

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6575-01
Bill No.: SB 1037
Subject: Economic Development; Securities
Type: Original
Date: March 13, 2018

Bill Summary: This proposal creates the Missouri Innovation Fund Corporation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	\$0 or (Less than \$8,886,000)	\$0 or (Less than \$8,886,000)	\$0 or (Less than \$8,886,000)
Total Estimated Net Effect on General Revenue	\$0 or (Less than \$8,886,000)	\$0 or (Less than \$8,886,000)	\$0 or (Less than \$8,886,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
MO Innovation Fund	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on FTE	0	0	0

☒ 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 2019	FY 2020	FY 2021
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this provision will create the "Missouri Innovation Fund Act" to promote economic growth and job creation within Missouri. This grants the Missouri Technology Corporation the authority to create a wholly-owned subsidiary nonprofit corporation known as the "Missouri Innovation Fund Corporation". Also, the "Missouri Innovation Fund" is created within the state treasury and shall consist of appropriations, bond proceeds, gifts, contributions, transfers of funds or assets, or grants or bequests.

Under the proposal, the Missouri Innovation Fund Corporation shall implement a program to certify investment fund managers and make direct seed capital or venture capital investments in qualified companies and qualified funds. All debt and equity securities held by the Missouri Innovation Fund Corporation shall be deemed to be owned by the state. The Missouri Innovation Fund Corporation may issue negotiable revenue bonds or notes at a level deemed necessary by the Missouri Technology Corporation to carry out its purposes. The amount of notes or bonds issued is not capped in the legislation. Notes shall not exceed twenty years to maturity and bonds shall not exceed fifty years to maturity. Neither the State nor the Missouri Technology Corporation (MTC) shall be liable on notes or bonds of the Missouri Innovation Fund Corporation and these instruments shall not constitute a debt of either entity. The MTC Board of Directors shall serve as the Board for the Missouri Innovation Fund Corporation.

Section 348.585.1.(3) states "The Missouri Innovation Fund Corporation may receive money from any source, may borrow money, may enter into contracts, and may expend money for any activities appropriate to its purpose;" There is no other language which defines or limits the borrowing activities, nor clarifies who could be held liable for any borrowed funds. All proceeds shall be allocated 50% to the Missouri Innovation Fund and 50% to General Revenue.

This proposal has the potential to increase General and Total State Revenues by an unknown amount. The amount and timing of the increases cannot be determined.

Officials at the **Department of Economic Development (DED)** assume this creates the Missouri Innovation Fund Act. This proposal authorizes the MTC to create a wholly owned subsidiary nonprofit corporation known as the Missouri Innovation Fund Corporation to promote economic growth and job creation within the state. The MTC must implement a program to certify investment fund managers who then raise investments and the MTC will also invest in the manager's fund. To qualify as a "qualified fund" the fund must consist entirely of investments in qualified companies.

ASSUMPTION (continued)

The corporation can make direct capital investments in qualified companies. The fund is funded by appropriation and gifts/contributions. The MTC board of directors serves as the fund's board of directors. Additionally, there is no cap on investments.

The fiscal impact is subject to appropriation, plus DED will need to hire 1 Economic Development Incentive Specialist III (\$53,136) to administer the program.

Oversight notes this proposal allows the Missouri Technology Corporation (MTC) to create a wholly owned subsidiary called the Missouri Innovation Fund Corporation and it is to be governed by the existing members of the MTC. Oversight assumes the existing MTC staff would handle the administration of this proposal and DED would not need additional FTE.

Officials at the **Office of the State Auditor (SAO)** assume that since the Missouri Innovation Fund corporation is not an active entity yet, it is difficult to predict how large or financially active it will be. These factors play a major role in determining the depth and scope of an audit. Based on the mandatory nature of the language, the SAO estimates at least 1 new FTE increase to cover the requirements laid out in this proposal. The SAO estimates the FTE costs at \$59,858 in FY 2019, \$67,389 in FY 2020 and \$67,960 in FY 2021.

Oversight notes that 348.585.1(7) requires an annual audit by the Office of the State Auditor. It further states that the Missouri Innovation Fund Corporation is to bear the full cost of the audit. Oversight will show the reimbursement of the SAO expenses from the Fund.

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.

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.

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 notes this proposal creates the Missouri Innovation Fund Corporation. The Corporation is to provide a public benefit, and shall promote economic growth and job creation around the state. It is to be wholly owned subsidiary of the Missouri Technology Corporation.

The Missouri Technology Corporation has had the following funding from General Revenue.

	Budget Authority	Actual Expenditures
FY 2011	\$2,200,000	\$2,149,000
FY 2012	\$1,700,000	\$1,649,000
FY 2013	\$1,360,000	\$1,319,200
FY 2014	\$6,360,000	\$6,169,200
FY 2015	\$13,860,000	\$13,309,200
FY 2016	\$18,360,000	\$17,821,741
FY 2017	\$18,360,000	\$13,356,945
FY 2018	\$3,500,000	
FY 2019 projected	\$3,500,000	
Average (without FY 18 & FY 19 data)	\$8,886,000	\$7,968,000

Oversight notes this proposal creates the Missouri Innovation Fund. The Fund shall consist of all moneys which may be appropriated by the General Assembly, along with any bond proceeds, gifts, contributions, transfers of funds or assets, or grants or bequests received from federal, private, or other sources. This proposal does not place a cap on the amount of money in the Fund and is silent to the amount to be appropriated; therefore, Oversight will utilize the \$8.9 million average annual appropriation to the MTC. The bill is also silent on where the appropriated monies would come from; therefore, Oversight will assume from the General Revenue Fund.

ASSUMPTION (continued)

Oversight will show for the purpose of the fiscal note the transfer from General Revenue as \$0 (no money appropriated by the General Assembly) to the average amount of appropriations that the Missouri Technology Corporation received as the same amount the Missouri Innovation Fund will receive.

Oversight notes the Missouri Innovation Fund can receive funding from additional sources and therefore, will show the receipt of additional funding as Could Exceed \$100,000.

Per its website, the Missouri Technology Corporation has four separate funds within the IDEA Funds Program that invests in Missouri companies.

1. TechLaunch = pre-seed money for companies just starting out. MTC funds can be up to \$100,000 per company.
2. Seed Capitol Co = for companies that have raised outside capitol while spending substantial time on refining their product. MTC funds can be issued for up to \$500,000 per company.
3. Venture Capitol Co = Company must have venture capitol funding. MTC funds can be issued for up to \$2.5 million per company.
4. High Tech Industrial Expansion Program = low-interest debt program for companies with have a steady stream of revenue and are shedding their status as a startup. MTC funds can be issued for up to \$3 million per company.

Oversight notes the Missouri Innovation Fund Corporation is to invest in companies that are headquartered in Missouri and have at least 51% of their workforce in Missouri. They must have less than 100 employees and have not been in business more than 10 years. Oversight notes that based on the Missouri Technology Corporation's existing programs this would be companies that are no longer startups. Therefore, Oversight assumes the equity investment to the companies would be greater than the \$3 million issued under the High Tech Industrial Expansion Program.

Oversight notes that the Missouri Innovation Fund is to make seed capital or venture capital investments in companies either through bonds or equity investments. The Fund may negotiate revenue bonds or notes. All proceeds from the bonds or from the equity investments are to be deposited back into the Fund. Per §348.565.4, all money received into the Fund from bonds or equity investments is to be split 50% to General Revenue and 50% stays in the Fund for reinvestment. Oversight will show the return of the funding to General Revenue as \$0 (no money returned) to Unknown.

ASSUMPTION (continued)

Oversight notes according to its 2016 annual report, the Missouri Technology Corporation had approximately \$60.5 million in assets as of June 30, 2016, and had net income of \$9.5 million for FY 2016.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE			
<u>Transfer Out</u> - to the Missouri Innovation Fund §348.570	\$0 or (Up to \$8,886,000)	\$0 or (Up to \$8,886,000)	\$0 or (Up to \$8,886,000)
<u>Transfer In</u> - from the Missouri Innovation Fund §348.565.4	\$0	\$0 or Unknown	\$0 or Unknown
<u>Transfer In</u> - reimbursement of state auditor expenses §348.585.1(7)	\$0	\$67,389	\$67,960
<u>Cost</u> - expenses of the state auditor to perform audit of the MO Innovation Fund	<u>\$0</u>	<u>(\$67,389)</u>	<u>(\$67,960)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0 or (Less than \$8,886,000)	\$0 or (Less than \$8,886,000)	\$0 or (Less than \$8,886,000)

FISCAL IMPACT - State Government
 (continued)

FY 2019
 (10 Mo.)

FY 2020

FY 2021

MISSOURI INNOVATION FUND

Transfer In - from General Revenue
 §348.570

\$0 or
 \$8,886,000

\$0 or
 \$8,886,000

\$0 or
 \$8,886,000

Revenue - from other funding sources
 including gifts, grants, & federal funding
 §348.570

\$0 or Could
 Exceed
 \$100,000

\$0 or Could
 Exceed
 \$100,000

\$0 or Could
 Exceed
 \$100,000

Revenue - interest on equity investments
 received from companies

\$0 \$0 or Unknown \$0 or Unknown

Distribution - equity investment in
 companies §348.348.565

\$0 or (Could
 Exceed
 \$7,968,000)

\$0 or (Could
 Exceed
 \$7,968,000)

\$0 or (Could
 Exceed
 \$7,968,000)

Transfer Out - 50% of the equity
 investment received from companies

\$0

\$0 or
 (Unknown)

\$0 or
 (Unknown)

Transfer Out - reimbursement of state
 auditor expenses §348.585.1(7)

\$0

(\$67,389)

(\$67,960)

**ESTIMATED NET EFFECT ON THE
 MISSOURI INNOVATION FUND**

**\$0 or
 Unknown**

**\$0 or
 Unknown**

**\$0 or
 Unknown**

FISCAL IMPACT - Local Government

FY 2019
 (10 Mo.)

FY 2020

FY 2021

\$0

\$0

\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act creates the Missouri Innovation Fund Corporation, which shall be a wholly-owned subsidiary of the Missouri Technology Corporation. The purpose of the Missouri Innovation Fund Corporation (the Corporation) shall be to promote economic growth and job creation throughout the state of Missouri. (§348.560)

The Corporation shall be governed by a board of directors, who shall be the members of the board of directors of the Missouri Technology Corporation. The Corporation shall certify qualified investment fund managers, and such qualified funds shall only make investments in qualified companies.

Qualified companies, as defined in the act, shall be a firm, partnership, joint venture, association, or private or public for-profit corporation that is headquartered in this state, employs at least fifty-one percent of its employees in this state, is engaged in certain business sectors with high potential for economic growth, as described in the act, has less than one hundred employees, has been in operation in this state for less than ten consecutive years, and agrees that it will not relocated outside the state for three years after an investment by the Corporation. (§348.555)

The Corporation shall make investments in qualified companies and qualified funds, and may hold and sell debt and securities at the discretion of the Missouri Technology Corporation. The Corporation shall not make investments in or on behalf of qualified companies involved in abortion services, human cloning, or prohibited human research. (§348.565)

The Corporation shall also be able to issue revenue bonds or notes as the Missouri Technology Corporation deems necessary. Any bonds issued shall not constitute a debt of the state or the Missouri Technology Corporation. (§348.575)

Fifty percent of all proceeds from the sale, interest, and dividends from securities held or sold by the Corporation, and bond proceeds from bonds or notes issued by the Corporation, shall be allocated to the Missouri Innovation Fund, which is established by the act, for reinvestment. The remaining proceeds shall be allocated to the General Revenue Fund.

The Corporation shall publish an annual report by November 1 of each year which shall include a description of its efforts in establishing and maintaining the Innovation Fund, the qualified companies and qualified funds in which it has invested, and fund expenditures made by the Innovation Fund. (§348.585)

This act shall sunset on June 30, 2024, unless re-authorized by the General Assembly.


FISCAL DESCRIPTION (continued)

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 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
Office of the State Auditor

Ross Strope



Acting Director
March 13, 2018