COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4514-03
Bill No.: SB 861
Subject: Aircraft and Airports; Boats and Water craft; Economic Development; Economic Development Department; Lakes, Rivers and Waterways; Tax Credits
Type: Original
Date: February 2, 2016

Bill Summary: This proposal modifies provisions relating to transportation facilities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	($357,827 to Unknown)	($108,792) or (Could exceed $483,792)	($109,838) or (Could exceed $484,838)
Total Estimated Net Effect on General Revenue	**($357,827 to Unknown)**	**($108,792) or (Could exceed $483,792)**	**($109,838) or (Could exceed $484,838)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Port Authority AIM Zone*	$0	$0	$0
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

*Revenues and costs net to zero.

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	**2 FTE**	**2 FTE**	**2 FTE**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government*	**$0**	**$0**	**$0**

*Transfers In and Costs net to zero.

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

§68.075

Officials at the **Office of the State Treasurer** (**STO**) assume this bill would result in a fiscal impact, specifically the language found in §68.075.5. Concerning this language for direct fund administration, STO does not currently undertake this type of responsibility so STO would require the hiring of additional personnel. We estimate this would require an additional 1.5 FTE (.5 FTE Accountant I and 1 FTE Account Clerks II).

FY 17: $98,867.13
FY 18: $78,519.55
FY 19: $79,304.74

These costs would be from General Revenue.

Oversight assumes the responsibilities outlined in this section can be handled with 1 FTE Account Clerk II. Should STO see an increase in duties to justify additional FTE, they can seek that FTE through the appropriation process.

Oversight has, for fiscal note purposes only, changed the starting salary for the Account Clerk II ($25,152) 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 over the last six months and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

In response to similar legislation from last year (SB 461), officials at the **Department of Revenue** assumed §68.075 authorized a port authority to establish an "Advanced Industrial Manufacturing Zone." Additionally, the proposed legislation allowed for set deposit to the fund created in Subsection 5 of 50 percent of the state tax withholdings imposed by Sections 143.191 to 143.265 attributed to new jobs created in the zone. Subsection 5 created the Port Authority

ASSUMPTION (continued)

AIM Zone Fund consisting of money collected under this section. The port authority approves projects, distributes money, and submits a budget to the Department of Economic Development.

This section required new forms be developed to be submitted with Form 941s to substantiate the amount of employment tax not remitted to General Revenue. The Department reconciles what the taxpayer reports on the Form W-2 to the actual remittance to the state. Implementing this legislation required programming to allow for tracking of the amount of withholding taxes due but not remitted to General Revenue. Additionally, the Department required programming to track businesses and new employees. These changes were estimated to be $75 per hour for 501 hours for a total of $37,584.

There was a cost to change the integrated system not covered under the current contract with Revenue Solutions, Inc. The estimated cost was $350,000 to $500,000. This cost is in addition to ITSD costs associated with the current withholding program. Based upon the assumption the legislation's effective date is August 28, 2015, this necessitates the development in the current withholding system as well as in the new integrated tax system, which is scheduled for deployment the first quarter of 2016.

In summary, DOR anticipates $537,584 in programming and modification costs.

The effective date of this proposal is 8/28/16. Therefore, **Oversight** assumes programming costs of less than $100,000 for a total of $137,584.

In response to similar legislation from last year (SB 461), officials at **Office of Administration's Division of Budget and Planning** (**BAP**) assumed the proposal created Advanced Industrial Manufacturing (AIM) Zones within port authorities. Fifty percent (50%) of the state tax withholdings on any new jobs created in these AIM zones would be deposited into the Port Authority AIM Zone Fund instead of being deposited into general revenue.

The proposal created the Port Authority AIM Zone Fund in the state treasury. Monies are collected from 50% of the state tax withholdings on new jobs created within Port Authority AIM zones and would be used by the port authorities to continue to expand, develop, and redevelop identified AIM zones. BAP did not have any data to estimate the amount of state tax withholdings that may be deposited into the fund.

The proposal would not impact current General and Total State Revenues, but future General Revenues may be forgone. The program may encourage other economic activity, but BAP did not have the data to estimate the induced revenues.

ASSUMPTION (continued)

In response to similar legislation from last year (SB 461), officials at the **Department of Transportation** and the **Department of Economic Development** each assumed no fiscal impact from this proposal to their respective organizations.

Oversight notes §68.075 of this proposal creates the Advanced Industrial Manufacturing Zones Act. This also creates the Port Authority AIM Zone Fund. It requires "fifty percent of the state tax withholdings" to go directly to the new fund created in this proposal. Oversight will assume a loss to General Revenue of the withholding tax and a gain to the Port Authority AIM Zone Fund of the withholding tax. Since there is no way to determine if additional jobs will come to these regions, Oversight will reflect the impact as $0 (no new jobs created) to Unknown.

§68.120

In response to similar legislation from last year (HB 536), officials at the **Department of Transportation** assumed the proposal will have no fiscal impact on their organizations.

Oversight assumes §68.120 will have no fiscal impact on state or local governments.

§143.2100, §143.2105, §143.2110 and §143.2115

In response to similar legislation from last year (HB 110), officials at the **Office of Administration's Division of Budget and Planning** assumed this proposal would create three new tax credits for port authorities, including one for qualifying taxpayers that increase their port cargo volume by five percent, one for an international trade facility that moves cargo by barge or rail rather than by vehicle on the state highways, and one for an international trade facility that increases its port cargo by ten percent. The tax credits available for these programs are $3.5 million, $2 million, and $0.5 million respectively, for a total of up to $6 million annually. These tax credits may offset tax year 2015-2020 liabilities; therefore, General and Total State Revenues may be reduced as early as FY 2016.

In response to similar legislation from last year (HB 110), officials at the **Department of Economic Development** (**DED**) assumed a negative fiscal impact ranging from $0 to $6 million; however, this negative impact may be offset by an unknown positive economic benefit as a result of the increase in economic activity. DED requests an Economic Development Incentive Specialist I to review applications, determine eligibility, and promulgate rules for the programs.

Oversight assume the creation of the three programs outlined in this proposal may have a positive impact on the state. However, Oversight considers this to be indirect impact of the

ASSUMPTION (continued)

proposal and will not reflect it in this fiscal note.

In response to similar legislation from last year (HB 110), officials at the **Department of Revenue** (**DOR**) assumed §135.1662 allowed taxpayers engaged in manufacturing goods or distributing manufactured goods using port facilities that increase their port cargo by at least five percent to be eligible to claim a credit against taxes under chapter 143. A "major facility" is eligible for the credit without an increase in port cargo volume. DOR may require the certification form issued by the port authority to accompany the return. Tax credits in this section cannot exceed $3.5 million in any calendar year.

§135.1664 allowed an international trade facility a credit against taxes under chapter 143, excluding withholding tax, of $25 per TEU (20-foot equivalent unit) or 16 tons of non-containerized cargo moved by barge or rail rather than truck or other motor vehicle. The maximum credit in a given fiscal year is $2 million.

§135.1666 allowed a taxpayer meeting the requirements of this section a credit against taxes under chapter 143 of $3,500 per qualified full-time employee that results from increased qualified trade activities or two percent of the capital investment made by the taxpayer to facilitate the increased qualified trade activities. Tax credits under this section cannot exceed $500,000 in any fiscal year.

Personal Tax required two (2) Revenue Processing Technicians I due to increased tax credits claimed and increased correspondence.

Corporate Tax has taken on the post-issuance tax credit duties per Executive Order 13-02 including transfers, HPC Developer Fee payment validation, and Senate Bill 1099 compliance notices/correspondence. This required three (3) Revenue Processing Technicians I due to increased tax credits redemptions, compliance mailings, correspondence, and tax credit transfers. This legislation also required form changes and programming support associated with credit entry and new notices.

DOR-ITSD required approximately 1,344 hours of programming for an estimated cost of $100,800.

Oversight assume DOR's Personal and Corporate Tax Divisions could absorb the responsibilities of these tax deductions with existing resources. Should DOR experience the number of additional tax deduction redemptions to justify another FTE, they could seek that FTE through the appropriation process.

ASSUMPTION (continued)

In response to similar legislation from last year (HB 110), officials at the **Department of Insurance, Financial Institutions, and Professional Registration** (**DIFP**) assumed an unknown reduction of premium tax revenues as a result of the creation of the international trade facility tax credits is possible. The tax credits may be carried forward for five to ten years therefore some tax credits would be able to be taken until FY 2031. 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.

DIFP assumed a trail of tax credits issuance, changes, and balances are to be captured within current electronic tax credit systems. No new hardware or software purchases are expected. Contract labor is required at an estimated cost of $4,212.00

Oversight assumes 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, the department could request more expense and equipment appropriation through the budget process.

In response to similar legislation from last year (HB 110), officials at the **Joint Committee on Administrative Rules** and the **Department of Transportation** each assumed no fiscal impact from this proposal to their respective organizations.

In response to similar legislation from last year (HB 110), officials at the **Office of the Secretary of State (SOS)** stated 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 recognized that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognized 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 reserved 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)

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight assume §143.2105, §143.2110 and §143.2110 of this proposal creates three new tax deductions; 1. increased cargo volume with an annual cap of $3,500,000 (§143.2105), 2. international trade facility with an annual cap of $2,000,000 (§143.2110), and 3. increased qualified trade with an annual cap of $500,000 (§143.2115). Each of these tax deductions begin on January 1, 2017; a taxpayer would not be able to claim this tax deduction on their tax return until January 1, 2018. Therefore, Oversight will show the fiscal impact as $0 (no deductions claimed) to the annual cap for each deduction beginning in FY18.

Based on a corporate tax rate of 6.25 percent, the following deduction would have the full maximum fiscal impact:

Section	Deduction	Tax
§143.2105	$3,500,000	$218,750
§143.2110	$2,000,000	$125,000
§143.2110	$500,000	$ 31,250

Bill As A Whole

Officials at the **Office of the Governor** assume no fiscal impact from this proposal to their organization.

FISCAL IMPACT - State Government	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE			
Revenue Reduction - §68.075 - loss of withholding tax	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Costs - STO - administration of §68.075			
Personal Service	($20,960)	($25,404)	($25,658)
Fringe Benefits	($14,136)	($17,032)	($17,102)
Equipment and Expenses	($26,949)	($5,882)	($5,941)
Total Cost - STO	($62,045)	($48,318)	($48,701)
FTE Change - STO	1 FTE	1 FTE	1 FTE
Costs - DOR - computer programming §68.075	Less than ($137,584)	$0	$0
Revenue Reduction - §143.2105 tax deduction for increased cargo volume	$0	$0 to ($218,750)	$0 to ($218,750)
Revenue Reduction - §143.2110 tax deduction for international trade facility	$0	$0 to ($125,000)	$0 to ($125,000)
Revenue Reduction - §143.2115 tax deduction for increased qualified trade	$0	$0 to ($31,250)	$0 to ($31,250)
Costs - DOR - computer programming §143.2105, §143.2110, §143.2115	($100,800)	$0	$0
Costs - DED			
Personal Service	($30,744)	($37,262)	($37,635)
Fringe Benefits	($15,988)	($19,378)	($19,572)
Equipment and Expenses	($10,666)	($3,834)	($3,930)
Total Costs - DED	($57,398)	($60,474)	($61,137)
FTE Change - DED	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($357,827 to Unknown)**	**($108,792) or (Could exceed $483,792)**	**($109,838) or (Could exceed $484,838)**
Estimated Net FTE Change on General Revenue	2 FTE	2 FTE	2 FTE

FISCAL IMPACT - State Government (continued)	FY 2017 (10 Mo.)	FY 2018	FY 2019
PORT AUTHORITY AIM ZONE FUND			
Revenue - withholding tax collected from new jobs §68.075.4	$0 to Unknown	$0 to Unknown	$0 to Unknown
Transfer Out - to local port authorities	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON PORT AUTHORITY AIM ZONE FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2017 (10 Mo.)	FY 2018	FY 2019
PORT AUTHORITY FUNDS			
Transfer In - from Port Authority AIM Zone Fund	$0 to Unknown	$0 to Unknown	$0 to Unknown
Cost - administration of port authority development	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON PORT AUTHORITY FUNDS	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the programs in the bill would be impacted.

FISCAL DESCRIPTION

This act modifies provisions relating to transportation facilities.

ADVANCED INDUSTRIAL MANUFACTURING ZONES (68.075)

This act creates the Advanced Industrial Manufacturing Zones Act. Port authorities located in Missouri are authorized to establish an advanced industrial manufacturing ("AIM") zone, which is an area that is being developed or redeveloped for any purpose so long as any infrastructure and building built or improved is in the development area. A zone may include any portion of the area located in the authority's jurisdiction, and its boundaries must be determined by the authority. More than one zone may exist within the authority's jurisdiction.

The act creates the Port Authority AIM Zone Fund consisting of 50% of the state withholding tax from new jobs within the zone after development or redevelopment has begun. The money in the fund must be used for expenses to continue expanding, developing, and redeveloping zones identified by the port authority board of commissioners. No more than 10% of the total amount collected within the zones of a port authority may be appropriated by the legislature for the administration of a port authority. The authority must approve any projects, disperse money in the fund, and submit an annual budget for the collected funds to the Department of Economic Development explaining how and when the money will be spent.

No new AIM zones may be established after August 28, 2035. Existing AIM zones shall expire when any obligations being funded by the AIM zone are retired.

This provision is identical to SB 461 (2015) and similar to HB 2063 (2014).

MID-AMERICA PORT COMMISSION (68.120)

Current law specifies that two commissioners of the Mid-America Port Commission will be appointed by county commissioners in the jurisdiction of the commission. This act requires that the appointed person be a member of certain regional port authorities. The Governor is also authorized to appoint a commissioner from such regional port authorities. The act also requires appointed commissioners to be residents of the counties served by the Mid-America Port Commission.

This provision is identical to HB 536 (2015).

TRANSPORTATION FACILITIES TAX INCENTIVE (143.2100-143.2115)

This act creates three types of income tax deductions for entities transporting cargo through water

FISCAL DESCRIPTION (continued)

port facilities and airports in Missouri. The deductions will be administered by the Department of Economic Development.

Beginning January 1, 2017, manufacturers or distributors shipping cargo by waterborne vessel through a water port facility or by airplane through an airport located in Missouri may be eligible for a deduction. The taxpayer must increase by 5% the volume of cargo they transport through a port facility over the prior year's total. The 5% increase requirement will be waived if the cargo is transported through a new port facility that is expected to transport at least 25,000 twenty-foot equivalent units (TEUs) in its first calendar year. Taxpayers must have transported at least 75 net tons of noncontainerized cargo or ten loaded TEUs in the prior year to be eligible for the deduction.

The deduction will be $50 per TEU over the prior year's cargo volume. For cargo transported through a new port facility in its first year, the deduction will be $50 per TEU. Taxpayers are limited to $250,000 in deductions per year. No more than $3.5 million deductions shall be allowed in a calendar year. The $250,000 taxpayer limit may be exceeded if the $3.5 million calendar year cap is not met by March fifteenth in a given year. No deductions may be claimed for tax years beginning after December 31, 2022.

Beginning January 1, 2017, taxpayers operating an international trade facility may qualify for a deduction based on the amount of cargo transported by airplane, rail, or barge. The deduction will be equal to $25 per TEU or 16 tons of noncontainerized cargo. No more than $2 million in deductions may be claimed in a fiscal year. No deductions may be claimed for tax years beginning after December 31, 2022.

Beginning January 1, 2017, taxpayers operating an international trade facility and increasing the volume of cargo by 10% over the prior year may qualify for a deduction. The deduction shall be in an amount equal to $3,500 per new full-time employee or 2% of the capital investment made in the facility. The new employees or capital investments must be related to an increase in trade activities through international shipping to qualify for the deduction. No more than $500,000 in deductions may be claimed in any fiscal year. No deductions shall be claimed for tax years beginning after December 31, 2022. The tax deduction amount cannot exceed 50% of a taxpayer's Missouri adjusted gross income in a tax year. The deduction may be recaptured if the number of full-time employees falls below the average number of full-time employees during the tax year.

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

SJ:LR:OD

SOURCES OF INFORMATION

Office of the State Treasurer
Department of Revenue
Office of Administration's Division of Budget and Planning
Department of Transportation
Department of Economic Development
Office of the Governor
Department of Insurance, Financial Institutions, and Professional Registration
Joint Committee on Administrative Rules
Office of the Secretary of State

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February 2, 2016	February 2, 2016

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