

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1947-01
Bill No.: SB 436
Subject: Business and Commerce; Economic Development; Economic Development Department; Tax Credits
Type: Original
Date: March 22, 2013

Bill Summary: This proposal modifies provisions relating to small business incubators.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	(\$60,868) to (\$1,852,101)	(\$66,246) to (\$1,857,479)	(\$66,965) to (\$1,858,198)
Total Estimated Net Effect on General Revenue Fund	(\$60,868) to (\$1,852,101)	(\$66,246) to (\$1,857,479)	(\$66,965) to (\$1,858,198)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Note: The fiscal note 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.

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 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 2014	FY 2015	FY 2016
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration - Budget and Planning** assume this proposal increases the existing cap on the Small Business Incubator Tax Credit Program from \$500,000 to \$2,000,000 annually. This could decrease General and Total State Revenues by that amount. This proposal could be subject to the 18e calculation.

Officials at the **Department of Economic Development (DED)** assume this proposal establishes the Small Business Incubators Act. This proposal opens the incubators program to limited liability companies and sets the cap for the program at \$2 million dollars. This proposal requires DED to conduct annual site visits to each participant in the program.

DED assumes a negative fiscal impact of \$1.5 million dollars; however, this negative impact would be offset by an unknown positive economic benefit as a result of the increase in economic activity generated by the program. DED would require one additional FTE to administer the program due to the anticipated amount of administration involved. The FTE would be an Economic Development Incentive Specialist III (\$41,016) and be responsible for reviewing and approving the applications for the program to determine eligibility, establishing procedures, reviewing the loan applications to make sure they meet the criteria of the program, drafting and sending the loan awards, and ensuring compliance with the program.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume an unknown reduction of premium tax revenues as a result of the increase to the aggregate amount of small business incubator tax credits that may be issued. 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 at the **Department of Revenue** assume there is no fiscal impact from this proposal.

<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses in the small business incubator may be impacted by this proposal

FISCAL DESCRIPTION

This act modifies provisions relating to small business incubators. The definition of participant and tenant are expanded to include limited liability companies. This act requires that the local sponsor of the small business incubator enter into agreements with participants and tenants of the incubator to receive information necessary to provide annual reports to the Department of Economic Development. Annual reports to the Department shall include the continuing performance of all participants and tenants who have left the incubator in the last 5 years. The Department shall visit each incubator at least once per year.

Tax credits granted to a partnership, limited liability company taxed as a partnership, or multiple property owners must be passed through to the partners, members, or owners based on their share of ownership. The maximum annual tax credits issued for the entire program is 2 million dollars. The Department of Economic Development will review and approve local sponsor applications for the allocation of tax credits quarterly. There is no limit to the number of periods a local sponsor may participate in the business incubator program.

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

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SOURCES OF INFORMATION

Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Office of Administration
Budget and Planning



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March 22, 2013