COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1961-05
Bill No.: HCS for SB 377
Subject: Cities, Towns, Villages, Annexation
Type: Corrected
Date: April 22, 2009
Corrected General Revenue Impact.

Bill Summary: Would modify several economic development programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
# General Revenue	(More than $829,158) to (More than $43,329,158)	# (More than $8,090,471) to (More than $55,610,471)	(More than $8,117,775) to (More than ($55,637,431)
# Total Estimated Net Effect on General Revenue Fund	**(More than $829,158) to (More than $43,329,158)**	**# (More than $8,090,471) to (More than $55,610,471)**	**(More than $8,117,775) to (More than ($55,637,431)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 29 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
School District Trust	(Unknown)	(Unknown)	(Unknown)
Conservation Commission	(Unknown)	(Unknown)	(Unknown)
Parks, and Soil and Water	(Unknown)	(Unknown)	(Unknown)
Missouri Incentives	$0 or Unknown to (Unknown)	$0 or Unknown to (Unknown)	$0 or Unknown to (Unknown)
Total Estimated Net Effect on Other State Funds	**Unknown to (Unknown)**	**Unknown to (Unknown)**	**Unknown to (Unknown)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	18	18	18
Total Estimated Net Effect on FTE	**18**	**18**	**18**

☐ 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**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 67.2050 Municipal Technology Facility Projects

These provisions would allow municipalities to engage in projects involving a technology business facility located in an underground mine with at least two million square feet of space.

Officials from the **Department of Revenue** and the **State Tax Commission** each assumed a similar proposal would not fiscally impact their respective agencies.

Officials from the cities of **Kansas City**, **Joplin** and **Liberty** did not respond to our request for fiscal impact to a similar proposal.

ASSUMPTION (continued)

Officials from the **Office of Administration**, **Division of Budget and Planning** assume these provisions would allow municipalities to engage in technology business facility projects, would exempts related transactions from local sales taxes, and would exempt certain properties from property taxes. This provision would not impact general and total state revenues but could impact municipal revenues. The US Census Bureau estimated there were 317 data processing establishments in Missouri in 2006.

Oversight assumes this proposal would allow municipalities to engage in technology business facility projects and exempts related transactions from local sales tax. Oversight assumes the proposal would not have a fiscal impact upon the state. Oversight also assumes the proposal is permissive to the local political subdivisions and would not cause a fiscal impact to municipalities unless they decided to engage in such projects. Therefore, Oversight will not reflect a fiscal impact to local governments.

Section 71.275 Annexation of Research Parks

Officials from the **Department of Economic Development**, the **University of Missouri** , and **St. Louis County** assume this proposal would have no fiscal impact on their organizations.

Oversight did not receive any other responses from local governments which might be affected by this proposal.

Oversight assumes this proposal would allow certain municipalities to annex research parks, which could result in additional tax revenue to the municipalities but would require additional services to be provided by those municipalities. Any fiscal impact to a local government would result from a successful annexation process in a situation which met the requirements of the proposal. For fiscal note purposes, Oversight will indicate no impact to the state or to local governments.

ASSUMPTION (continued)

Section 99.865 Tax Increment Financing

These provisions would:

* Require the Director of the Department of Economic Development to submit its annual tax increment financing (TIF) report to the State Auditor;

* Require the State Auditor to post information provided in a municipality's annual report to his or her web site in a searchable database available to the public; and

* Prohibit a municipality which fails to comply with state TIF reporting requirements from implementing any new TIF project for at least five years.

Oversight assumes these provisions would have an unknown cost to the Office of the State Auditor.

Section 99.1082 Downtown Revitalization

These provisions would:

* Define "other net new revenues" as it relates to the Downtown Revitalization Preservation Program, commonly referred to as MODESA-Lite, as the amount of state sales tax increment or state income tax increment, or the sum of both.

* Define "state income tax increment" as an estimate of the income tax due the state for salaries and wages paid to new employees in new jobs in the redevelopment project area and created by the project.

Officials from the **Office of Administration**, **Division of Budget and Planning** assume these provisions would define state income tax increments and include this source as part of the eligible funds for the Downtown Revitalization program. This provision would not reduce general and total state revenues, but increase expenditures for the program.

Oversight assumes this provision would have no fiscal impact to the state or to local governments.

ASSUMPTION (continued)

Section 99.1090 Downtown Revitalization

This provision would allow contributions to a downtown revitalization preservation development project from any private not-for-profit organization or local contributions from tax abatement or other sources to be substituted on a dollar-for-dollar basis for the local match of 100% of payments in lieu of taxes and economic activity taxes from the development's fund.

Officials from the **Department of Economic Development** and the **Department of Revenue** each assume a similar proposal (HB 746, LR 1938-01) would not fiscally impact their respective agencies.

Officials from the cities of **Kansas City** and **St. Louis** did not respond to our request for fiscal impact.

Oversight assumes this provision could potential save local political subdivisions tax proceeds if a third party donates money into the development fund and the municipality is allowed to retain the payments in lieu of taxes or economic activity taxes. Oversight will reflect this as a $0 to positive unknown to the municipalities.

Section 100.286 Missouri Development Finance Board

These provisions allow the board to authorize or approve no more than $10 million in tax credits in Fiscal Year 2010. This limitation could be exceeded if agreed upon by the Commissioner of the Office of Administration, the directors of the departments of Economic Development and Revenue, and the chairmen of the House Budget Committee and the Senate Appropriations Committee, in which case no more than $25 million in tax credits could be authorized or approved. Tax credits would be awarded on a first-to-file, first-to-receive basis. No tax credits could be authorized or approved after June 30, 2013.

Officials from the **Office of Administration**, **Division of Budget and Planning** assume these provisions would set the maximum annual allocation for the MDFB Infrastructure Development Bond Program at $10.0M, but provide for a maximum annual allocation of $25 million with the approval of a committee including the House Budget and Senate Appropriations Chairs.

ASSUMPTION (continued)

Oversight will indicate a fiscal impact of $0 or $15 million cost. The additional tax credits could be issued if an agreement is reached among the specified officials.

Section 100.297 Missouri Development Finance Board

These provisions would reduce the principal amount of revenue bonds outstanding at any time related to the tax credit for infrastructure facilities from $50 million to $10 million for Fiscal Year 2010 and thereafter. No tax credits could be issued for this program after June 30, 2011.

Officials from the **Office of Administration**, **Division of Budget and Planning** assume these provisions would lower the minimum job requirement from 500 to 350 for an office project under the BUILD program, allow the board to make exceptions in adverse market conditions, and removes the necessity of a competing state.

Oversight assumes this provision would eliminate this tax credit program as of June 30, 2011. Oversight notes that tax credits were last issued for this program in FY 2005 and will indicate no fiscal impact for this provision.

ASSUMPTION (continued)

Sections 100.710, 100.720, 100.760, 620.1039, 620.1878, and 620.1881 Economic Incentive Programs

Officials from the **Office of Administration - Budget and Planning (BAP)** stated that a similar proposal (HCS for HB 575, LR 1684-03) would have the following fiscal impact to the state:

- 100.710, 100.720, 100.760 - These sections relax certain requirements during adverse economic or market conditions for the BUILD tax credit program. The requirement that another state is competing for a similar BUILD project is also eliminated.

- 620.1039 - This section reauthorizes the tax credit for qualified research expenses. The total amount of available credits under this program is $10.0M. This could therefore lower general and total state revenues by that amount.

- 620.1878 & 620.1881 - This section defines "Premium employment project" and increases the total amount of available credits from $60.0M to $100.0M. This could therefore lower general and total state revenues up to $40.0M.

This proposal 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)** stated that a similar proposal (HCS for HB 575, LR 1684-03) would re-establish the Qualified Research Tax Credit program and make it an entitlement program. The tax credit would be capped at $10 million. The bill would also increase the cap for the Missouri Quality Jobs Program from $60 million to $100 million. The department would require two (2) additional FTE as a result of the proposed legislation.

ASSUMPTION (continued)

Business and Community Services (BCS) assumed the need for one additional FTE and related costs to administer the Qualified Research Tax Credit. 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. The cap for this new tax credit is $10 million so there would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

The proposed legislation would also increase the cap on the Missouri Quality Jobs program from $60 million to $100 million. The increase in that cap 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, side chairs, file cabinets, calculators and telephones and recurring costs for office supplies, computer, professional development and travel. In addition, the increase in the cap of $40 million for the Missouri Quality Jobs Program would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

Officials from the **Department of Revenue** assumed a similar proposal (HCS for HB 575, LR 1684-03) would not impact their agency.

Oversight assumes the changes in the proposal could increase the utilization of several tax credit programs administered by the Department of Economic Development, and therefore increase the amount of tax credits issued.

ASSUMPTION (continued)

Over the previous three fiscal years, the amount of tax credits issued under the BUILD program has averaged $6.9 million. Therefore, an average of $8.1 million of BUILD tax credits remains beneath the $15 million annual cap. Oversight assumes the annual limit for the program has not changed from $15 million annually. Since Oversight has already reflected the potential cost of this program of up to $15 million in previous fiscal notes, Oversight will not reflect additional lost revenue from the changes in this bill regarding the BUILD program.

The amount of issuance and redemptions for BUILD for the previous three years has been;

Fiscal Year	Issuances	Redemptions
FY 2008	$7,489,456	$4,975,510
FY 2007	$7,032,080	$6,859,745
FY 2006	$6,247,701	$5,402,416

The Department of Economic Development has not been able allowed to issue Qualified Research Expense tax credits for tax years beginning on or after January 1, 2005. Therefore, no tax credits have been issued under this program for the past three fiscal years. This proposal opens the program back up with a $10 million per calendar year limit.

Oversight will reflect a potential loss of income for the General Revenue Fund due to the tax credit issuances of $0 to $10 million each year for the BUILD program.

This proposal would also create another tax incentive under the Quality Jobs Program. Newly defined Premium Employment Projects would be allowed to retain a percentage of the withholding tax that would normally be paid to the Department of Revenue. This new incentive would not be included in determining the maximum calendar year annual tax credits issued for the entire program. Therefore, Oversight will assume an unknown amount of withholding tax could be retained by new businesses that qualify under this new program.

Oversight will reflect a potential loss for the General Revenue Fund from $0 to Unknown for Premium Employment Projects in the Quality Jobs Program.

Also, the annual limit for tax credits issued under the Quality Jobs program would be raised from $60 million to $100 million. The amount of tax credits authorized for the past two fiscal years has been $4.5 million in FY 2007 and $23.1 million in FY 2008.

ASSUMPTION (continued)

Oversight will reflect a potential loss to the General Revenue Fund of up to $40 million annually from this change.

Oversight assumes there could be some positive economic impact to the state as a result of these changes; however, Oversight assumes these would be indirect fiscal impacts and have not reflected them in the fiscal 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; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, if $10 million credits are issued, Oversight would assume $8,300,000 credits would be redeemed.

Section 105.145, 238.207, 238.212, 238.235 Transportation Development District Financial Reports

These provisions would add a penalty for directors of transportation districts which fail to report transactions to the Office of the State Auditor. The provisions would also require a petition to create a new district to include projected financial information for the project, would require the circuit court to hold a hearing on the formation of the district, and would require the Department of Revenue to perform all collection, administration, and enforcement of district sales taxes.

Oversight assumes that any fiscal impact resulting from these provisions would be minimal.

Section 135.155 New and Expanding Business Tax Credits for Business Headquarters

This provision would allow a business headquarters to receive tax credits for new or expanding businesses. Expansions at headquarter facilities would be considered separate business facilities and entitled to the credits if at least 25 new employees and $1 million of new investment are attributed to the expansion. Buildings on multiple non-contiguous properties could be considered one facility if they are in the same county or municipality. No headquarters could receive the credits for facilities commencing or expanding operations after January 1, 2020.

ASSUMPTION (continued)

Officials from the **Office of Administration**, **Division of Budget and Planning** assume these provisions would extend the New and Expanded Business Facilities program for headquarters projects that commence operations before 1/1/2020. This proposal may reduce general and total state revenues, but these losses may be offset by induced economic activity.

Oversight notes that this provision does not provide for any additional tax credits to be available for this program and will indicate no fiscal impact for this provision.

Section 135.680 New Markets Tax Credit Program

Officials from the **Office of Administration - Budget and Planning (BAP)** stated that a similar proposal (HB 240, LR 0986-01) would increase the cap on the New Markets Tax Credit Program from $15 million to $27.5 million. The proposal could therefore lower general and total state revenues up to $12.5 million. This program could 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 in response to a similar proposal (HB 240, LR 0986-01) that the increase in the cap for the program would result in the need for an additional FTE (Economic Development Incentive Specialist III) to review the tax credit applications to make sure they meet the criteria of the program, draft and send the tax credit awards and ensure compliance with the program. Standard expenses and equipment for the FTE would also be necessary. These include one-time costs for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, professional development and travel. DED assumed the cost for this additional FTE to be roughly $70,000 per year.

Officials from the **Department of Revenue** assume a similar proposal (HB 240, LR 0986-01) would not fiscally impact their agency.

ASSUMPTION (continued)

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** stated in response to a similar proposal (HB 240, LR 0986-01) that it is unknown to what extent the tax credits have exceeded statutory limits. 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 throughout 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.

Oversight will range the fiscal impact of this 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 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.

ASSUMPTION (continued)

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.

This proposal may decrease Total State Revenues.

Section 144.022 Airport Boarding Fee Sales Taxes

This provision would allow airports to retain sales taxes collected on enplanements, for advertising purposes.

In response to a similar proposal, officials from the **Department of Revenue** stated that the proposal would have no fiscal impact to their organization.

Officials from the **Office of the Secretary of State** (SOS) stated in response to a similar proposal that 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, 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 **City of Kansas City** stated in response to a similar proposal that they were not aware of any enplanement tax charged or collected in the state of Missouri.

Oversight will indicate no fiscal impact for this provision.

ASSUMPTION (continued)

Section 144.055 Sales Tax Exemption for Server Farms

This provision would provide a sales tax exemption beginning January 1, 2010, on all electrical energy, gas, water, and other utilities including telecommunications services, machinery, equipment, or computers, and all retail sales of tangible personal property and materials for the purpose of constructing, repairing, or remodeling facilities used by data center and server farm facilities that are more than 50,000 square feet in size.

In response to a similar proposal, officials from the **Office of the Secretary of State** (SOS) stated that 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, 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 these provisions would provide a sales tax exemption for "data center" or "server farm" facilities over 50,000 square feet. BAP officials assumed these industries would fall into NAICS category 54152 Computer Systems Design, of which there are approximately 500 firms in Missouri.

Oversight has not been able to determine the amount of annual expenditures which might be exempted from sales tax by this provision.

Oversight will indicate an unknown reduction in sales tax revenues to the state funds that receive sales taxes, and to local governments.

ASSUMPTION (continued)

Section 147.010 Franchise Tax Threshold

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assumed there would be no added cost to their organization as a result of a similar this proposal (HB 86, LR 0109-02). BAP officials provided this estimate of the fiscal impact to the state.

This proposal would change the threshold amount from $1 million to $10 million used in calculating the corporate franchise tax rate. In FY06, the cumulative amount of franchise tax collected from taxpayers with asset bases below $10 million was equal to $12.2 million. Thus, general and total state revenues may be reduced up to $12.2 million each fiscal year.

Officials from the **Department of Revenue** (DOR) assumed a similar proposal (HB 86, LR 0109-02) would have no fiscal impact to their organization.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assumed a similar proposal (HB 86, LR 0109-02) would maintain the annual franchise tax rate, yet change the threshold that must be met by the corporation's outstanding shares and surplus. For all taxable years beginning on or after January 1, 2000, but ending before December 31, 2009, the tax rate would be 1/30th of one percent and the threshold would be $1 million. For taxable years beginning on or after January 1, 2010, the tax rate would be 1/30th of one percent but the threshold would increase to $10 million.

EPARC developed an estimate of the fiscal impact of this proposal using the latest available corporate tax data from 2006. EPARC estimated the total franchise tax due for 2009 based on existing provisions at $79,230,613.05. EPARC estimated the total franchise tax due for 2010 with the increased threshold at $72,050,269.22. Thus, EPARC estimated that net franchise tax revenue would decrease by $7,180,343.83.

Oversight will indicate a range of fiscal impact using the BAP and EPARC estimates of revenue reductions. Oversight notes that the proposal would first impact tax returns for 2010 filed in FY 2011, and assumes that any savings to be realized by the Department of Revenue from processing a reduced number of corporate franchise tax returns would not be significant.

ASSUMPTION (continued)

Section 208.770 Family Development Account Tax Credits

This provision would reduce the amount of tax credits that could be authorized for the Family Development account Program from $4 million to $300,000 per year beginning July 1, 2010.

In FY 2007, $7,731 credits were issued and in FY 2008, $8,999 credits were issued. DED projects $35,000 in credits will be issued in FY 2009 and FY 2010. Therefore, **Oversight** will assume no fiscal impact from reducing the annual cap on this program.

Section 235.550 Historic Preservation Tax Credits

These provisions would limit tax credits to no more than $165 million beginning July 1, 2010. For Fiscal Year 2011 and thereafter, the cap would be increased by a percentage equal to the increase in the federal Consumer Price Index for All Urban Consumers. Tax credits authorized for applicants requesting less than $350,000 in tax credits will not count towards the cap.

The provisions would also require an application to the department before tax credits are authorized. All applications would be prioritized for review by the department based on the date the application was postmarked. Applications with the same postmark would go through a lottery process to determine the order in which they will be reviewed. The department would authorize tax credits in an amount equal to 120% of the estimated eligible costs for all approved applications. If the department allocates all of its tax credits, applications awaiting review would be kept on file and reviewed in order of receipt when the department receives its next allocation of tax credits. Projects that receive tax credit authorization would be required to begin rehabilitation within two years of the tax credit approval date. An applicant would be required to seek final approval prior to claiming the tax credits.

Oversight notes that $161 million in tax credits were issued for this program in FY 2008, and will assume no fiscal impact from limiting the growth of this tax credit program.

ASSUMPTION (continued)

Section 348.274 Early Stage (Angel) Investments

This provision would authorize 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 could 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 could 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. The credits could be carried forward for up to three years or transferred.

Officials from the **Office of Administration**, **Division of Budget and Planning** assume these provisions would create a tax credit for investors making equity investments in qualified technology-based early stage Missouri companies. The tax credit would be 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 cap on the program is $5 million per year. This could therefore reduce general and total state tax revenues by that amount, but these losses may be offset by induced economic activity.

Oversight will estimate a range of fiscal impact from $0 (no investments) to $5 million (full utilization of the program) beginning in August 2009, FY 2010.

Section 393-110 Regulation of Mutual Utility Companyes

This provisions would removes the current prohibiting on the Missouri Public Service Commission from having jurisdiction over the rates, financing, accounting, or management of any electrical corporation operating as a not-for-profit cooperative.

In response to a similar proposal (HB 599, LR 1722-01), officials from the **Department of Economic Development, Public Service Commission** and **Office of Public Counsel** stated the provision would have no fiscal impact on their agencies.

Oversight assumes this provision would have no fiscal impact.

ASSUMPTION (continued)

Section 447.708 Brownfield Remediation

These provisions would allow additional categories of cost eligible for tax credits in a brownfield project, and limit the amount of tax credits which could be issued for this program to $60 million per year.

Officials from the **Office of Administration**, **Division of Budget and Planning** (BAP assume these provisions would expand eligible expenses eligible for remediation tax credits. This proposal could reduce general and total state revenues by an unknown amount. These provisions would also create an annual authorization cap of $60M; no cap currently exists.

Oversight will assume that providing additional categories of eligible project cost would not increase the amount of credits issued, and will not indicate a fiscal impact for limiting the amount of future credits available to be issued.

Section 620.1895 Missouri Jobs for Technology and Science

These provisions would create the Missouri Jobs for Technology and Science District (MO-JTS) Program which would allow the governing body of a municipality to establish a MO-JTS district.

A MO-JTS project could be implemented in the district according to a MO-JTS plan. The district, plan, and project must be established or adopted by ordinance. These provisions would create the requirements for a plan and the findings a municipality must make before adopting a plan.

Project revenues would be defined as 50% of the incremental increase in the general revenue portion of eligible state sales tax revenues received under Section 144.020 and up to 100% of the state income tax withheld on behalf of new employees by the businesses located within the MO-JTS project. Sales tax revenue attributable to 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 district in the baseline year. Another provision would specify the portion of sales tax revenue that would will be deemed project revenue for businesses that existed before the formation of the district, and for businesses which relocate to the district.

A project would be limited to 25 years and could not obtain land by eminent domain.

ASSUMPTION (continued)

Officials from the **Office of Administration**, **Division of Budget and Planning** assume these provisions would create the MO Jobs for Technology and Science program. Revenues, which would include half of the incremental increase in qualifying state sales tax revenue and the state income tax withheld on behalf of new employees, would be made available for appropriation. This program may induce other economic activity. This program would not reduce general and total state revenues, but could increase expenditures.

Officials from the **Department of Economic Development** (DED) stated this section would create Science, Technology, Business and Education Districts (STBE districts), which would be similar to TIFS.

DED officials assume there would be a need for one 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.

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).

ASSUMPTION (continued)

Sections 620.2050 - 620.2077 Missouri Advantage Act

These provisions would create the Missouri Advantage Act, which would allow applicants to qualify for benefits in one of five tiers as follows:

(1) Tier one would require an investment of at least $1 million in qualified property and hiring at least 10 new employees;

(2) Tier two would require an investment of at least $3 million in qualified property and hiring at least 30 new employees;

(3) Tier three would require hiring at least 30 new employees;

(4) Tier four would requires investment of at least $10 million in qualified property and hiring at least 100 new employees; and

(5) Tier five would require investment of at least $30 million in qualified property.

Taxpayers who qualify for tier one, two, three, or four projects would be entitled to a credit equal to 3% times the average wage of new employees times the number of new employees if the average wage of the new employees equals at least 60% of the Missouri average annual wage for the year in which the application is made; 4% of this amount if the average wage of the new employees equals at least 75% of the Missouri average annual wage; 5% if the average wage of the new employees equals at least 100% of the Missouri average annual wage; and 6% if the average wage of the new employees equals at least 125% of the Missouri average annual wage.

Taxpayers who meet the requirements for tier two or tier four projects would receive a credit equal to 10% of the investment made in qualified property at the project. Taxpayers who meet the requirements for tier one projects will receive a credit equal to 3% of the investment made in the qualified property at the project.

ASSUMPTION (continued)

To utilize these incentives, taxpayers would be required to submit an application to the Department of Economic Development. The provisions include requirements for the application, including application fees. After an application is approved, the department and the taxpayer would enter into a written agreement.

The tax credits could be used to offset sales and use taxes otherwise payable by the taxpayer, and to offset payroll withholding taxes to the extent that those withholding taxes are attributable to additional employees resulting from the project. Tax credits for Tier One and Tier Three could be carried forward nine years and tax credits for Tier Two and Tier Four projects could be carried forward fourteen years.

A taxpayer receiving benefits under this act could not simultaneously receive benefits from the Quality Jobs Act for any project.

Officials from the **Office of Administration**, **Division of Budget and Planning** assume these provisions would create a system of tax credits, based upon various percentages of withholding payments for new employees, for various types of projects. The tax credits could be carried forward for several years depending on the type of project. Recipients of the credit would pay application fees, deposited into the newly created Missouri Incentives Fund, which would pay for the administration of the new program. This program would reduce general and total state revenues, but could induce other economic activity to offset these losses.

Officials from the **Department of Economic Development** (DED) assume these provisions would create the Missouri Advantage Act. The program would provide tax credits to companies that make qualified investments in property and hire a minimum number of additional employees. Since this program would require a substantial amount of administration, DED officials assume there would be a need for two additional FTE in Business and Community Services (BCS). These employees would be Economic Development Incentive Specialist IIIs 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 these FTE include one-time expenditures for systems furniture, side chairs, file cabinets, calculators and telephones and recurring costs for office supplies, computers, professional development and travel.

ASSUMPTION (continued)

Oversight notes that these provisions would create a new program without a cap on the amount of tax credits available. Oversight will indicate a fiscal impact of $0 (no credits issued) to Unknown for the General Revenue Fund, for state funds which receive sales taxes, and for local governments.

Oversight assumes there would be Unknown transfers from the General Revenue Fund into the Missouri Incentives Fund, Unknown application fees deposited into the Missouri Incentives Fund, and Unknown administrative costs paid from the General Revenue Fund and the Missouri Incentives Fund.

Administrative Cost

Officials from the **Department of Revenue** (DOR) submitted a cost estimate including nine additional employees and related equipment and expense amounting to $347,525 for FY 2010, $369,772 for FY 2011, and $380, 864 for FY 2012.

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 expenditure cost in accordance with OA budget guidelines.

DOR officials also provided a cost estimate to implement the IT portion of the proposal.

Officials from the **Office of Administration**, **Information Technology Service Division** (ITSD/DOR) estimated that the total cost to implement the proposal would be $39,969. ITSD/DOR officials assume the IT portion of this proposal could be implemented with existing resources; however, if priorities shift, additional FTE or overtime would be needed.

Oversight assumes ITSD/DOR could implement the proposal with existing resources.

ASSUMPTION (continued)

Officials from the **Department of Economic Development** submitted a cost estimate including nine additional employees and related equipment and expenditures totaling $528,162 for FY 2010, $629,140 for FY 2011, and $648,013 for FY 2012.

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 DED estimate of equipment and expenditure cost in accordance with OA budget guidelines.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE FUND			
Cost - State Auditor - TIF reporting Salaries, Benefits, Equipment, and Expenditures	(Unknown)	(Unknown)	(Unknown)
Cost - MDFB - Additional Tax credits	$0 or ($15,000,000)	$0 or ($15,000,000)	$0 or ($15,000,000)
Cost - Tax credits - Premium Jobs Program	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Cost - Tax credits - BUILD Program	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
Cost - Tax credits - New Markets Program	$0 to ($12,500,000)	$0 to ($12,500,000)	$0 to ($12,500,000)
Revenue Reduction - Server farm sales tax exemption	(Unknown)	(Unknown)	(Unknown)
Revenue reduction - Franchise Tax changes	$0	($7,180,344 to $12,200,000)	($7,180,344 to $12,200,000)
Revenue reduction - MJTS appropriations	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Cost - Missouri Advantage Act - incentives paid	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)
Cost - Tax credits - Angel Investments	$0 to ($5,000,000)	$0 to ($5,000,000)	$0 to ($5,000,000)

Cost - DOR			
Salaries (9 FTE)	($170,100)	($210,244)	($216,551)
Benefits	($82,720)	($102,241)	($105,309)
Equipment and expense	($55,682)	($11,467)	($11,811)
	($308,502)	($323,952)	($333,671)
Cost - DED			
Salaries (9 FTE)	($312,840)	($386,670)	($398,270)
Benefits	($152,134)	($188,038)	($193,679)
Equipment and expense	($55,682)	($11,467)	($11,811)
	($520,656)	($586,175)	($603,760)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**(More than $829,158) to (More than $43,329,158)**	**(More than $8,090,471) to (More than $55,610,471)**	**(More than $8,117,775) to (More than $55,637,431)**
SCHOOL DISTRICT TRUST FUND			
Revenue Reduction - Server farm sales tax exemption	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**(Unknown)**	**(Unknown)**	**(Unknown)**
CONSERVATION COMMISSION FUND			
Revenue Reduction - Server farm sales tax exemption	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**(Unknown)**	**(Unknown)**	**(Unknown)**

PARKS, AND SOIL AND WATER FUND			
Revenue Reduction - Server farm sales tax exemption	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	**(Unknown)**	**(Unknown)**	**(Unknown)**
MISSOURI INCENTIVES FUND			
Transfer in - General Revenue	$0 or Unknown	$0 or Unknown	$0 or Unknown
Revenue - application fees	$0 or Unknown	$0 or Unknown	$0 or Unknown
Cost - administration payments to approved projects	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)
ESTIMATED NET EFFECT ON MISSOURI INCENTIVES FUND	**$0 or (Unknown to (Unknown)**	**$0 or (Unknown to (Unknown)**	**$0 or (Unknown to (Unknown)**

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
LOCAL GOVERNMENTS			
Savings - potential savings for municipalities if a third party makes a donation to the redevelopment fund in place of the municipality paying PILTS or economic activity taxes	$0 or Unknown	$0 or Unknown	$0 or Unknown
Revenue Reduction - Server farm sales tax exemption	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**$0 or Unknown to (Unknown)**	**$0 or Unknown to (Unknown)**	**$0 or Unknown to (Unknown)**

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to a small business which was located in an annexed research park.

FISCAL DESCRIPTION

The proposed legislation would make multiple changes to economic development programs.

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

Office of the Secretary of State
Office of Administation
    Division of Budget and Planning
Department of Economic Development
    Public Service Commission
    Office of Public Counsel
Department of Insurance, Financial Institutions, and Professional Registration
Department of Revenue
University of Missouri
    Economic Policy Analysis and Research Center
St. Louis County
City of Kansas City

Mickey Wilson

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April 22, 2009