

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3852-05
BILL NO.: Perfected SS for SCS for SB's 867 & 552
SUBJECT: Agriculture and Animals; Economic Development; Economic Development Department; Insurance - General.
TYPE: #Corrected
DATE: March 20, 2000
 # Corrected due to computational error.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$54,811 to \$12,054,811)	(\$57,821 to \$12,057,821)	(\$59,304 to \$12,059,304)
Total Estimated Net Effect on <u>All</u> State Funds	(\$54,811 to \$12,054,811)	(\$57,821 to \$12,057,821)	(\$59,304 to \$12,059,304)

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 to (\$1,000,000)	\$0 to (\$1,000,000)

Numbers within parentheses: () indicate costs or losses

This fiscal note contains 9 pages.

FISCAL ANALYSIS

ASSUMPTION

Missouri Certified Capital Company Law:

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 annually. 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 states the proposal would change language in Sec. 135.503.3 wherein any one investor and affiliates may invest in one or more CAPCOs in any one "calendar" year, limited to \$10 million. The proposal would also delete language that a CAPCO may not invest in an affiliate of the CAPCO. The current law would be amended such that, if a company becomes an affiliate of a CAPCO through an initial investment, then subsequent investments would be eligible as a qualified investment. This proposal change would permit the CAPCO to take control and manage a business and be able to invest in the business with certified capital.

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.

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

In response to a similar proposal from this year, officials from the **Department of Revenue (DOR)** stated this will not fiscally impact the DOR since they do not anticipate a large increase

ASSUMPTION (continued)

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.

Oversight assumes the Department of Revenue could request additional FTE to process the additional tax credits if the need arises, but for purposes of this fiscal note, the DOR is assumed to have no additional costs from this proposal.

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.

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** assumed no fiscal impact from this proposal

Establishment of the Business and Industrial Development Companies:

In response to a similar proposal from this year, officials from the **Department of Economic Development (DED)** stated this part of the proposal authorizes the licensing and regulation of BIDCOs with activities necessary to the use of certain SBA funds by Missouri.

The DED believes that there would be 10 BIDCOs in Missouri. The DED assumes, given the nature of the applications and the rigorous solvency/exam requirements, they would require a full time examiner (at \$35,000 per year) to take applications, review same, issue licenses and conduct examinations as needed. The DED assumes they will be able to set licensing fees to effectively

ASSUMPTION (continued)

offset their costs.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Economic Development's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 22 new pages of regulations in the Code of State Regulations at a cost of \$26.50 per page, and 33 new pages in the Missouri Register at a cost of \$22.50 per page. Costs due to this proposal are estimated to be \$1,326, the actual fiscal impact would be dependent upon the actual rulemaking authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal; however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

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. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Attorney General's Office**, the **State Treasurer's Office** and the **Office of the State Courts Administrator** assumed no fiscal impact from this proposal.

Tax credit for donations to unplanned pregnancy resource centers:

In response to similar legislation from this year, **Department of Revenue (DOR)** officials stated the number of taxpayers eligible for this credit is unknown at this time. The Division of Taxation and Collection would need one (1) Tax Processing Technician I for every 2,000 credits claimed per year (processing) and one Tax Season Temporary for every 130,000 credits claimed per year (key entry). One (1) Tax Processing Technician I would be needed for six months for every 30,000 additional individual income tax error generated from this proposal and one Tax Processing Technician I for every 3,000 pieces of correspondence generated from this proposal. The Business Tax Bureau would need one Tax Processing Technician I for every 3,680 credit claims received on a corporate tax return. DOR also stated the proposal would require

modifications to the income and corporate tax systems and credit application system. The Division of Taxation and Collections estimates the modifications, including programming changes, would require 1,384 hours of overtime at a cost of \$41,617. Modifications to the income tax return and schedules would be completed with existing resources. State Data Center charges would increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 for implementation and \$451 would be needed for on-going costs.

ASSUMPTION (continued)

Oversight assumes the Department of Revenue could request additional FTE to process the additional tax credits if the need arises, but for purposes of this fiscal note, the DOR is assumed to have no additional costs from this proposal.

In response to similar legislation from this year, officials of the **Department of Social Services, Division of Budget and Finance (DBF)** stated this portion of the proposal would authorize state tax credits for contributions to qualified unplanned pregnancy resource centers in this state. This portion of the proposal would create additional responsibilities for the Division of Budget and Finance (DBF). It is assumed that DBF staff would be responsible for determining which facilities meet the provisions of this portion of the proposal. DBF would also be responsible for establishing procedures to equitably allocate credits to qualifying resource centers. The cumulative amount of tax credits allowable in any fiscal year is \$2,000,000. DBF staff would perform an initial allocation of the credits at the beginning of each fiscal year then redetermine the apportionment of the unused credits to ensure maximum use of the credits.

The number of staff requested is a function of the number of participating facilities. Based on information obtained from the Missouri Right to Life staff, there are between 50 and 100 such facilities which would meet the criteria of this proposal. Based on a midpoint estimate of 85 facilities, DBF could perform the requirements of the legislation with one FTE. If the number of facilities wishing to be classified as unplanned pregnancy resource centers exceeds this amount, additional staff may be needed.

In response to a similar proposal from this year, officials of the **Department of Insurance (INS)** stated this portion of the proposal would grant tax credits against an insurer's premium tax payments (chapter 148 RSMo.) for contributions to Unplanned Pregnancy Resource Centers. There are approximately 300 domiciled insurance companies in Missouri which pay premium tax to the state. There are over 1,800 insurance companies licensed to conduct business in the state. For purposes of estimating fiscal impact, the INS anticipates that only domiciled companies would contribute. Credits would be capped at \$50,000 per year. A range of \$0 to \$2,000,000 is projected for decreased payments.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** did not respond to our fiscal impact request. However, in responding to a similar proposal last session, BAP stated the total amount of tax credits is capped at \$2 million per fiscal year. Therefore, BAP estimated that the revenue reduction would be \$0 to \$2 million per fiscal year.

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>	\$0 to	\$0 to	\$0 to
Additional tax credits on CAPCO	(\$10,000,000)	(\$10,000,000)	(\$10,000,000)
 <u>Cost - Department of Economic Development (CAPCOs)</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 (CAPCOs)	(\$54,811)	(\$57,821)	(\$59,304)
 <u>Cost - Department of Economic Development (BIDCOs)</u>			
Personal service (1 FTE)	(\$29,884)	(\$36,772)	(\$37,691)
Fringe benefits	(\$9,189)	(\$11,307)	(\$11,590)
Expense and equipment	(\$9,157)	(\$6,376)	(\$6,567)
Total <u>Cost</u> - DED (BIDCOs)	(\$48,230)	(\$54,455)	(\$55,848)
 <u>Income - Department of Economic Development</u>			
Missouri BIDCO Fees	\$48,230	\$54,455	\$55,848
 <u>Loss - General Revenue Fund</u>			
Additional tax credits for contributions to Unplanned Pregnancy Resource Centers	\$0 to (\$2,000,000)	\$0 to (\$2,000,000)	\$0 to (\$2,000,000)
 ESTIMATED NET EFFECT ON	 (\$54,811 to	 (\$57,821 to	 (\$59,304 to

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GENERAL REVENUE FUND **\$12,054,811)** **\$12,057,821)** **\$12,059,304)**

FISCAL IMPACT - Local Government FY 2001 FY 2002 FY 2003
 (10 Mo.)

SCHOOL DISTRICTS

#Loss - School Districts	\$0	\$0 to	\$0 to
County Foreign Insurance Tax		(\$1,000,000)	(\$1,000,000)
<u>FISCAL IMPACT - Small Business</u>			

This proposal could have a fiscal impact on certain small businesses, including certified capital companies, business and industrial development companies and business that make contributions to unplanned pregnancy resource centers and receive tax credits.

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

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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

DESCRIPTION (continued)

placed in any security or policy issued by an insurance company.

This act also authorizes the creation of Business and Industrial Development Companies (BIDCOs) to provide financing assistance and management assistance to business firms.

The Business and Industrial Development Company (BIDCO) is licensed by the Director of the Department of Economic Development. Rules and licensing requirements are set by the Director to ensure that the BIDCO operates to provide such financing assistance and a return on investments in a sound manner.

This proposal removes the provision allowing the Department of Economic Development to define an "emerging industry" as it relates to a "qualified Missouri stage development business" which would qualify for CAPCO investment assistance.

This proposal would also allow a tax credit for persons contributing to unplanned pregnancy resource centers. Section 135.630, RSMo, defines "unplanned pregnancy resource center" as one that provides predominantly free assistance in the event of an unplanned pregnancy but does not perform childbirths or abortions and is tax exempt. If a taxpayer would contribute at least \$100, then he or she may take a tax credit of up to fifty percent of the amount contributed to a resource center. The credit may not exceed \$50,000 in a year and any amount exceeding the taxpayer's state tax liability may be carried over for four years. Each year, the director of the Department of Social Services would determine which facilities are unplanned pregnancy resource centers and may request information in order to determine this status. The cumulative amount of tax credits claimed due to contributions may not exceed two million dollars in any fiscal year. The director would have the authority to reallocate tax credits among unplanned pregnancy resource centers, if necessary. Each resource center would provide to the Department of Revenue the identity of each taxpayer who has contributed to the center and the amount of the contribution. This

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proposal would become effective January 1, 2001 and would apply to all taxable years after December 31, 2000.

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
Office of the Secretary of State
State Treasurer's Office
Office of the State Courts Administrator
Attorney General's Office
Department of Social Services



Jeanne Jarrett, CPA
Director
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