

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0846-11
Bill No.: HCS for SB 392
Subject: Economic Development; Enterprise Zones; Business and Commerce.
Type: Original
Date: May 10, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$492,000) to (Unknown)	(\$492,000) to (Unknown)	(\$492,000) to (Unknown)
Total Estimated Net Effect on <u>All</u> State Funds	(\$492,000) to (UNKNOWN)	(\$492,000) to (UNKNOWN)	(\$492,000) to (UNKNOWN)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government*	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown

* Subject to voter approval.

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 14 pages.

FISCAL ANALYSIS

ASSUMPTION

Section 67.1360 - Allows transient guest tax in Newton County and/or Joplin;

In response to similar legislation from this year, officials from **Newton County** stated that currently, two communities (Joplin and Neosho) within their county already have sales taxes on transient guests. They could not provide Oversight with a fiscal estimate.

Officials from the **Department of Revenue** assumes this tax will be collected by the local government and will not have an administrative impact.

Oversight assumes this part of the proposal, subject to voter approval, would have an unknown positive fiscal impact to Newton County and/or the City of Joplin.

Section 67.1442 - Community Improvement Districts

In response to similar legislation from this year, **City of Springfield** officials assume this proposal is discretionary and would have no fiscal impact to Community Improvement Districts unless, the District Board of Directors would consent to the relocation or removal of property from one zone to another zone within the same district.

Oversight assumes this part of the proposal is permissive and would have no fiscal impact. To remove property or relocate property from a Community Improvement District would require a hearing by the City, and approval by the District Board before any action to remove or relocate property. The district would have to meet any financial obligation excluding the revenues generated by the property being removed.

Officials from the **Department of Economic Development (DED)** assume no fiscal impact to their agency.

Section 135.200 - Expansion of "Revenue-producing enterprise" for enterprise zones

In response to similar legislation from this year, officials from the **City of Salem** stated with passage of this legislation, a new 65 room hotel facility will probably be built in their community. The City of Salem estimates the annual revenues from this facility for the city, including sales tax and increased property taxes would be roughly \$11,521. The City of Salem also estimates that gross water and electric revenues for this new facility would be roughly \$60,000 to the City.

ASSUMPTION (continued)

DED assumes this part of the proposal adds classifications that qualify for Enterprise Zone tax credits, including hotels and motels, but would not fiscally impact their agency.

Oversight assumes the state will not be fiscally impacted from this part of the legislation. Oversight also assumes the local taxing and governing authorities may grant an exemption (in whole or in part) of property taxes to this new hotel after holding the required public hearings on the matter, therefore, has estimated the local impact as zero.

Section 135.207 - Authorizes three satellite zones in Springfield

Officials from **DED** state this part of the proposal authorizes three new satellite enterprise zones in Springfield. DED does not feel this part of the proposal has enough immediate impact on DED to warrant additional personnel or expenditures. At some point in the future, enough additional enterprise zone credits could be issued that would require an additional person. At that time, DED would request additional funding.

DED states the average cost for each satellite enterprise zone is \$60,000 per year as opposed to \$352,000 per regular enterprise zone. This bill authorizes three new satellite enterprise zones, or an estimated cost of \$180,000 (3 x \$60,000).

In response to similar legislation from this year, officials from the **City of Springfield** assumes this proposal would be revenue neutral as the purpose of the bill is to attract new businesses and this increases economic development which is not a loss, but may be a net gain to cities.

Section 135.208 - Authorizes enterprise zone in Sugar Creek

The **DED** assumes this part of the proposal adds one new enterprise zone. The DED assumes that one new satellite enterprise zone will be established and the estimated cost is \$60,000 per year based on the average cost of existing satellite zones.

In response to similar legislation from this year, officials from the **Office of Administration** assume this proposal should not result in additional costs or savings to their agency, but would have an impact on total state revenue.

In response to similar legislation from this year, officials from the **City of Sugar Creek** stated they anticipate the proposed legislation will generate additional revenue within a fiscal year. This amount is anticipated due to improvements which correspond to increased assessed

ASSUMPTION (continued)

evaluation for residential property and real improvements within the designated area. The specific amount for each fiscal year is not known at this time.

The City of Sugar Creek does not anticipate the proposed legislation will cause additional costs to citizens of the community within any fiscal year. The City does anticipate to expend some minor amount of staff resources, after passage, when working with the Missouri Department of Economic Development to define the actual designated area.

Section 135.209 - Authorizes satellite zone in Sugar Creek

Officials from **DED** assume this part of the proposal authorizes another satellite zone and has estimated the cost for a satellite zone at \$60,000 costs per year

Section 135.230 - Harley Davidson plant in Kansas City

DED states this part of the proposal changes the residency requirement for Enterprise Zone credits. This part of the bill is the same as FN 1886-01. However, DED has re-evaluated this original response. DED originally predicted a \$0 to \$200,000 impact. DED now projects the impact to be \$0. This change in response from 1886-01 is based on additional input from the cycle manufacturer impacted by the NAICS code.

Oversight also assumes the expansion of the employees who count toward the residency requirement at the Harley Davidson plant in Kansas City may have a fiscal impact on the state and have used DED's original response.

Section 135.248 - Allows an exempt wholesale generator establishing a new business facility in the city of New Florence in Montgomery County to qualify for enterprise zone credits;

Officials from the **DED** assume this part of the proposal allows some wholesale electric generators to qualify for Enterprise Zone credits. There are 216 businesses with nearly 10,000 employees. DED assumes there will be an unknown impact to their agency.

ASSUMPTION (continued)

Section 135.305 - Extension of wood energy producer tax credit:

In response to similar legislation from this year, the **Department of Agriculture (AGR)** officials assumed this portion of the bill would not fiscally impact their agencies.

Officials from the **Department of Natural Resources (DNR)** state this part of the proposal will extend the time a wood energy producer can claim a tax credit for use of processed material from five to ten years. DNR assumes that unless there is a substantial increase in the number and complexity of tax credit applications, the review and certification of tax credit applications will be performed with existing resources. It is also assumed that applications for tax credits will continue at approximately the same level found over the last several years. Therefore, no direct fiscal impact on the department is anticipated.

In response to similar legislation from this year, DNR provided the following information:

Number of Applicants by Year

- 1997 = 9
- 1998 = 10
- 1999 = 9
- 2000 = Still in Reporting Period, but expect 8 or 9 companies.

Total Credits Earned by Year

- 1997 = \$1,904,880
- 1998 = \$3,599,800
- 1999 = \$2,936,182
- 2000 = Still in Reporting Period.
- Total Program Credits Earned through 1-29-01 = **\$9,437,536**

Operational Notes Concerning Potential Future Impacts of the Wood Energy Tax Credit Program:

- 1) Since these credits can be assigned to third parties they are not always claimed in the same year as they are earned. The data on claims of these credits is available through the DOR.
- 2) Most companies entered the program in their respective 1997 tax years. The applications for their 2000 tax years represent in these cases the fourth year of their five-year eligibility periods.
- 3) The last year for most participating companies is the 2001 tax year.

ASSUMPTION (continued)

- 4) Based on the reduction in the amount of companies expected to participate during tax years 2000 and 2001 a current estimate of credits earned in these years is between \$2.5 and \$2.9 million each year.
- 5) This program essentially provides a significant buy-down toward the front-end capital costs of systems that take waste wood and turn it into profitable energy sources.
- 6) While it has to date been used most by charcoal firms the rapidly rising prices of propane and natural gas have led to several new firms considering the use of waste wood for answering their energy needs. The financial incentive provided by this program can very possibly serve to advance the installation of additional biomass energy production facilities.

In response to similar legislation from this year, officials of the **Department of Revenue (DOR)** stated this portion of the legislation extends the period in which a wood energy producer can claim a tax credit from five years to ten years. Although DOR possesses historical data on this tax credit, they assume the revenue impact is unknown. Extending the claiming period for the tax credit will have little or no administrative impact to the Department of Revenue.

DED assumed no impact, as this is a Department of Natural Resources credit.

Section 135.406 - Earmark \$1 million of small business tax credits for enterprises engaged in pharmaceutical research and development;

DED states this part of the proposal redirects \$1 million in Small Business Development Credits and would have no fiscal impact to their agency.

Section 135.478 & 135.481 - Expands the definitions of "eligible residence", "new residence" and "project" as well as adds a definition for "central business district". Also increases the allowable percentage of costs from fifteen to twenty;

Officials from **DED** state this part of the proposal would not fiscally impact their agency.

Oversight assumes this part of the proposal simply adds projects that qualify for the tax credit, but does not change the \$16 million cap for the program, therefore has assumed no fiscal impact from this part of the proposal.

ASSUMPTION (continued)

Section 135.484 - Allows the reallocation of any unused tax credits for rehabilitation and

construction of residences in distressed communities and census blocks;

Officials from **DED** state this part of the proposal allows reallocation of Neighborhood Preservation Tax credits and would have no fiscal impact to their agency.

In response to legislation from this year, DED stated that in calendar year 2000, the entire \$8,000,000 in "qualifying residence" program credits were utilized, while \$5,000,000 (out of \$8,000,000) in "eligible residence" program credits were utilized, leaving \$3,000,000 in tax credits not utilized.

Oversight assumes 70% of the unused tax credits, \$2,100,000 (70% x \$3,000,000) could be shifted to be utilized by the other program. Since 2000 was the first year of the program, there is not enough historical data to determine if only \$5,000,000 of the \$8,000,000 in "eligible residence" program credits would be utilized consistently, therefore, Oversight has ranged the impact of this proposal to \$0 (reflecting all \$8,000,000 in each program would be utilized before a reallocation) to a negative \$2,100,000 impact to state revenues.

Section 135.487 - Allows projects involving the construction or rehabilitation of more than one residence to apply for and receive the credit piecemeal;

Oversight assumes this part of the proposal would not have a fiscal impact on the state.

Section 135.500 to 135.527 - CAPCO program;

DED states this part of the proposal adds authority for an allocation of tax credits for investments in CAPCOs totaling \$40 million. The credits are taken over a period of ten years (\$4 million per year). A revision of the current rules and regulations for the CAPCO program would need to be undertaken by DED. DED approves the CAPCOs and authorizes the tax credits to the investors. This requires DED to set up a standard set of guidelines for the CAPCOs to follow during the process. There is then daily monitoring of the program, including approving investments in the qualified small businesses, collecting quarterly reports, and making sure the necessary reporting is completed. The DED would be required to administer and oversee the additional credits.

DED assumes the need for an Economic Development Incentive Specialist II and a Clerk Typist II to administer changes to the CAPCO program. These people will conduct the additional work created by the additional credits.

ASSUMPTION (continued)

Oversight assumes the Department of Economic Development could use resources saved from

the reduction of the Family Development Account as well as the Individual Training Account Program to help administer the additional \$40,000,000 in CAPCO tax credits and therefore, will not require the additional FTE requested for that program. This additional amount will be the fourth round of CAPCO tax credits administered, bringing the total credits authorized to \$180,000,000. Since many of the same investors participate in each round of tax credits, DED's efforts to collect reports, monitor investments, etc. is aided by having fewer contacts with similar investments..

In response to similar legislation from this year, officials from the **Department of Agriculture** state this proposal would not fiscally impact their agency.

Officials from the **Department of Insurance** state this part of the proposal makes various changes to the CAPCO tax credits, including caps and reallocations, which would result in an unknown cost.

Section 135.530 - Expands definition of "distressed communities";

DED states this part of the proposal changes the definition of distressed community. Most programs with credits for activities in distressed communities are capped so this change will have no fiscal impact on those programs, but the new or expanding business facility tax credit, an uncapped entitlement program, awards enhanced credits for businesses in distressed communities. DED is unable to ascertain the fiscal impact the addition of new areas to the distressed communities definition would have on the program.

Section 208.770 - Family Development Account;

The **DED** states this change reduces the FDA credits from \$4 million to \$2 million per year. A savings of \$2 million per year.

Section 415.417 - Late fees for services;

Oversight assumes this part of the proposal would not fiscally impact the state.

ASSUMPTION (continued)

Section 620.1450 - Individual Training Account;

RAS:LR:OD (12/00)

DED states, with this part of the proposal, the Individual Training Account (ITA) Program is reduced from \$6 million per year to \$1 million per year resulting in a \$5 million savings.

Overall, officials from the **Department of Revenue (DOR)** state that they do not anticipate a significant increase in the number of new credits filed. Therefore, they will not request additional FTE at this time. However, if their assumption is incorrect, the Personal Tax Bureau will need one Temporary Tax Season Employee for every 75,000 additional credits, one Tax Processing Tech I for every 30,000 additional errors generated and one Tax Processing Tech I for every 3,000 additional pieces of correspondence received regarding this credit. The Business Tax Bureau will need one Tax Processing Tech I for every 3,680 additional credits received. Any FTE needed will be requested during the normal budget process.

Officials from the **State Tax Commission** assume this proposal would not fiscally impact their agency.

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE			
<u>Costs</u> - Satellite Zone Tax Credits in Springfield (<i>Section 135.207</i>)	(\$180,000)	(\$180,000)	(\$180,000)
<u>Costs</u> - Enterprise Zone Tax Credits in Sugar Creek (<i>Section 135.208</i>)	(\$352,000)	(\$352,000)	(\$352,000)
<u>Costs</u> - Satellite Zone Tax Credits in Sugar Creek (<i>Section 135.209</i>)	(\$60,000)	(\$60,000)	(\$60,000)
<u>Costs</u> - Business Facility Tax Credits for Harley Davidson plant (<i>Section 135.230</i>)	\$0 to (\$200,000)	\$0 to (\$200,000)	\$0 to (\$200,000)
<u>Costs</u> - Allows some wholesale electric generators to qualify for EZ credits (<i>Section 135.248</i>)	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Loss</u> - Extend wood energy credit from 5 years to 10 years. (<i>Section 135.305</i>)	(\$2,900,000)	(\$2,900,000)	(\$2,900,000)
<u>Costs</u> - Reallocation of Neighborhood Assistance Tax credits. (<i>Section 135.484</i>)	\$0 to ((\$2,100,000))	\$0 to ((\$2,100,000))	\$0 to ((\$2,100,000))

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
<u>Costs</u> - Certified Capital Company Program (<i>Section 135.503</i>)	(\$4,000,000)	(\$4,000,000)	(\$4,000,000)
<u>Costs</u> - Expansion of definition of "distressed community" (<i>Section 135.530</i>)	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Savings</u> - Family Development Account Program (<i>Section 208.770</i>)	\$2,000,000	\$2,000,000	\$2,000,000
<u>Savings</u> - Individual Training Account Program	<u>\$5,000,000</u>	<u>\$5,000,000</u>	<u>\$5,000,000</u>
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	<u>(\$492,000) to (UNKNOWN)</u>	<u>(\$492,000) to (UNKNOWN)</u>	<u>(\$492,000) to (UNKNOWN)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
NEWTON COUNTY			
<u>Revenue</u> - sales tax on transient guests*	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
CITY OF JOPLIN			
<u>Revenue</u> - sales tax on transient guests*	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown

* Subject to voter approval

FISCAL IMPACT - Small Business

This proposal would fiscally impact small businesses that qualify for and receive investments from the Certified Capital Companies or qualify for tax credits. This proposal puts an emphasis on investment into small agriculture companies.

DESCRIPTION

This substitute does the following:

- (1) Allows the residents of Newton County or the City of Joplin to impose a hotel/motel sales tax in addition to any transient guest tax currently in effect of between 2% and 5% (Section 67.1360);
- (2) Authorizes the removal of property from the Springfield Community Improvement District (CID), or relocation of property from a certain zone of designation in the CID to a different zone. A public hearing must be conducted and have approval of the board. The district must be able to meet its financial obligations without the revenues from the proposed portion to be removed. (Section 67.1442);
- (3) Expands the definition of a "revenue-producing enterprise," as it relates to enterprise zones, to include airports, flying fields and terminal services as well as hotel and motel activities in the City of Salem, but limits the tax credits or abatements available to only local taxes (Section 135.200);
- (4) Authorizes the City of Springfield, in cooperation with the Director of the Department of Economic Development, to designate up to 3 satellite zones within the City. The Director must approve the City's overall plan for enterprise zone and satellite zone use prior to the designation (Section 135.207);
- (5) Designates the City of Sugar Creek located in Jackson County as an enterprise zone (Section 135.208);
- (6) Designates that the City of Sugar Creek located in Jackson County could also designate a satellite zone (Section 135.209);
- (7) Allows any employee of a new business facility with the North American Industry Classification System Number 336991 to be considered a resident of an enterprise zone, even if the employee ceases to live in an enterprise zone, as long as the following conditions are met:
 1. The individual was a resident of an enterprise zone for one calendar month prior to his employment with the new NAICS 336991 business facility;

DESCRIPTION (continued)

2. The individual remains employed with the new NAICS 336991 business facility, and;
 3. The individual continues to reside in Missouri.
- An NAICS 336991 business relates to motorcycles, bicycles, and parts (Section 135.230);

(8) Allows any exempt wholesale generator not subject to jurisdiction of the Missouri Public Service Commission within the city of New Florence within Montgomery County (Section 135.248);

(9) Extends the period in which credits for wood energy producers that may be claimed from 5 years to 10 years (Section 135.305);

(10) Sets aside \$1 million of the Missouri small business tax credits for enterprises engaged solely in pharmaceutical research and development. If the \$1 million is not utilized by September 1 of any year, then the balance of the tax credits remaining may be used by any entity qualifying for the credit (Section 135.406);

(11) Expands the definitions of "eligible residence", "new residence" and "project" as well as adds a definition for "central business district" used in the tax credit for rehabilitation and construction of residences in distressed communities and census block.. The proposal also increases the eligible tax credit from 15 to 20 percent of costs incurred for a new residence (Section 135.478 - 135.481);

(12) Revises two tax credit programs. Under current law, of the \$16 million in community improvement tax credits allowed, \$8 million are to be allocated for "eligible residence" programs and \$8 million for "qualifying residence" programs. The substitute states that if, by October 1 of the calendar year, the Director of the Department of Economic Development has issued all \$8 million of the credits allowed for one of these programs and not the entire \$8 million allowance for the other program, the director is required to reallocate 70% of any unused tax credits from the program which has not reached its \$8 million cap to the one which has. The reallocated credits will be given to taxpayers who have applied for, but have not received, tax credits in that same year and who are engaged in projects in the area where the tax credit cap has been met for that same year. The maximum reallocated tax credit for any project cannot exceed \$500,000 (Section 135.484);

(13) Adds that projects involving the new construction, rehabilitation or substantial rehabilitation of more than one residence qualifying for the tax credit for rehabilitation and construction of residences in distressed communities may be submitted with one application. Also tax certificates may be approved upon completion for each individual residence rather than delaying until substantial completion of the entire project (Section 135.487);

DESCRIPTION (continued)

(14) Adds the definition of "Certified capital investment", "Qualified debt instrument", "Qualified Missouri agriculture business" and updates the definitions of "Affiliate of a Certified Company", "Qualified Distribution", "Qualified Investment" and "Qualified Missouri Business" within the CAPCO program. The proposal also adds new restrictions regarding participants in

the CAPCO program, the securities they may invest in, keeping the business within Missouri and reporting annually to the Department of Economic Development (Section 135.500);

(15) The proposal adds an additional \$4 million (per year) in tax credits available for investments in distressed communities and states that the cumulative total tax credits authorized in the Certified Capital Company Program shall no more than \$140 million (Section 135.503);

(16) The proposal makes various changes to the CAPCO program, such as CAPCO certification requirements, investment options, requirement of qualified Missouri businesses to remain in Missouri, additional reporting procedures, and adding qualified Missouri agriculture businesses to available investment options for the new round of CAPCO credits (Sections 135.500 - 135.527);

(17) Expands the definition of a "distressed community" (Section 135.530);

(18) Reduces the limit on tax credits relating to the Family Development Account Program from \$4 million to no more than \$2 million per year (Section 208.770);

(19) Allows a late fee to be charged for certain services (Section 415.417); and

(20) Reduces the limit on tax credits relating to the Individual Training Account Program from \$6 million to no more than \$1 million annually (Section 620.1450).

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
Office of Administration
Department of Agriculture
Department of Natural Resources
Department of Insurance
State Tax Commission

SOURCES OF INFORMATION (continued)

Newton County
City of Springfield
City of Salem
City of Sugar Creek

RAS:LR:OD (12/00)

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NOT RESPONDING:

**City of Kansas City, Christian County, Greene County,
City of Joplin**

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is written in a cursive style with a large initial "J".

Jeanne Jarrett, CPA
Director

May 10, 2001