA-IT costs shown will be requested through appropriations by OA-IT.

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. 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.

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 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.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, DIFP may need to request more expense and equipment appropriation through the budget process.

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

ASSUMPTION (continued)

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 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.

Oversight assumes that no ATV's are assembled in Missouri and that none would qualify for the tax credit. Oversight has used BAP's estimate of revenue reductions from motor vehicles as the fiscal impact for that provision. Oversight assumes that sales of new motor vehicles manufactured in Missouri would be relatively stable over the date scope of this fiscal note. The fiscal impact of this proposal could increase, should sales of such vehicles markedly increase as result of this act; conversely, it could decrease, should one or more automakers cease manufacturing in Missouri. Oversight will assume a full year of qualifying purchase will be make in calendar year 2008, since the tax credit is for 'all taxable years beginning on or after January 1, 2008.'

Oversight has, for fiscal note purposes only, changed the starting salary for DOR's Tax Processing Tech I 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 and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. In addition, Oversight assumes that the relatively small number of additional staff can be located in existing office space.

Based upon BAP's estimate of 11,979 vehicles that would qualify for this program in 2006, Oversight assumes DOR may need up to 3 new FTE if their estimate of one FTE for every 4,000 tax credits processed is correct. However, Oversight will reflect DOR's estimate of 1 new FTE required.

ASSUMPTION (continued)

Section 348.505 (SA 7)

Officials from the **Department of Economic Development (DED)** assume that all tax credit programs would be repealed in August of 2011. DED assumes there would be an enormous negative impact on General REvenue. While the tax credit liabilities would go away, the p ositive economic benefits from the tax credit programs would also go away and cause a negativeimapct. None of this impact is projected in the fiscal note as this is outside the scope of the requested fiscal projections. The other amendment impacting DED requires stae agencies to make the tax credit recipient's name and the creidt amount publicially available. DED is unable to project the impact of compiling and making this information available and is showing the impact as Unknown.

DED assumes the sunset of all tax credit programs in August of 2011 will have a significant negative impact on General REvenue. DED assumes there will be an unknown cost to make tax credit information available to the public. DED assumes the majority of the proposal and the other amendments do not impact their department.

This section of the proposal is beyond the scope of this fiscal note however, **Oversight** has 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 100 percent of tax credits issued. Therefore, under this proposal, if $594,512,706 of credits are issued, Oversight would assume $0 to $585,595,015 (98.5%) of credits to be redeemed, reducing Total State Revenues.

This Proposal Reduces Total State Revenue.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE			
Cost - Section 142.028 - Department of Agriculture			
Incentive Payment	$0	$0	($0 to $1,700,000)
Subtotal	$0	$0	($0 to $1,700,000)
Cost - Section 135.633 - Department of Agriculture			
Tax Credits	($0 to $300,000)	($0 to $300,000)	($0 to $300,000)
Subtotal	($0 to $300,000)	($0 to $300,000)	($0 to $300,000)
Loss - Section 144.053 & 144.063			
Sales Tax Exemption	(Unknown)	(Unknown)	(Unknown)
Subtotal	(Unknown)	(Unknown)	(Unknown)
Cost - Section 348.230, 348.235 & 348.434 - Department of Agriculture			
Program Costs	$0	($250,000)	($250,000)
Equipment & Expense	($0 to $50,000)	($0 to $50,000)	($0 to $50,000)
Subtotal	($0 to $50,000)	($0 to $300,000)	($0 to $300,000)
Cost - Section 348.505 - Department of Agriculture			
Tax Credits	($150,000)	($150,000)	($150,000)
Subtotal	($150,000)	($150,000)	($150,000)

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
Sections 135.710, 143.114 & 143.128			
Revenue reductions			
AFV refueling facility tax credits	$0 to ($3,000,000)	$0 to ($2,000,000)	$0 to ($1,000,000)
Hybrid vehicle purchase tax deductions	$0	($261,000)	($261,000)
E-85 fuel tax purchase tax credits	$0	$0 to ($500,000)	$0 to ($500,000)
Totals	$0 to $3,000,000)	($261,000 to $2,761,000)	($261,000 to $1,761,000)
Cost - Department of Revenue			
Personal Service (8 FTE)	$0	($181,445)	($186,888)
Temporary employees	$0	($16,550)	($17,047)
Fringe Benefits	$0	($87,553)	($90,180)
Expense and Equipment	$0	($44,385)	($4,145)
Totals	$0	($329,933)	($298,260)
Section 261.112			
Transfer Out - General Revenue			
Transfer to new fund	($0 to $99,000)	($0 to $99,000)	($0 to $99,000)
Totals	($0 to $99,000)	($0 to $99,000)	($0 to $99,000)
Section 267.168 (SA 3)			
Cost - Department of Agriculture			
Salaries (3.7 FTE)	($98,911)	($122,254)	($125,921)
Fringe Benefits	($43,738)	($54,061)	($55,682)
Equipment & Expense	($217,151)	($268,399)	($276,452)
Totals	($359,800)	($444,714)	($458,055)
Cost - Department of Agrciulture			
Loan Default Payment	($20,000)	($20,000)	($20,000)
Totals	($20,000)	($20,000)	($20,000)

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
Section 135.805 (SA 14)			
Costs - Department of Economic Development - ITSD interface costs and ongoing maintenance	($3,000)	($500)	($500)
Costs - State Auditor's Office			
To develop, implement and maintain tax credit database	(Unknown - less than $100,000)	(Unknown - less than $100,000)	(Unknown - less than $100,000)
Total	(Unknown - less than $100,000)	(Unknown - less than $100,000)	(Unknown - less than $100,000)
Section 348.505 (SA 15)*			
Costs - Department of Revenue			
Personal Service (1 FTE)	($18,901)	($23,361)	($24,062)
Fringe Benefits	($8,358)	($10,330)	($10,640)
Expense and Equipment	($5,815)	($518)	($533)
Total Costs - DOR	($33,074)	($34,209)	($35,235)
Loss - Income Tax			
Qualifying vehicle tax credit	($8,704,525)	($8,704,525)	($8,704,525)
Total	($8,737,599)	($8,738,737)	($8,739,760)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*	**(Greater than $9,270,399 to $12,719,399)**	**(Greater than $10,194,884 to $13,143,884)**	**(Greater than $10,177575 to $12,126,575)**

***Note: This does not reflect the possiblity 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.**

Estimated Net FTE Effect on General Revenue Fund	4.7	12.7	12.7

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
Section 261.112			
FARM MENTORING & EDUCATION FUND			
Transfer In - Farm Mentor & Educ Fund Transfer from General Revenue	$0 to $99,000	$0 to $99,000	$0 to $99,000
Cost- Farm Mentor & Educ Fund Administration of program	($0 to $99,000)	($0 to $99,000)	($0 to $99,000)
ESTIMATED NET EFFECT ON FARM MENTORING & EDUCATION FUND	**$0**	**$0**	**$0**
NATURAL RESOURCES PROTECTION WATER POLLUTION PERMIT FEE (0568) FUND (SECTION 640.710, 643.151 & 644.076)			
Cost - Department of Natural Resources Equipment & Expense	$0 to ($14,770)	$0 to ($18,256)	$0 to ($18,803)
ESTIMATED NET EFFECT ON NATURAL RESOURCES PROTECTION WATER POLLUTION PERMIT FEE (0568) FUND	**$0 to ($14,770)**	**$0 to ($18,256)**	**$0 to ($18,803)**

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
ROAD FUND (section 142.815 SA 6)			
Loss - MODOT Motor fuel tax exemption for school bus operation.	($2,241,956)	($2,241,956)	($2,241,956)
ESTIMATED NET EFFECT ON ROAD FUND	**($2,241,956)**	**($2,241,956)**	**($2,241,956)**
OTHER STATE FUNDS			
Loss - School District Trust Fund Sales Tax Exemption	(Unknown)	(Unknown)	(Unknown)
Loss - Conservation Fund Sales Tax Exemption	(Unknown)	(Unknown)	(Unknown)
Loss - Parks and Soil Fund Sales Tax Exemption	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - Federal Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
ESTIMATED NET EFFECT ON FEDERAL FUNDING	**($450,000)**	**($450,000)**	**($450,000)**

FISCAL IMPACT - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
LOCAL GOVERNMENTS			
Section 142.815 (SA 6)			
Loss - Cities			
Motor fuel tax exemption for school bus operation.	($459,166)	($459,166)	($459,166)
Loss - Counties			
Motor fuel tax exemption for school bus operation.	($359,986)	($359,986)	($359,986)
Savings - School Districts			
Motor fuel tax exemption for school bus operation.	$3,061,109	$3,061,109	$3,061,109
Total	$2,241,956	$2,241,956	$2,241,956
Loss - Local Sales Tax Revenues			
Sales Tax Exemption	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**$2,241,956 to (Unknown)**	**$2,241,956 to (Unknown)**	**$2,241,956 to (Unknown)**

FISCAL IMPACT - Small Business

Yes. There will be a positive impact on small business in the amount of the grants, first year interest payment, and tax credits.

Section 135.710, 143.114 & 143.128

This proposal could have a direct impact on businesses which purchase or construct qualified alternative fuel vehicle refueling facilities, or purchase or sell qualified vehicles.

Section 348.505 (SA 15)

Small businesses that purchase Missouri-made vehicles may qualify for the tax credit and be positively fiscally impacted as a result of this proposal.

FISCAL IMPACT - Small Business (continued)

Section 267.168 (SA 3)

Yes. components of the National Animal Identification System are being utilized in current disease control programs. By not allowing participating will/could isolate Missouri producers from marketing opportunities and hinder Missouri's capability in disease eradication and surveillance programs.

This proposal also requires the Department of Agriculture to refer to "premise identification"as "property identification". With this change of wording, Missouri would not be in conformity with the Code of Federal Regulations and other states which could hinder interstate movement of livestock and poultry. Health papers and other associated documents utilized by all states have been standardized for program uniformity. Missouri variance from these formats could cause confusion by other states in capturing premise identification numbers for Missouri citizens who wish to voluntarily participate in the program.

FISCAL DESCRIPTION

Section 135.633

This portion of the proposal creates the managed environmental livestock operation tax credit for the eligible costs of implementing odor abatement best management practices and systems.

Section 142.028

The proposed legislation allows fuel ethanol produced from qualified biomass to be eligible for certain fuel ethanol production subsidies.

Section 348.230

The proposed legislation is subject to appropriations.

Section 348.235

The proposed legislation is subject to appropriations.

Section 348.505

The proposed legislation raises the cap for the family farm livestock loan tax credit.

FISCAL DESCRIPTION (continued)

Section 135.710, 143.114 & 143.128

This proposal would create various tax incentives for certain energy uses.

Section 261.112

The act creaes the Farm Mentoring and Education Fund to be administered by an authority within the University of Missouri Extension Center. The act authorizes the general assembly to appropriate up to ninety-nine thousand dollars to the fund per fiscal year. The fund shall be utilized to provide educational training aimed at helping individuals plan and begin traditional and sustainable farm enterprises and to provide salaries for a program director and staff. The authority created shall fulfill the goal of facilitating new farms guided by principles described in the act.

The act directs the authority to administer the educational programming from a different extension center located in a different region of the state from the preceeding year's extension center. The rotatin shall be made on a n annual basis.

Section 267.168 (SA 3)

The proposal prohibits the Department of Agriculture from participating in the National Animal Identification System (NAIS) without specific authorization to do so an dmay result in a cost to general revenue.

Section 640.710, 643.151, 644.076 (SA 4)

This portion of the proposal requires the Department of Natural Resources to establish time lines for processing certian permits for concentrated animal feeding operations (CAFOs) and modifies penalties for offenses perpetrated by these operations.

Section 142.815 (SA 6)

This proposal would exempt motor fuel used for school buses from the motor fuel tax.

Section 348.505 (SA 7)

This proposal would sunset all tax credits now or hereafter authorized under the laws of this state shall automatically sunset August 28, 2011.

FISCAL DESCRIPTION (continued)

Section 32.057 and 105.485 (SA 12)

This proposal requires the claiming of any state tax credit by a member of the Missouri General Assembly or the member's family to be included in the member's financial interest statement.

Section 135.805 (SA 14)

This proposal requires the administering agency of any tax credit program now, or hereafter, authorized under Missouri law to report to the Stae Auditor: the name and address of the applicant; the amount of tax credits issued to such applicant; and the program under which the tax credit is authorized. The Department of REvenue is required to provide similar information to the State Auditor regarding taxpayers upon the redemption of state tax credits. The information provided to the State Auditor will be made available for public inspection on the Auditor's website.

Ssection 348.505 (SA 15)

Beginning January 1, 2008, this bill authorizes a tax credit equal to 100% of the state sales tax paid on any new motor vehicle assembled and purchased in Missouri on or after that date. The tax credit may be claimed against a taxpayer's income tax; corporate franchise tax; financial institutions tax; and bridge, express, and public utility companies tax. Any political entity may exempt these sales from the local sales tax by order or ordinance.

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 Agriculture
Secretary of State's Office
Department of Conservation
Department of Natural Resources
Department of Revenue
Department of Economic Development
State Treasurer's Office
Department of Transportation
Office of Administration
Division of Budget and Planning

Mickey Wilson

Mickey Wilson, CPA
Director
March 13, 2008