

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0720-01
Bill No.: SB 79
Subject: Agriculture Department; Appropriations; Capitol Improvements; Economic Development; Economic Development Department; Revenue Department; Tax Credits
Type: Original
Date: December 30, 2016

Bill Summary: This proposal creates the Show Me Rural Jobs Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	(\$87,328)	\$0	(Up to \$15,000,000)
Total Estimated Net Effect on General Revenue	(\$87,328)	\$0	(Up to \$15,000,000)

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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Show Me Rural Jobs*	\$0	\$0	\$0
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

* Application Fee and expenses net to zero.

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Show Me Rural Jobs Fund	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 2018	FY 2019	FY 2020
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§620.1952 Show Me Rural Jobs Fund

Officials at the **Office of Administration's Division of Budget and Planning (B&P)** assume the proposal would create the "Show-Me Rural Jobs Fund" which would consist of receipts from a \$5,000 non-refundable application fee submitted by investment companies applying for growth capital and credit-eligible capital contributions through the Department of Agriculture. In addition, \$5,000-per-day penalties would be charged by the Department of Economic Development against approved investment companies for violations. Applications can be accepted beginning October 1, 2017, which could impact FY 2018 revenues. However, there is not enough available data for B&P to estimate the potential revenues to this new fund.

Officials at the **Department of Agriculture (AGR)** assume they will need one Agricultural Loan Officer (\$48,000) to perform the assigned duties.

Oversight assumes there is a \$5,000 application fee submitted by qualified companies that is deposited into the Show Me Rural Jobs fund for administration of this program. We are unable to calculate the number of companies that may apply for this tax credit, therefore, Oversight will show the income into the Show Me Rural Jobs fund as Unknown.

Oversight assumes the income into the Show Me Rural Jobs fund will be used for the administration of the fund. Oversight assumes the income to this fund will be sufficient to cover costs and will show the net fiscal impact to this fund as zero.

§620.1954 Tax Credit for Credit-Eligible Capital Contribution

Oversight notes that this proposal creates a nonrefundable tax credit for taxpayers who make contributions to an approved investment company and receive a tax credit certificate under Section 620.1953. The taxpayer cannot sell, transfer, or allocate tax credits to any entities other than affiliates. The taxpayer may claim up to 20 percent of the authorized credit for each of the five tax years beginning on or after July 1, 2019. Tax credits claimed cannot exceed \$15 million dollars in any one fiscal year, not including amounts carried forward from previous years.

B&P assumes the taxpayer could claim up to 20% of the credit authorized for each taxable year beginning on or after July 1, 2019; therefore, General and Total State Revenues may be reduced as early as FY 2020. There is a \$15 million cap on the credits claimed in any given fiscal year.

This proposal could therefore lower General and Total State Revenues by \$15 million annually beginning in FY 2020 and could impact the calculation under Article X, Section 18(e). This

ASSUMPTION (continued)

program may encourage other economic activity, but B&P does not have data to estimate the induced revenues. AGR and Department of Economic Development may have such an estimate.

Oversight assumes the creation of this new program outlined in this proposal may have a positive impact on the state. However, Oversight considers this to be an indirect impact of the proposal and will not reflect it in this fiscal note.

Officials at the **Department of Economic Development (DED)** assume this proposal will create a new tax credit for DED to administer with an annual cap of \$15 million. DED will require one Economic Development Incentive Specialist III (\$53,136) beginning immediately to develop, implement, and facilitate this program. DED will be issuing credits well before the first tax year after July 2019 even though the recipients must wait until then to redeem them.

The fiscal impact is 1 FTE immediately, and up to \$15million/year beginning in the first tax year after July 1, 2019.

Officials at the **Department of Revenue (DOR)** assume this proposal would require form changes and programming to implement the provisions of this legislation. In order to implement the provisions, the integrated tax system would require updates at a cost of \$87,328.

Additionally, the Personal Tax Division would requires one Revenue Processing Technician I (\$27,185) per 4,000 tax credits redeemed. The Corporate Tax Division would require one Revenue Processing Technician I (\$27,185) per 4,000 tax credits redeemed.

Oversight notes a significantly high percentage of income tax returns are prepared online, electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal. Oversight assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional cost are incurred or if multiple proposals are implemented that increase DOR costs or the workload for DOR employees, resources could be requested through the budget process.

Oversight assumes that qualified recipients cannot redeem the credit until July 1, 2019. Therefore, they will not be able to claim this credit on their taxes until FY 2020. Oversight will show \$0 in FY 2018 and 2019 and up to \$15,000,000 cap in FY 2020.

Bill as a Whole

Oversight has, for fiscal note purposes only, changed the starting salary for the Agricultural Loan Officer (from \$48,000 to \$39,708) and the Economic Development Incentive Specialist III (from \$53,136 to \$44,352) 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 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume an unknown reduction of premium tax revenues as a result of the creation of the Show Me Rural Jobs Act tax credit is possible. 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.

The department will require minimal contract computer programming to add these new tax credits 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 may need to request more expense and equipment appropriation through the budget process.

Officials at the **Joint Committee on Administrative Rules** and the **Office of the State Treasurer** each assume there is no fiscal impact from this proposal to their respective organizations.

Officials from the **Office of the 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.

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE			
<u>Revenue Reduction</u> - tax credit §620.1954	\$0	\$0	(Up to \$15,000,000)
<u>Cost</u> - DOR integrated tax system §620.1954	(<u>\$87,328</u>)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$87,328)</u>	<u>\$0</u>	<u>(Up to \$15,000,000)</u>

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.

SHOW ME RURAL JOBS FUND

<u>Revenue</u> - \$5,000 application fee §620.1953	Unknown	Unknown	Unknown
<u>Revenue</u> - \$5,000 penalty fee §620.1955.2	\$0	\$0	\$0 or Unknown
<u>Cost</u> - AGR §620.1952			
Personal Service	(\$33,090)	(\$40,105)	(\$40,506)
Fringe Benefits	(\$18,444)	(\$22,251)	(\$22,371)
Equipment and Expenses	(<u>\$6,775</u>)	(<u>\$4,481</u>)	(<u>\$4,593</u>)
<u>Total Cost</u> - AGR	(\$58,309)	(\$66,837)	(\$67,470)
FTE Change	1 FTE	1 FTE	1 FTE
<u>Cost</u> - DED			
Personal Service	(\$36,960)	(\$44,796)	(\$45,243)
Fringe Benefits	(\$19,597)	(\$23,648)	(\$23,781)
Equipment and Expenses	(<u>\$10,846</u>)	(<u>\$4,237</u>)	(<u>\$4,343</u>)
<u>Total Cost</u> - DED	(<u>\$67,403</u>)	(<u>\$72,681</u>)	(<u>\$73,367</u>)
FTE Change	1 FTE	1 FTE	1 FTE

**ESTIMATED NET EFFECT ON SHOW
ME RURAL JOBS FUND**

	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Estimated Net FTE Change on Show Me Rural Jobs Fund	2 FTE	2 FTE	2 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify may be positively impacted.

FISCAL DESCRIPTION

This act creates the Show Me Rural Jobs Act.

This act requires the Department of Agriculture to accept and review applications for approved investment companies that invest in rural business concerns. Applications shall include the amount of growth capital the applicant is seeking and a \$5,000 fee. The act requires growth capital to be comprised of 60% or less credit-eligible capital contribution. The act lists other information that must be included, such as evidence that the applicant meets certain criteria and information on the potential benefit to the state. For the credit-eligible capital contributions, each investor must submit an affidavit stating a commitment to make the contribution and the amount.

The Department of Agriculture shall not approve more than \$125 million in growth capital and not more than \$100 million in credit-eligible capital contributions. The Department of Agriculture may deny an application only for certain enumerated reasons and an applicant has a chance to provide additional information to cure any defect in the application that led to denial. Upon approval, the Department of Agriculture shall provide written notice to the applicant with the amount of growth capital and a tax credit certificate for each investor whose affidavit was attached.

Within 60 days of notice of approval, the approved investment company shall collect the credit-eligible capital contributions from the investors who signed affidavits and one or more cash investments that will compose the remaining amount of growth capital. Within 65 days, the approved investment company shall provide the Department of Economic Development with documentation that the amounts have been collected. If the company fails to comply, the Department of Economic Development shall award lapsed growth capital to each approved investment company that received less than it requested. Any remaining capital may be awarded to newly approved companies. (§620.1953)

The act creates a non-refundable tax credit for taxpayers making a credit-eligible capital contribution to an investment company. The credit cannot be sold, transferred, or allocated to

FISCAL DESCRIPTION (continued)

any other company except an affiliate. The taxpayer may claim up to 20% of the credit for each year after July 1, 2019. If the amount of the credit exceeds the taxpayer's liability for that year, the excess shall be carried forward and claimed during the next five years. The maximum amount of credits claimed by all taxpayers shall not exceed \$15 million, not including amounts carried forward from previous years. (§620.1954)

The Department of Economic Development shall revoke tax credit certificates issued under this act if an approved investment company takes certain actions, as described in the act. The Department of Economic Development shall provide notice to the approved investment company before revoking the tax credit certificates and the company has 90 days to correct any violations to avoid revocation. If the tax credit certificates are revoked, they no longer count toward the limits above and may be reallocated. After 5 years an approved investment company may leave the program. If state and local tax revenues fall short of the amount anticipated in the application, the state may recover a percentage of the distributions. (§620.1955)

Each approved investment company shall submit a report to the Departments of Agriculture and Economic Development two years after it collects the total growth investment. This report must contain specific information as described in the act. Thereafter, the approved investment company shall submit an annual report each April. (§620.1956)

An approved investment fund may request a written opinion from the Department stating whether a business in which it proposes to invest is a rural business concern. (§620.1957)

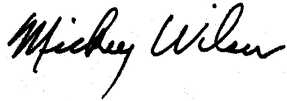
Prior to funding a rural business concern, an approved investment company shall provide the department with certain documents as described in the act. (§620.1958)

This act shall sunset after six years unless re-authorized by the General Assembly.

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



Mickey Wilson, CPA
Director
December 30, 2016

Ross Strobe
Assistant Director
December 30, 2016