COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3956-06
Bill No.: HCS for SCS for SB 942
Subject: Agriculture Dept.; Agriculture and Animals; Education, Higher; Veterinarians
Type: Original
Date: April 7, 2008

Bill Summary: Places per-year maximum dollar amounts on the amount of loans that can be made and forgiven by the Department of Agriculture through the Large Animal Veterinary Student Loan Program. Modifies provisions pertaining to the administration of agriculture incentives and programs. Creates various tax incentives for certain energy uses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(Greater than $3,170,000)	(Greater than $1,282,825 to $3,782,825)	(Greater than $1,251,152 to $2,751,152)
Total Estimated Net Effect on General Revenue Fund	**(Greater than $3,170,000)**	**(Greater than $1,282,825 to $3,782,825)**	**(Greater than $1,251,152 to $2,751,152)**

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

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 17 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	0	8	8
Total Estimated Net Effect on FTE	**0**	**8**	**8**

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

FISCAL ANALYSIS

ASSUMPTION

Officials with the **State Treasurer's Office, Department of Agriculture** and **Coordinating Board for Higher Education** assume no fiscal impact to their agency.

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.

ASSUMPTION (continued)

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.

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 $1,666,667 million in producer incentives in FY11.

ASSUMPTION (continued)

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.

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.

ASSUMPTION (continued)

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. 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.

ASSUMPTION (continued)

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.

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 414.012, 414.032, 414.042, 414.052, 414.112 and 414.122

Officials from the **Department of Agriculture (AGR)** assume the Fuel Quality Program will sample and test motor oil for compliance. The AGR will attempt to absorb cost of this new program.

Section 348.518, 348.521, 348.524, 348.527, 348.530 & 348.533

Officials from the **State Treasurer's Office** assume no fiscal impact to their agency.

Officials from the **Department of Agriculture (AGR)** assume this proposal allows farmers to continue to operate in those years with low commodity or 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.

ASSUMPTION (continued)

Based on the historical usage and payments or two other guarantee programs, AGR administers they do not anticipate more than 1 default per year.

Officials from the **Secretary of State's Office** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to Secretary of State's office for Administrative Rules is less than $2,500. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

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.

Section 135.710 & 143.114

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.

ASSUMPTION (continued)

In response to a similar proposal, SCS for SB 749, FN 3365-04, 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.

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.

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 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.

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

ASSUMPTION (continued)

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.

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 $1,666,667)
Subtotal	$0	$0	($0 to $1,666,667)
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	($521,892)	($521,892)
Equipment & Expense	($0 to $50,000)	($0 to $50,000)	($0 to $50,000)
Subtotal	($0 to $50,000)	($521,892 to $571,892)	($521,892 to $571,892)
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
Cost - Sections 348.518, 348.521, 348.524, 348.527, 348.530 & 348.533			
Department of Agriculture			
Loan default payment plan	($20,000)	($20,000)	($20,000)
Subtotal	($20,000)	($20,000)	($20,000)
Sections 135.710 & 143.114			
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)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**(Greater than $3,170,000)**	**(Greater than $1,282,825 to $3,782,825)**	**(Greater than $1,251,152 to $2,751,152)**
Estimated Net FTE on General Revenue Fund	0	8	8

OTHER STATE FUNDS	FY 2009 (10 Mo.)	FY 2010	FY 2011
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 - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
LOCAL GOVERNMENTS			
Loss - Local Sales Tax Revenues Sales Tax Exemption	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**(Unknown)**	**(Unknown)**	**(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. In addition, the Missouri Alternative Fuels Commission is charged with making recommendations to facilitate the sale and distribution of alternative fuels, which are produced primarily from renewable agricultural products. Increased production and consumption of these alternative fuels will most likely lead to increased agricultural production and higher prices received for the fuel feedstock, thereby benefitting Missouri farmers and farm suppliers.

Yes, to the extent the small business could take advantage of the incentives contained within this proposal.

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.

FISCAL DESCRIPTION (continued)

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.

Sections 348.515, 348.518, 348.521, 348.524, 348.527, 348.530 & 348.533

This proposal creates the Livestock Feed and Crop Input Loan Guarantee Program.

Sections 135.710 & 143.114

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

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

Secretary of State's Office
Department of Conservation
Department of Natural Resources
Department of Revenue
Department of Economic Development
State Treasurer's Office
Coordinating Board for Higher Education
Department of Agriculture
Office of Administration
Division of Budget & Planning

Mickey Wilson

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