

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3852-03
BILL NO.: SCS for SBs 867 & 552
SUBJECT: Agriculture and Animals; Economic Development; Economic Development Department; Insurance - General.
TYPE: Original
DATE: February 4, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$54,811 to \$10,054,811)	(\$57,821 to \$10,057,821)	(\$59,304 to \$10,059,304)
Total Estimated Net Effect on <u>All</u> State Funds	(\$54,811 to \$10,054,811)	(\$57,821 to \$10,057,821)	(\$59,304 to \$10,059,304)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses
This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state this proposal increases CAPCO credits by \$100 million and the credits can be claimed at a rate of 10 percent per year, or \$10 million. The credits would be issued in calendar year 2001 and claimed in FY 2001. Total CAPCO credits claimed with the new and existing programs combined would be \$24 million per year, including the current distressed community portion of the existing law. It also allows for an increase of the administrative costs of operating new CAPCOs to 10 percent, which is currently 2.5 percent by DED rule, plus other reasonable and necessary expenses as approved. It also allows CAPCOs to invest in any security or policy issued by an insurance company or an affiliate of an insurance company or any account maintained by an insurance company or an affiliate of an insurance company, up to 5 percent of certified capital, which is currently prohibited by law. The bill creates "qualified Missouri agriculture business" and allows for secured investments into qualified Missouri agricultural businesses. Currently, CAPCO investments cannot be secured. The bill also increases the annual revenue limit of the qualified business to \$7.5 million, as long as CAPCO invests 25 percent of their certified capital into development stage businesses or agricultural businesses. The proposal takes away discretionary authority vested in the Director of the Department of Economic Development, with approval of the Office of Administration, to reduce the amount of tax credits issued prior to August 28, 2000.

The DED assumes all \$100 million in credits will be authorized in calendar year (CY) 2000 and credits of \$10 million could be claimed against CY 2000 tax returns in fiscal year 2001. The DED assumes the need for one (1) Economic Development Incentive Specialist II - \$36,468 plus associated cost to administer the additional tax credits.

Officials from the **Department of Revenue (DOR)** state this proposal will not fiscally impact the DOR since they do not anticipate a large increase in tax credits and will not request an additional FTE at this time. However, if the tax credit volume does increase, the DOR will need one Tax Processing Tech I for every 2,000 additional income tax credits claimed and one Tax Processing Tech I for every 3,680 additional business tax credits claimed.

Officials from the **Department of Insurance (INS)** state this proposal modifies the Certified Capital Company tax credits by allowing any one investor and its affiliates to take more than \$10 million in tax credits in any year so long as no more than \$10 million in credits were earned after August 28, 2000. Tax credits cannot exceed tax liability, but may be carried forward indefinitely. Legislation modifies the aggregate credits allowed by authorizing an additional \$10 million in calendar year 2000 and an amount not to exceed 10 percent of the cumulative credits earned in previous years for every year thereafter beginning in calendar year 2001.

ASSUMPTION (continued)

The INS assumes the premium tax revenues collected will decrease by \$10 million in calendar year 2000, but the impact of capping aggregate credits at 10 percent of cumulative credits earned in previous years cannot be determined. It is assumed that, at some point, 10 percent of cumulative credits will exceed the current \$10 million cap and will result in a decrease in revenues from premium taxes collected. The INS assumes this proposal will not fiscally impact their agency.

Officials from the **Office of Administration** stated this proposal should not result in additional costs or savings to their agency, but there may be impact on total state revenue.

Officials from the **Department of Agriculture** assume no fiscal impact from this proposal.

Oversight assumes the Department of Economic Development will not require the additional office space for the 1 FTE that is requested.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001	FY 2002	FY 2003
	(10 Mo.)		
GENERAL REVENUE FUND			
<u>Loss - General Revenue Fund</u>			
Additional tax credits on CAPCO	\$0 to (\$10,000,000)	\$0 to (\$10,000,000)	\$0 to (\$10,000,000)
<u>Cost - Department of Economic Development</u>			
Personal service (1 FTE)	(\$31,137)	(\$38,314)	(\$39,272)
Fringe benefits	(\$9,575)	(\$11,782)	(\$12,076)
Expense and equipment	(\$14,099)	(\$7,725)	(\$7,956)
Total <u>Cost</u> - DED	<u>(\$54,811)</u>	<u>(\$57,821)</u>	<u>(\$59,304)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$54,811 to \$10,054,811)</u>	<u>(\$57,821 to \$10,057,821)</u>	<u>(\$59,304 to \$10,059,304)</u>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2001	FY 2002	FY 2003
	(10 Mo.)		
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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FISCAL IMPACT - Small Business

This proposal could have a fiscal impact on certain small businesses, including certified capital companies.

DESCRIPTION

This proposal makes several changes in the law relating to Certified Capital Companies (CAPCOs).

Two new qualified investment targets are added including: "Qualified Missouri Stage Development Businesses" which is an emerging industry in Missouri, and "Qualified Missouri Agricultural Business" which includes a rural business adding value to raw agricultural commodities.

A "Qualified Distribution" is amended to limit reasonable costs of forming and syndicating the CAPCO to 10% of the value of the certified capital of the CAPCO, and limit subsequent management costs to 2 1/2% of the certified capital. These changes apply only to CAPCOs designated after August 28, 2000.

The definition of "Qualified Missouri Business" is amended by adding an allowance for investment in a company with gross annual sales of up to \$7.5 million if 50% of certified capital is invested with a "Qualified Missouri Stage Development Business" or a "Qualified Missouri Agricultural Business" which meets the definition of a "Qualified Missouri Stage Development Business".

The definition of "Affiliate of a Certified Company" is changed to reflect ownership as 15% or more of outstanding securities instead of 10% ownership of outstanding securities.

Any one investor and its affiliates is entitled to take more than \$10 million in tax credits so long as no more than \$10 million in credits were earned after August 28, 2000.

This act modifies the amount of aggregate credits allowed by authorizing \$10 million in the year 2000 and an amount not to exceed 10% of cumulative credits earned for every year thereafter.

For any CAPCO designated after August 28, 2000, at least 25% of certified capital must be invested in qualified Missouri Agricultural Businesses.

The proceeds of all certified capital after it was originally placed in qualified investments may be placed again in qualified investments however no more than 5% of certified capital may be placed in any security or policy issued by an insurance company.

RAS:LR:OD:005 (9-94)

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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 Economic Development
Department of Revenue
Department of Insurance
Office of Administration
Department of Agriculture



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Director
February 4, 2000