

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5383-03
Bill No.: Perfected HCS for HB 2393
Subject: Economic Development; Economic Development Department
Type: Original
Date: April 16, 2008

Bill Summary: This proposal modifies provisions of the enhanced enterprise zone tax benefit program and establishes the mega-projects tax credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	\$0	\$0	\$0 to (\$40,000,000)
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0 to (\$40,000,000)

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 <u>Other</u> State Funds	\$0	(Unknown)	(Unknown)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on FTE	0	0	0

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Local Government	\$0	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal creates a new tax credit for "mega projects" in enterprise zones with an annual cap of \$40 million. This will decrease general and total state revenues by that amount. Further, the taxpayer is required to develop an acceptable repayment plan for the tax credits received. BAP presumes the entire amount of tax credits redeemed will eventually be repaid. Thus, it appears the net fiscal impact of this proposal is neutral over the life of the project and repayment plan.

Finally, these changes may induce economic activity which may indirectly generate additional general and total state revenues. BAP defers to the DED for an estimate of any such revenues.

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

Officials from the **Department of Economic Development (DED)** assume the bill should have no major administrative or fiscal impact on DED. The bill expands the Enhanced Enterprise Zone (EEZ) program to include "Mega" projects. DED can't approve any mega-projects after December 31, 2008 and no credits can be issued prior to July 1, 2010. A professional third party feasibility analysis has to be conducted on behalf of the state and a professional third party financial analysis on the project. DED assumes these will be paid for by the tax credit recipient. A contract must be executed between DED and the tax credit recipient.

While the change allows for \$40 million per year in credits, the bill calls for all costs to be re-paid. DED has analysis from our Missouri Economic Research and Information Center (MERIC) that indicates the present value of future benefits for one project will be \$250 million at a minimum and create many indirect jobs and service related jobs in addition to jobs created directly. DED has also worked with one private analyst which indicates a much higher rate of return on investment. DED is unsure of when the credits may be authorized. Based on these facts, DED shows no negative impact and assumes there would be a positive but unknown over all fiscal impact.

Officials from the **Department of Revenue (DOR)** assume this new credit will require the Form MO-TC to be modified as programming changed to the MINITS Tax System. Individuals without a Missouri tax liability would be allowed to attach the MO-TC to the MO-1040 Form and write "Mega Project" on the top of the form to claim the refund. Personal tax will require one Tax Processing Technician for every 6,000 claims. However, at this time, the Department

ASSUMPTION (continued)

believes the number of claims will be significantly less than 6,000. Thus, the increase will be handled with existing personnel.

The tax credits created by this section are to be reduced by any delinquency. However, DOR believes we will be able to handle this with existing staff.

DOR may see additional contacts regarding delinquencies, and questions about the refund of the tax credits. At this point, DOR assumes the increased contacts can be handled with existing resources.

Due to the Statewide Information Technology Consolidation, DOR's 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 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 legislation could be implemented utilizing 2 existing CIT III for 1 month for modifications to MINITS. The estimated cost is \$8,372.

This substitute adds language within the Enhanced Enterprise Zone program regarding mega-projects. **Oversight** assumes the new \$40 million annual cap for mega-projects is above and beyond the benefits from the Enhanced Enterprise Zone program (overall cap of \$14 million). Therefore, Oversight assumes this change may increase the amount of tax credits issued by DED.

Oversight assumes the changes within this proposal may increase tax credits issued by the state. Oversight assumes there would be some positive benefit to the state for issuing these credits (and getting a mega-project established in Missouri), but Oversight considers those benefits to be indirect, and have not reflected them in this fiscal note. Oversight also assumes repayment of the credits would occur in years beyond the scope of this fiscal note. DED shall not approve any credits for mega-projects before July 1, 2010. Therefore, Oversight will assume credits may be issued in the third and fourth quarters of 2010, and utilized on tax returns filed in FY 2011. Therefore, Oversight will assume a potential utilization of the program of up to \$40 million starting in FY 2011.

ASSUMPTION (continued)

House Amendment 2;

This amendment makes changes to sections 137.115 regarding possessor interest in real property that borders airport boundaries.

In response to a similar proposal from this year (HCS for HB 1836), officials from the **State Tax Commission (TAX)** assumed this proposal would have no fiscal impact on their organization. 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 amendment 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.

This proposal may reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE			
<u>Loss - DED</u>			
Mega-projects tax credits (135.968)	<u>\$0</u>	<u>\$0</u>	\$0 to <u>(\$40,000,000)</u>
ESTIMATED NET EFFECT TO GENERAL REVENUE	<u>\$0</u>	<u>\$0</u>	\$0 to <u>(\$40,000,000)</u>

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2009 (10 Mo.)	FY 2010	FY 2011
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BLIND PENSION FUND

Revenue reduction - property taxes (from HA 2 Section 137.115)	\$0	(Unknown)	(Unknown)
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ESTIMATED NET EFFECT TO THE BLIND PENSION FUND	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
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LOCAL GOVERNMENTS

Revenue reduction - property taxes (from HA 2 Section 137.115)	\$0	(Unknown)	(Unknown)
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ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill prohibits taxpayers from simultaneously receiving tax credits from the Enhanced Enterprise Zone Program and the Quality Jobs Program for the same facility.

This substitute also establishes a \$40 million annual tax credit for mega-projects.

FISCAL DESCRIPTION (continued)

Amendment 2 would define the assessment valuation process for possessory interests in certain real property on or adjacent to certain commercial airports.

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
State Tax Commission



Mickey Wilson, CPA
Director
April 16, 2008