

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0837-05
Bill No.: Perfected HCS for HB 191
Subject: Economic Development
Type: Original
Date: February 4, 2009

Bill Summary: This proposal offers several economic development programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	(\$9,102,290) to (Unknown)	(\$9,080,203) to (Unknown)	(\$9,091,475) to (Unknown)
Total Estimated Net Effect on General Revenue Fund*	(\$9,102,290) to (Unknown)	(\$9,080,203) to (Unknown)	(\$9,091,475) to (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
School District Trust	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Conservation	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Parks and Soils	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds*	\$0 to (UNKNOWN)	\$0 to (UNKNOWN)	\$0 to (UNKNOWN)

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

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 24 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	6 FTE	6 FTE	6 FTE
Total Estimated Net Effect on FTE	6 FTE	6 FTE	6 FTE

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government*	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

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

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** there should be no added cost to their agency as a result of this bill.

- This proposal increases the cap on the New Markets Tax Credit Program from \$15 million to \$27.5 million. This program may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. DED may have such an estimate. Therefore, this could reduce general and total state revenues by \$12.5 million.
- The proposal exempts from state and local sales and use tax on certain utilities and equipment for qualified business facilities (NAICS 518210 and 519130). Therefore this program could lower general and total sales tax by an unknown amount.
- This bill proposes a tax credit for investors making equity investments in qualified technology-based early stage Missouri companies. The tax credit is equal to 30% of the investor's equity investment or 40% of their investment if the business is located in a rural or distressed community. The total amount of tax credits available for this program is \$5.0 million per year. Therefore, this could reduce general and total state revenues by \$5.0 million.
- This proposal reauthorizes the tax credit for qualified research expenses. The amount of tax credits available for this program is \$10 million. Therefore, this could reduce general and total state revenues by \$10.0 million.
- This proposal eliminates the cap for tax credits issued under the Missouri Quality Jobs Act. Currently, the amount of tax credits available for this program is \$60 million. DED reports that currently there are no projects that have been unable to receive funding due to the annual limit on the program. Also, DED maintains that the economic benefit of the jobs created under the program will offset any additional costs proposed by this bill.

ASSUMPTION (continued)

- This proposal creates a tax credit for qualifying small businesses that create new jobs in Missouri. The businesses that increase total payroll by more than 20 percent can retain withholding taxes for one year and two years if they provide more than fifty percent of health insurance premiums for all employees. There is no cap on the program. BAP consulted with DED to estimate the number of jobs and business that would be eligible under this program, however, DED does not have an estimate at this time. This program may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. General and total state revenues could be reduced by an unknown amount.
- This proposal authorizes a municipality to establish a science, technology, business, and education (STBE) district. The targeted industry cluster state (TICS) revenues include half of the incremental increase (amount greater than in the base year) in the general revenue portion of qualified state sales and use tax and the state income tax withheld on new employees within the STBE district. After the determination of the TICS revenues, the appropriate amount shall be appropriated from general revenues to the municipality. Therefore this does not impact general and total state revenues. This may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. DED may have such an estimate.

Officials from the **Department of Economic Development (DED)** state their Business and Community Services division anticipates the need for 5 additional FTE as a result of the proposed legislation:

- **Section 135.680 is the same as FN 0986-01, HB 240.** This section increases the cap on the New Markets Tax Credit from \$15M to \$27.5M and extends the program for 2 years through 2012. The increase in the cap for the New Markets Tax Credit would result in the need for one additional FTE. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program. The related costs for this FTE include one-time expenditures for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, computer, professional development and travel.

ASSUMPTION (continued)

- Section 348.273 is the same as FN 0789-01, HB 189. This section creates the Equity Investment Tax Credit, which will stimulate private investment in qualified Missouri businesses and create additional jobs in these businesses. The creation of this tax credit would result in the need for one additional FTE to administer the Equity Investment Tax Credit program due to the assumed amount of administration involved. The FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program. The related costs for this FTE include one-time expenditures for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, computer, professional development and travel.
- Section 620.1039 is the same as FN 0077-03, HB 312. This section re-establishes the Qualified Research Expense Tax Credit program with a \$10 million cap and extends the program through 2016. Business and Community Services (BCS) assumes the need for one additional FTE and related costs to administer the program. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program. The related costs for this FTE include one-time expenditures for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, computer, professional development and travel.
- Section 620.1881 is the same as FN 0695-01. This section removes the annual cap on the Quality Jobs Program. DED assumes a positive impact on GR resulting from increases to Missouri Quality Jobs. The exact number of additional applications expected as a result of removing the cap on Missouri Quality Jobs is unknown. If a large number of applications are received, additional FTE will be required. These FTE will be requested through the budget process.
- Section 620.1892 is the same as FN 1277-01. This section creates the Small Business and Entrepreneurial Growth Act. DED will need to establish the guidelines for the approval process and then notify the Department of Revenue of the approved business so they could handle the retention of the withholding tax under Section 3. The creation of the Small Business and Entrepreneurial Growth Act would result in the need for one additional FTE to administer the program. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and

ASSUMPTION (continued)

- (continued) sending the tax credit awards and ensuring compliance with the program. This FTE would also be responsible for duties directly related to the Science, Technology, Business and Education Districts created in Section 620.1893. The related costs for this FTE include one-time expenditures for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, computer, professional development and travel.
- Section 620.1893. This section creates the Science, Technology, Business and Education Districts (STBE districts), which are similar to TIFS. Funds are appropriated through DED's budget and then the department is responsible for approving the plan and projects. In Section 16, it allows for DED to include in the SBTE project cost the portion of salaries and expenses of Department of Economic Development and Department of Revenue for administrative functions. This section of the proposed legislation results in the need for two additional FTE to administer the new programs. The first FTE would be an Economic Development Incentive Specialist and is also responsible for the Small Business and Entrepreneurial Growth Act. The FTE is included in costs associated with Section 620.1892. The second FTE would be an Accountant II position. The related costs for this FTE include one-time expenditures for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, computer, professional development and travel.

The following sections do not result in any fiscal impact for DED/BCS;

- Section 135.155. This section reinstates the New and Expanded Business Facility Tax Credit program for headquarters through 1/1/20.
- Section 144.058. This section adds sales and use tax exemption for all energy, gas, water and other utilities including telecommunications services if the facility is located in an underground mine that contains at least 2 million square feet and it engaged in certain information technology services. If a company utilizes these exemptions, they are not allowed to use the Quality Jobs credit.
- Section 620.1878 (32)(3). This section adds language under the definition of Technology Business Project.

In summary, DED assumes a total cost of roughly \$320,000 per year for the five new FTE. DED states they have a standard cost established with ITSD to set up a tax credit program for tracking. The cost for this is estimated to be \$1,288 (40 hours x \$31.27).

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state 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. The Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 3 existing CIT III for 1 month for system modifications to COINS, Café and E-file. The estimated cost is \$13,323.

DOR assumes the proposal will not have a fiscal impact on their agency.

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. The department has no means to arrive at a reasonable estimate of loss in premium tax revenue as a result of 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 by tax credits each year.

Officials from the **Office of Secretary of State (SOS)** state 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 recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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)

New Markets Tax Credit program (135.680, RSMo);

Oversight will range the fiscal impact of this part of the proposal from \$0 (no additional tax credits are issued above the current \$12.5 million per year cap) to a negative \$12.5 million (change in cap). The changes in this proposal would be effective in August 2009. Therefore, Oversight assumes the Department of Economic Development would be allowed to authorize additional qualified equity investments starting in FY 2010; however, under this program, taxpayers are not allowed tax credits for their investments in the first two years (seven percent in year three). Therefore, Oversight assumes additional credits may be issued and utilized in the third year after the effective date of this proposal, or FY 2012. Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this part of the proposal; however, Oversight considers these benefits to be indirect and therefore have not reflected them in the fiscal note.

Oversight assumes the extension of the time period for taxpayers to make qualified equity investments from FY 2010 to FY 2012 would not have a fiscal impact on the state within the time frame of this fiscal note. Taxpayers are given tax credits for qualified equity investments in the following amounts; zero percent for the first two years, seven percent for the third year, and eight percent for the next four years. Therefore, taxpayers making a qualified equity investment in FY 2011 (first extension year) would not receive a tax credit until FY 2013, which is beyond the scope of this note.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous four years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 81 percent to 86 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. Therefore, under this proposal, if \$12,500,000 of additional credits are issued, Oversight would assume \$10,375,000 (83 percent) of credits to be redeemed, reducing Total State Revenues.

Sales tax exemption for usage of mines (144.058, RSMo);

Oversight has researched the available information on businesses located in former underground mines and found several major business parks which would appear to qualify for this exemption. Oversight was not able to determine the amount of qualifying expenditures by these businesses and will assume for the purposes of this fiscal note that the amount of sales tax revenue would be unknown for state funds which receives sales taxes, as well as local governments.

ASSUMPTION (continued)

Tax credit for investment into technology-based businesses (348.273 - 348.274, RSMo);

Oversight will range the fiscal impact of the tax credits from \$0 (no tax credit issuances and/or redemptions) to the annual limit of \$5 million.

Oversight will reflect a potential for DED to be reimbursed for their administrative costs related to this section.

Research tax credit (620.1039, RSMo);

Oversight will range the fiscal impact of this program from \$0 (no additional tax credits will be issued) to the annual limit of \$10 million. Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal; however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

Removal of annual limit on Quality Jobs program (620.1881, RSMo);

Oversight assumes this part of the proposal may result in an increase in Quality Jobs tax credits being redeemed through the Department of Revenue and/or the Department of Insurance, Financial Institutions and Professional Registration. Oversight assumes it is unknown the amount of increase in tax credits or when they will be redeemed. Therefore, Oversight will range the fiscal impact of the proposal from \$0 to a negative "Unknown." Oversight assumes this proposal could have an indirect positive impact on Missouri's economy and state tax revenue; however, Oversight considers this to be an indirect effect of the proposal and have not included it in the fiscal note.

Small Business and Entrepreneurial Growth Act (620.1892, RSMo);

Oversight assumes this part of the proposal would result in a reduction in withholding taxes paid to the Department of Revenue. Oversight assumes the amount of this loss would be 'unknown' since there is no annual limit on this program. Again, Oversight assumes this program would have an indirect positive impact on Missouri's economy; however, Oversight considers this to be an indirect effect of the proposal and have not shown it in the fiscal note.

ASSUMPTION (continued)

Science, Technology, Business and Education Districts (620.1893, RSMo);

Oversight assumes the General Assembly could appropriate up to one half of the incremental increase in state tax revenue within these districts to the local political subdivision. Therefore, Oversight will also range the fiscal impact of this part of the proposal from \$0 to (Unknown).

Officials from the **Office of the State Treasurer** did not respond to our request for fiscal impact.

House Amendment 1;

Oversight assumes with the emergency clause within this amendment, the Department of Economic Development will need to reflect a full year of expenses from the estimated five additional FTE it needs to administer the programs. Therefore, Oversight will change the cost of the FTE in FY 2010 from 10 months to 12 months of impact.

House Amendment 2;

Officials from the **Department of Economic Development** state lines 10-13 increases the cap on the amount of tax credits under the Quality Jobs Program, Job Retention component which states, "In no event shall the total amount of all tax credits issued for the entire job retention program under this subdivision exceed thirty [three] million dollars annually." {HB191, Page 22, Lines 148-150}

HCS for HB191 removes the cap for the entire Quality Jobs program. The previous response to this fiscal note was an Unknown impact, because it is difficult to determine how many applications the department may receive. DED assumes this change would also be an Unknown impact for Business and Community Services.

Oversight assumes changing the job retention program within Quality Jobs from a three million annual cap to a thirty million annual cap could result in an increase utilization of the tax credits, and therefore, a decrease in total state revenues. However, the impact of the changes to the Quality Jobs program from this proposal, as amended, still remains an unknown amount.

ASSUMPTION (continued)

House Amendment 4 (as amended);

Oversight assumes this amendment would have the same fiscal impact as Section 620.1893 in the original House Committee Substitute would have; therefore, Oversight will still show a potential loss of an unknown amount of sales and withholding revenue for a BEST district that has received an appropriation of such funds from the General Assembly.

House Amendment 6;

In response to a similar proposal from this year (HB 65), officials from the **Office of Administration - Budget and Planning (BAP)** stated this expands eligibility criteria for rural empowerment zones, which could lead to more areas being eligible for the state income tax exemption provided under the Rural Empowerment Zone Program. Under this program, all of the Missouri taxable income attributed to a new business facility in a rural empowerment zone which is earned by a taxpayer establishing and operating a new business facility located within a rural empowerment zone shall be exempt from taxation. This proposal could lower general and total state revenues by an unknown amount. This program may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

In response to a similar proposal from this year (HB 65), officials from the **Department of Economic Development (DED)** stated income tax exemptions are authorized for businesses located in designated rural empowerment zones that hire specific numbers of new employees. This exemption could reduce Total State Revenues but the reduction could be offset by individual income tax paid by new employees hired. The impact is unknown and unpredictable. It is also unknown how many new zones will be designated or the number of businesses in any newly created zones

DED stated zone applications would have to be reviewed and approved or denied by DED. Staffing needs would be dependent upon the number of applications and how quickly they are received. DED may potentially need to pay existing staff to work overtime to approve the applications. An unknown amount is projected for overtime and any equipment or expense costs to accomplish review and approval/denial of the applications plus correspond with applicants. In summary, DED assumed an unknown cost to process additional applications for rural empowerment zones.

ASSUMPTION (continued)

In a similar proposal from 2004 (HB 1597), the Department of Economic Development assumed that the new rural empowerment zones would be similar in cost to satellite enterprise zones. The estimated cost of each satellite enterprise zone at the time was \$60,000 to unknown. DED has since stated they are currently no longer able to provide **Oversight** an estimated cost of additional satellite enterprise zones in the state since the old program was replaced. Therefore, Oversight will assume a \$60,000 to unknown cost for each of the potential empowerment zones. There are 56 counties with a population of 18,000 or fewer. Therefore, taking out Hickory county because it already qualified for the program under current law, this totals \$6.6 million to Unknown lost revenue for the state (55 counties x 2 zones per county x \$60,000 to unknown cost). Obviously, there will be some positive financial benefit to the state for companies that create ten new full-time jobs within one year from the date the tax abatement begins. However, this potential positive benefit is considered an indirect benefit, and Oversight will only reflect the direct fiscal impact of the proposal.

The counties of **Cooper, Dallas, Wayne and Livingston** did not respond to our request for fiscal impact.

Oversight will reflect the fiscal impact of this amendment from as a range from \$0 (no qualifying counties will apply for the status or no businesses will qualify under the program) to a negative Unknown - could exceed \$6.6 million in costs. Oversight will also range DED's expenses to \$0 (few counties apply for status) to their estimated (unknown) amount.

Oversight assumes the proposal will not fiscally impact the counties, since it is permissive in nature.

House Amendment 7 (as amended);

Oversight has reflected the potential loss of sales tax revenue from Section 144.058 as 'unknown'. Due to the changes made with House Amendment 7, specifically language requiring a person, firm or company to relocate to a facility (after August 28, 2009) located within a portion of an underground mine, Oversight will now range the fiscal impact of this section from \$0 (no businesses will relocate) to a negative unknown amount of lost sales tax revenue.

ASSUMPTION (continued)

House Amendment 8;

In response to a similar proposal from 2008 (HB 1981), officials from the **Office of Administration - Budget and Planning (BAP)** stated 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 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.

In response to a similar proposal from 2008 (HB 1981), officials from the **Department of Revenue (DOR)** stated 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 stated 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.

In response to a similar proposal from 2008 (HB 1981), officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** stated 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.

ASSUMPTION (continued)

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 **Department of Transportation** assume the amendment will not fiscally impact their agency.

Oversight was not able to determine any other qualifying motor vehicles that are assembled in Missouri and would qualify for this tax credit. Oversight has used BAP's estimate of revenue reductions from automobiles as the fiscal impact for that provision. 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 made in calendar year 2009, since the tax credit is for 'all taxable years beginning on or after January 1, 2009.'

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.

House Amendment 9;

According to the Department of Economic Development's tax credit analysis sheet, the amount of tax credits issued under the small business incubator tax credit program for the past three fiscal years has been \$310,000, \$421,000 and \$326,000. **Oversight** assumes DED will be able to administer this program with existing resources. Oversight will reflect the potential increase in

ASSUMPTION (continued)

tax credits from the change in this amendment from \$0 to (\$500,000).

This proposal may decrease Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2010	FY 2011	FY 2012
GENERAL REVENUE			
<u>Income - DED</u>			
Per Section 348.274.9, DED may recoup administrative costs	\$0 to \$63,635	\$0 to \$69,904	\$0 to \$72,004
<u>Costs - DED</u>			
Personal Service (5 FTE)	(\$208,884)	(\$215,150)	(\$221,605)
Fringe Benefits	(\$101,580)	(\$104,627)	(\$107,767)
Expense and Equipment	(\$52,105)	(\$20,662)	(\$21,282)
ITSD Hours	<u>(\$1,288)</u>	<u>\$0</u>	<u>\$0</u>
<u>Total Costs - DED</u>	(\$363,857)	(\$340,439)	(\$350,654)
FTE Change - DED	5 FTE	5 FTE	5 FTE
<u>Cost - Department of Economic Development - to administer expanded program (House Amendment 6)</u>			
	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Costs - Department of Revenue (HA 8)</u>			
Personal Service (1 FTE)	(\$18,901)	(\$23,361)	(\$24,062)
Fringe Benefits	(\$9,192)	(\$11,360)	(\$11,701)
Expense and Equipment	<u>(\$5,815)</u>	<u>(\$518)</u>	<u>(\$533)</u>
<u>Total Costs - DOR</u>	(\$33,908)	(\$35,239)	(\$36,296)
FTE Change - DOR	1 FTE	1 FTE	1 FTE
<u>Loss - tax credits from New Markets Tax Credit program - increased annual cap from \$15 million to \$27.5 million (135.680)</u>			
	\$0	\$0	\$0 to (\$12,500,000)

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2010	FY 2011	FY 2012
<u>Loss</u> - sales tax exemption for items used by business facility that relocates to a portion of an underground mine (144.058)	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Loss</u> - Tax credits for equity investments into technology-based early stage Missouri companies (348.274)	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)
<u>Loss</u> - Qualified Research tax credit (620.1039)	\$0 to (\$10,000,000)	\$0 to (\$10,000,000)	\$0 to (\$10,000,000)
<u>Loss</u> - Potential increase in Quality Jobs Act tax credits - currently the cap is \$60 million per year and this proposal eliminates that cap (620.1881)	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Loss</u> - Small Business and Entrepreneurial Growth Act (620.1892)	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Loss</u> - Incremental increase in state tax revenue appropriated back to the STBE districts (House Amendment 4)	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Loss</u> - exempted income tax from potential new rural empowerment zones (House Amendment 6)	\$0 to (Unknown - could exceed \$6,600,000)	(\$0 to (Unknown - could exceed \$6,600,000)	\$0 to (Unknown - could exceed \$6,600,000)
<u>Loss</u> - Income tax from qualifying vehicle tax credit (House Amendment 8)	Could exceed (\$8,704,525)	Could exceed (\$8,704,525)	Could exceed (\$8,704,525)

<u>FISCAL IMPACT - State Government</u>	FY 2010	FY 2011	FY 2012
<u>Loss - Increase in Small Business</u>			
Incubator Tax Credit program from \$500,000 to \$1,000,000 annually (House Amendment 9)	<u>\$0 to (\$500,000)</u>	<u>\$0 to (\$500,000)</u>	<u>\$0 to (\$500,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(\$9,102,290) to (Unknown)</u>	<u>(\$9,080,203) to (Unknown)</u>	<u>(\$9,091,475) to (Unknown)</u>
Estimated Net FTE Change for General Revenue	6 FTE	6 FTE	6 FTE

Note: This does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

SCHOOL DISTRICT TRUST FUND

<u>Loss - sales tax exemption for items used by business facility that relocates to a portion of an underground mine (144.058)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>

FISCAL IMPACT - State Government FY 2010 FY 2011 FY 2012
 (continued)

CONSERVATION COMMISSION FUND

Loss - sales tax exemption for items used by business facility that relocates to a portion of an underground mine (144.058)

\$0 to
(Unknown) \$0 to
(Unknown) \$0 to
(Unknown)

ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND

\$0 to (Unknown) \$0 to (Unknown) \$0 to (Unknown)

PARKS, AND SOIL AND WATER FUNDS

Loss - sales tax exemption for items used by business facility that relocates to a portion of an underground mine (144.058)

\$0 to
(Unknown) \$0 to
(Unknown) \$0 to
(Unknown)

ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS

\$0 to (Unknown) \$0 to (Unknown) \$0 to (Unknown)

FISCAL IMPACT - Local Government FY 2010 FY 2011 FY 2012
 (10 Mo.)

LOCAL POLITICAL SUBDIVISIONS

Loss - sales tax exemption for items used by business facility that relocates to a an underground mine (144.058)

\$0 to
(Unknown) \$0 to
(Unknown) \$0 to
(Unknown)

ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS

\$0 to (UNKNOWN) \$0 to (UNKNOWN) \$0 to (UNKNOWN)

FISCAL IMPACT - Small Business

Small businesses that qualify for the various program within this proposal could be positively fiscally impacted.

FISCAL DESCRIPTION

TAX CREDITS AND EXEMPTIONS

This substitute:

- (1) Allows business headquarters to receive tax credits for new or expanding businesses. Expansions at headquarter facilities will be considered separate business facilities and entitled to the credits if at least 25 new employees and at least \$1 million of new investment are attributed to the expansion. Buildings on multiple noncontiguous properties will be considered one facility if they are in the same county. No headquarters will receive the credits for facilities commencing or expanding operations after January 1, 2020;
- (2) Authorizes, beginning January 1, 2010, a state and local sales tax exemption for all electrical energy, gas, other utilities including telecommunications services, and machinery or equipment used in a business that is engaged in data processing, hosting, Internet publishing and broadcasting, and web search portals. The business must be located in an underground mine that is at least two million square feet. The business cannot receive these exemptions and simultaneously receive benefits from the Quality Jobs Program;
- (3) Authorizes the Department of Economic Development to allocate up to \$5 million in tax credits per year to encourage equity investment in technology-based early stage Missouri companies, commonly known as angel investments. Investors who contribute the first \$500,000 in equity investment to a qualified Missouri business may be issued a tax credit equal to 30% of the investment or 40% if the qualified business is in a rural area or distressed community. An investor can receive a credit of up to \$50,000 for an investment in a single, qualified business or up to \$100,000 for investments in more than one qualified business per year. Credits can be carried forward for up to three years or transferred;
- (4) Revises the definition of "technology business project" as it relates to the Missouri Quality Jobs Act to include certain clinical molecular diagnostic laboratories;

FISCAL DESCRIPTION (continued)

- (5) Specifies that if the department fails to respond within 30 days to a Quality Jobs Program applicant's notice of intent, the notice is deemed a disapproval. Currently, the notice is deemed an approval if the department fails to respond within 30 days;
- (6) Specifies how the department must apply certain definitions when a business that has already received an approved notice of intent later files another notice of intent;
- (7) Eliminates the per-company annual cap on technology business projects. Currently, the cap is \$500,000 per business, per year;
- (8) Eliminates the per-company annual cap on high-impact projects. Currently, the cap is \$750,000 per company, per year; and
- (9) Eliminates the annual cap on the Quality Jobs Program. Currently, the annual cap is \$60 million.

SMALL BUSINESS AND ENTREPRENEURIAL GROWTH ACT

The substitute establishes the Small Business and Entrepreneurial Growth Act which, beginning January 1, 2010, allows small business employers who increase their total payroll by increasing the number of jobs and meeting certain qualifications to retain the Missouri withholding tax from the salaries of the newly created jobs for one year. If the employer pays at least 50% of the cost of the premiums for health insurance for all employees, the withholding tax can be retained for two years.

QUALIFIED EQUITY INVESTMENT (NEW MARKETS) TAX CREDIT

Currently, no qualified equity investments can be made under the New Markets Tax Credit Program beyond Fiscal Year 2010. The substitute extends the date through FY 2012 and increases the program's tax credit cap from \$15 million to \$27.5 million per fiscal year.

QUALIFIED RESEARCH EXPENSES (RESEARCH AND DEVELOPMENT) TAX CREDIT

Currently, no tax credits for qualified research expenses can be approved, awarded, or issued. The substitute removes these restrictions and allows a tax credit equal to no more than 6.5% of a taxpayer's qualified research expenses. The annual aggregate cap on the amount of these tax credits that can be authorized by the department is \$10 million.

FISCAL DESCRIPTION (continued)

Qualified research expenses will be limited to those incurred in the research and development of agricultural biotechnology, plant genomics products, diagnostic and therapeutic medical devices, and prescription pharmaceuticals consumed by humans or animals. Expenses incurred in the research, development, or manufacturing of power system technology for aerospace, space, defense, or implantable or wearable medical devices are also permitted.

The department director may allow a taxpayer to transfer up to 40% of the tax credits issued, but not yet claimed, between January 1, 2010, and December 31, 2016. The substitute requires that the department director act between August 1 and August 15 on tax credit applications filed between January 1 and July 1 for claims from the previous year.

The formula is specified by which tax credits will be issued if the eligible claims for the credits exceed the annual cap. No one taxpayer can be issued more than 30% of the total amount of tax credits authorized in any calendar year.

SCIENCE, TECHNOLOGY, BUSINESS, AND EDUCATION DISTRICTS

The substitute allows the governing body of a municipality to establish a science, technology, business, and education district (STBE). STBE projects may be implemented in the district according to an STBE plan. The district, plan, and project must be established or adopted by ordinances, and the substitute specifies the requirements of an STBE plan and the findings a municipality must make before adopting an STBE plan.

Following a municipality's establishment of an STBE district and adoption of an STBE plan and one or more STBE projects, the targeted industry cluster state (TICS) revenues estimated for the businesses within the STBE district will be available for appropriation by the General Assembly from the General Revenue Fund to the department for distribution to the treasurer of the municipality. Municipalities cannot commit any TICS revenues prior to an appropriation being made from the General Revenue Fund to the department for a particular STBE project. The municipality's treasurer will deposit the TICS revenues into a segregated fund known as an STBE Projects Financing Fund. The State Treasurer will be the custodian of the fund and may approve disbursements. The initial appropriation or disbursement will not be made until the department director has approved an STBE plan and projects.

The substitute specifies that "targeted industry cluster state revenues" means:

- (1) Fifty percent of the incremental increase in the general revenue portion of eligible state sales

tax revenues received under Section 144.020, RSMo. Sales tax revenue attributable to

FISCAL DESCRIPTION (continued)

retail sales will only be included in this amount if it can be proven that the sales tax revenue is attributable to new sources which did not exist in the state in the baseline year; and

(2) The state income tax withheld on behalf of new employees by the employers at the businesses located within the STBE project.

The substitute requires the department director to approve an STBE plan and projects if certain specified findings are made. The initial appropriation of TICS revenues will not be made until the department director, or his or her designee, finds that:

(1) The STBE project will be completed and its obligations paid within 25 years from the adoption of the municipal ordinance;

(2) TICS revenues do not exceed 50% of the total STBE project costs;

(3) Municipal funding will provide funds for the STBE project that equal at least 10% of the STBE's eligible project costs. These funds must be available within 10 years following the establishment of the STBE district;

(4) At least one higher education institution has committed to having a significant physical presence in the STBE district and plans to offer educational resources in the STBE district such as classrooms, curriculum, dedicated faculty, graduate students, and defined partnerships with target industry clusters; and

(5) The STBE plan and projects are financially feasible and will result in a net benefit to the state.

Revenues will only be used to pay for specified eligible STBE project costs. The municipality is required to submit an annual report to the department which includes certain specified information.

House Amendment 6 - Currently, rural empowerment zones are only allowed to exist in Hickory County, which has a population of 8,940 residents. This bill allows these zones to exist in any county with 18,000 or fewer residents, which includes 56 counties. The bill also prohibits more than two rural empowerment zones in any county.

House Amendment 8 - 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

FISCAL DESCRIPTION (continued)

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. The provisions of this amendment will expire December 31 six years from the effective date.

House Amendment 9 increase the annual cap on the Small Business Incubator Tax Credit program from \$500,000 to \$1,000,000.

The proposal contains an emergency clause.

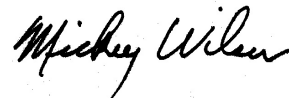
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Office of Administration - Budget and Planning
Office of the Secretary of State
Department of Transportation

NOT RESPONDING:

Office of the State Treasurer



Mickey Wilson, CPA
Director
February 4, 2009

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