COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2187-07
Bill No.: HS for HCS for SCS for SB 617
Subject: Economic Development; Enterprise Zones; Business and Commerce.
Type: Original
Date: May 9, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	$2,588,000 to (Unknown)	$2,588,000 to (Unknown)	$2,588,000 to (Unknown)
Total Estimated Net Effect on All State Funds*	**$2,588,000 to (Unknown)**	**$2,588,000 to (Unknown)**	**$2,588,000 to (Unknown)**

*** Could exceed ($100,000) in a given fiscal year.**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on All 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**

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

FISCAL ANALYSIS

ASSUMPTION

Section 67.1360 - Allows transient guest tax in Newton County;

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.

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 135.100 - Expands eligibility for Credit for New or Expanded Business Facility;

Oversight assumes this part of the proposal expands the businesses that are able to apply of the tax credit, and since this credit is not capped, Oversight assumes the fiscal impact to be $0 to (Unknown), possibly very large .

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

In response to similar legislation from this year, officials from the Department of Economic (DED) stated this part of the proposal adds classifications that qualify for Enterprise Zone. No fiscal impact on DED

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.

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.

ASSUMPTION (continued)

Section 135.208 - Authorizes enterprise zone in Sugar Creek

Officials from DED assumes they could possibly have additional enterprise zone tax credits to issue from implementation of this proposal, but will not require any additional FTE or E&E at present. If more businesses than projected become eligible and receive enterprise zone benefits, additional funding may be requested. 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.

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.

Officials from the **Department of Revenue (DOR)** state this legislation expands the enterprise zone credit by authorizing the designation of a satellite enterprise zone in the City of Sugar Creek.

DOR states 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 they are incorrect in this assumption, DOR will need one Temporary Tax Season Employee for every 150,000 additional credits, one Tax Processing Tech I for every 10,000 additional errors generated and one Tax Processing Tech I for every 3,000 additional pieces of correspondence received regarding this credit. Any FTE needed will be requested during the normal budget process.

Officials from the **City of Sugar Creek** state 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 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

Officials from the **Department of Economic Development (DED)** state this part of the proposal would allow DED to issue additional New Business Facility Tax Credits to a SIC code associated with cycle manufacturers. 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 135.406 - 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;

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 have assumed no fiscal impact from this part of the proposal.

Section 135.484 - Allows the reallocation of any unused tax credits for rehabilitation and construction of residences in distressed communities and census blocks;

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.

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.

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

ASSUMPTION (continued)

Section 135.530 - Expands definition of "distressed communities";

DED states 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 620.1450 - Individual Training Account;

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.

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE			
Costs - Expansion of Credit for new or Expanded Business Facility *(Section 135.100)*	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Costs - Enterprise Zone Tax Credits in Sugar Creek *(Section 135.208)*	($352,000)	($352,000)	($352,000)
Costs - Satellite Zone Tax Credits in Sugar Creek *(Section 135.209)*	($60,000)	($60,000)	($60,000)
Costs - Business Facility Tax Credits for Harley Davidson plant *(Section 135.230)*	$0 to ($200,000)	$0 to ($200,000)	$0 to ($200,000)
Costs - Reallocation of Neighborhood Assistance Tax credits. *(Section 135.484)*	$0 to ($2,100,000)	$0 to ($2,100,000)	$0 to ($2,100,000)

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
Costs - Certified Capital Company Program *(Section 135.503)*	($4,000,000)	($4,000,000)	($4,000,000)
Costs - Expansion of definition of "distressed community" *(Section 135.530)*	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Savings - Family Development Account Program *(Section 208.770)*	$2,000,000	$2,000,000	$2,000,000
Savings - Individual Training Account Program	$5,000,000	$5,000,000	$5,000,000
ESTIMATED NET EFFECT TO GENERAL REVENUE ACCOUNT	**$2,588,000 to (Unknown)**	**$2,588,000 to (Unknown)**	**$2,588,000 to (Unknown)**

FISCAL IMPACT - Local Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
NEWTON COUNTY			
Revenue - 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 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) Expands the businesses able to qualify for the Credit for New or Expanded Business Facility to include "electrical service activities" and "local exchange telecommunication services" (Section 135.100);

(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) Designates the City of Sugar Creek located in Jackson County as an enterprise zone (Section 135.208);

(5) Designates that the City of Sugar Creek located in Jackson County could also designate a satellite zone (Section 135.209);

(6) 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;
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);

(7) 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).

(8) 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).

<u>DESCRIPTION</u> (continued)

(9) 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);

(10) 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).

(11) 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);

(12) 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);

(13) 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 (Section 135.500 - Section 135.527).

(14) Expands the definition of a "distressed community"in Section 135.530.

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

DESCRIPTION (continued)

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

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

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