

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0033-06
Bill No.: HCS for SS for SCS for SB 7
Subject: Business and Commerce; Corporations; Economic Development; Science and Technology; Taxation and Revenue
Type: Original
Date: September 22, 2011

Bill Summary: This proposal establishes the Missouri Science and Innovation Reinvestment Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue*	\$0	\$0	\$0
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Missouri Science and Innovation Reinvestment Fund*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

* Offsetting income and expenses.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	0	0	0

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

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the State Auditor** assume the proposal would not fiscally impact their agency.

In response to a previous version of this proposal, officials from the **Office of the State Treasurer** assumed the proposal would not fiscally impact their agency.

Officials from the **University of Missouri** assume the bill would have a positive fiscal impact on the University of Missouri System, particularly in the areas of technology transfer and research and economic development.

Officials from the **Office of Administration - Budget and Planning (BAP)** assume the proposed legislation should not result in additional costs or savings to BAP. BAP identified the following sections which may have budget or revenue implications:

196.1115.3 - Makes the MTC the administrative agent of the LSRB.

348.251.1 --- Definitions, in particular (3) "Base Year" is Fiscal Year 2010.

348.256.14 - The MTC may employ needed staff. Corporation employees shall be eligible to participate in MOSERS and MCHCP, but are not considered state employees. BAP assumes these costs will be borne by the MTC, by either the Missouri Science and Innovation Reinvestment Fund, or other funding available to MTC. BAP defers to DED /MTC for any estimated costs.

348.261(18-20) - MTC may expend monies in the science and innovation fund as necessary to fulfill its mission.

346.263.1-3 - The corporation is subject to open records laws, except as otherwise provided.

348.264 - The Missouri Technology Investment Fund is renamed the Missouri Science and Innovation Reinvestment Fund.

348.265.1 -

- At the end of each fiscal year, DED and DOR shall determine the growth in gross wages of Science and Innovation companies, as defined in this proposal by NAICS codes, as well as companies that DED and DOR may identify as qualifying organizations.
- They shall compare these wages to wages earned during the base year (FY 10), and the growth shall be reported to the MTC, Governor and General Assembly.

ASSUMPTION (continued)

- The Director of DOR shall multiply the growth by the applicable percentage, as defined for each year in the definitions section, and transfer the calculated amount from General Revenue to MOSIRA. This transfer is subject to appropriation.
- Based on data through 2009 supplied to BAP by DED, BAP estimates that wage growth in these industries averages \$200 million per year, but could vary substantially.

BAP noted the base year is not adjusted for inflation in this proposal. Because there is no inflationary adjustment, this could result in the redirection of normal increases in income tax growth from General Revenue into the new fund.

Officials at the **Department of Economic Development** assume the following in calculating the state impact:

1. Relevant gross wage data was provided by MERIC.
2. Calculate the most immediate preceding 3 years of average annual increase in gross wages for MOSIRA NAICS as outlined in proposed legislation.
3. Assume that the average annual growth of gross wages for the past 3 years is a reasonable proxy of growth for the next 3 years into the future.
4. Apply the MOSIRA specified 6% "applicable percentage" for each year of growth (note that because the base year does not change each year the "applicable percentage" is applied to the total growth off the base year in each successive year, hence the larger number each year).
5. Estimated total fiscal impact is calculated:
FY13 - \$4,458,161
FY14 - \$8,916,322
FY15 - \$13,374,483

MOSIRA would capture a small percentage of the new growth in gross wages generated by employees working in Missouri within designated science and innovation fields and reinvest it in science and innovation projects which demonstrate future job growth and increased economic activity. DED assumes no additional impact as a result of MOSIRA.

Officials from the **Department of Labor and Industrial Relations** (DOLIR) assume that the proposal could implement provisions in Missouri which conflict with federal requirements for the operation of the Unemployment Insurance (UI) program. DOLIR officials stated that if the UI program fails to be certified, Missouri would lose \$51 million in federal funds the state receives to administer the UI program and Missouri employers could lose approximately \$868 million each year in credits against the federal unemployment tax.

ASSUMPTION (continued)

Oversight assumes this proposal could be implemented without creating a conflict with federal requirements for the unemployment insurance program.

In response to similar legislation from this year, officials at the **Missouri Consolidated Health Care Plan (MCHCP)** assumed the fiscal impact on MCHCP is the product of the predicted membership magnitude of Missouri Technology Corporation (MTC) and the estimated net payment per active employee per year. MCHCP assumes the health status of MTC subscribers and their number of dependents per subscriber is similar to MCHCP's existing active employee population. Net payments for active employee subscribers are approximately \$9,727 per subscriber per year based on 2011 estimates. Eventually, MTC would have retirees covered under their medical plan. Again, assuming the health status of MTC retirees and their number of dependents per subscriber is similar to MCHCP's existing retiree population; net payments for retiree subscribers are approximately \$7,776 per subscriber per year based on 2011 estimates.

In response to a previous version of this proposal, officials from the **Department of Revenue (DOR)** assumed the need for one additional FTE (a Management Analysis Specialist I) at \$41,000 annually plus expense and equipment to administer the program. DOR assumes an annual cost of approximately \$64,000 annually for this additional FTE.

Oversight assumes DOR would be able to administer this program with existing resources.

In response to similar legislation from this year, officials from the **Missouri State Employees Retirement System (MOSERS)** stated in order to participate in MOSERS, compensation must be paid by a "department" as defined in section 104.1003, RSMo (which includes an agency of the executive, legislative, or judicial branch and a body corporate or politic whose employees are eligible for MOSERS' coverage by law). Language has been included in this proposal that would allow compensation paid by the corporation to constitute pay from a department for purposes of accruing benefits under MOSERS. In the event this legislation was enacted, the contribution rate applicable to MTC employees accruing service under MOSERS during the first year would be 13.97% of pay.

In response to similar legislation from this year, officials at the **Joint Committee on Public Employee Retirement** assumed a review of this legislation would indicate such provisions would not create a "substantial proposed change" in future plan benefits as defined in Section 105.660(10). Therefore, no actuarial cost statement is required.

ASSUMPTION (continued)

Oversight assumes that if the employee of the authority are allowed to join MOSERS, the contribution costs would be borne by the authority and not the State.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE			
<u>Revenue</u> - to general revenue from new taxes collected from new businesses (MOSIRA)	Unknown greater than \$1,000,000	Unknown greater than \$1,000,000	Unknown greater than \$1,000,000
<u>Transfer Out</u> - to MOSIRA Fund of the taxes from new employees in new businesses (MOSIRA)	(Unknown greater than <u>\$1,000,000</u>)	(Unknown greater than <u>\$1,000,000</u>)	(Unknown greater than <u>\$1,000,000</u>)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
 MISSOURI SCIENCE AND INNOVATION REINVESTMENT FUND			
<u>Transfer In</u> - taxes from new employees in the new businesses	More than \$1,000,000	More than \$1,000,000	More than \$1,000,000
<u>Costs</u> - expenditures made by the MTC	(<u>More than \$1,000,000</u>)	(<u>More than \$1,000,000</u>)	(<u>More than \$1,000,000</u>)
ESTIMATED NET EFFECT TO THE MISSOURI SCIENCE AND INNOVATION REINVESTMENT FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Local Government

FY 2012
(10 Mo.)

FY 2013

FY 2014

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small businesses that can participate in the MOSIRA program could be positively impacted from this proposal.

FISCAL DESCRIPTION

This act establishes the Missouri Science and Innovation Reinvestment Act. The act requires the advise and consent of the Senate for Gubernatorial appointments to the Missouri Technology Corporation's board of directors and sets the terms and requirements for the various members of the board of directors. The powers and duties of the Missouri Technology Corporation are expanded to allow the corporation to assume all monies and assets of the Missouri Seed Capital

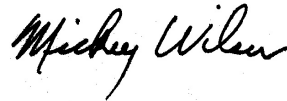
Investment Board and to establish a proof of concept finance program, an angel investment finance program, and a venture capital co-investment fund. The act provides application, approval, and reporting requirements for programs established by the Missouri Technology Corporation. In addition to the exceptions to open records and meetings requirements provided under the Sunshine Act, the act authorizes the Missouri Technology Corporation to close certain meetings and records held by the corporation. The directors of the Department of Economic Development and the Department of Revenue must annually determine the incremental increase in gross wages paid within the state to science and innovation employees and apply a formula to such amount to determine the amount of funding necessary to administer the programs of the corporation. Once a determination is made, the directors of the Department of Economic Development and the Department of Revenue must report their findings to the Governor and the General Assembly. The act replaces the Missouri Technology Fund with the Missouri Science and Innovation Reinvestment Fund, which will receive annual appropriations made by the General Assembly, based upon recommendations made by the directors of the Departments of Economic Development and Revenue, and contributions made by private entities, the federal government, and local governments. The act requires that any contract entered into between the corporation and any not-for-profit organization must provide at least a one hundred percent match of funding received from the corporation.

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

RS:LR:OD (12/02)

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Office of the State Auditor
Office of Administration - Budget and Planning
State Tax Commission
Office of the State Treasurer
University of Missouri

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
September 22, 2011