COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4552-01
Bill No.: HB 1503
Subject: Business and Commerce; Economic Development.
Type: Original
Date: May 4, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	($234,523)	($32,287 to $11,032,287)	($33,107 to $11,033,107)
Total Estimated Net Effect on General Revenue Fund*	**($234,523)**	**($32,287 to $11,032,287)**	**($33,107 to $11,033,107)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Special Fund for Each Project **	$0	$0	$0
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Insurance Funds (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**
**** Offsetting income and expenses.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Insurance Funds (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration** - Divisions of **Design and Construction**, **Accounting**, and **Purchasing and Materials Management** each assume the proposal would not fiscally impact their respective agencies.

Officials from the **Office of Administration - Budget and Planning** state the proposal should not result in additional costs or savings to their agency. The proposal would decrease total state revenue.

Officials from the **Department of Insurance (INS)** state this proposal adds 17 new sections to chapter 100, RSMo, that would be known as the "MO Business Use Incentive for Small Businesses Development (BUILD) Act". The proposed legislation would allow the Dept. of Economic Development to issue bonds for certain economic development projects undertaken by an eligible industry which must invest a minimum of $5 million in an economic development project and create at least 25 new jobs. The Missouri Development Finance Board is empowered to establish agreements with eligible industries, assert penalties, evaluate projects and issue tax

ASSUMPTION (continued)

credits to a maximum of $11 million annually. Tax credits are eligible to be taken against premium tax due under 148 RSMo.

INS states it is unknown how many or how much in tax credits will be taken by insurance companies against their premium tax liability. Premium tax is split 50/50 between General Revenue and County Foreign or it is deposited into County Stock if insurer is a Stock Property and Casualty Company. County Foreign and County Stock funds are later distributed to the School Districts in the state. Legislation will result in an unknown loss of premium tax revenues which would otherwise have been deposited into these three funds.

Officials from the **Department of Revenue (DOR)** state the proposal creates the Missouri Business Use Incentives for Small Business Development program and will impact the Division of Taxation.

Section 100.1020 states that if business or employment conditions cause the amount of the assessment to be less than the amount projected in the agreement, the employer shall pay the difference to the board through state withholding tax. It is unclear, but appears that DOR will be responsible to withholding additional amounts and to transfer the excess to the Department of Economic Development (DED) to cover the agreed assessment amount. In order for DOR to handle the new transaction in our withholding tax system, additional programming (519 hours) will be required resulting in a cost of $17,314.

Section 100.1050 allows a tax credit for corporations equal to the amount that has been paid for an assessment. The credit is refundable and cannot be carried forward or backward. This will require form changes and 2,768 hours of programming resulting in a cost of $92,340.

This program will result in an increase in the volume of incoming calls from employers with questions. DOR will require one TCT for every 15,000 calls per year regarding the penalty in Section 100.1000, certifying assessments provided for in Section 100.1030, or regarding the refunds as stated in Section 100.1050.6.

This legislation allows DED to award an "industry" relief from local taxes. DOR would need to know which businesses are affected and their locations. DOR would have to register these businesses for state tax only (no local tax), which could potentially work as an item tax, since the credit would end and the business may actually be inside the city limits. Programming of 2,768 hours would be required for DOR sales tax system resulting in a cost of $92,340.

DOR assumes the proposal to cost $201,994 in FY 2005 for programming expenses and roughly

ASSUMPTION (continued)

$41,000 per year for the one additional FTE Tax Collection Tech. I (at $21,792 per year).

Oversight assumes the volume of calls will not necessitate the additional FTE as requested in DOR's response. If this assumption is incorrect, DOR can request the additional resources through the normal budgetary process.

Officials from the **Department of Economic Development (DED)** assume the $11 million in annual tax credits would amortize roughly $90 to $100 million in certificates. DED assumes the certificates would be sold in FY 2006 (allowing time for applications to be received, reviewed, voted upon as well as set-up time for the bond sales). DED states this proposal is similar to another program within the Missouri Development Finance Board (MDFB), and that the MDFB will need ½ of an FTE to administer this program, at a personal service cost of roughly $20,000 per year.

Oversight assumes the MDFB will sell $90 million to $100 million in certificates in FY 2006 and spend those proceeds in the same year on the eligible industries. Oversight also assumes the assessment payments from the eligible industries will begin in FY 2006 and will be sufficient to pay the "program costs" of the project. Oversight also assumes there will be a separate fund established for each project, however, for simplicity, Oversight has showed the various transactions occurring in a "Special Fund For Each Project" account. Oversight assumes the transactions in the Special Fund for Each Project will offset each other.

This proposal could decrease Total State Revenues.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE			
Costs - Department of Revenue			
Programming expenses	($201,994)	$0	$0
Costs - Department of Economic Development (DED)			
Personal Service (½ FTE)	($17,083)	($21,013)	($21,538)
Fringe Benefits	($7,072)	($8,699)	($8,917)
Expense and Equipment	($8,374)	($2,575)	($2,652)
Total Costs - DED	($32,529)	($32,287)	($33,107)

FISCAL IMPACT - State Government (continued)	FY 2005 (10 Mo.)	FY 2006	FY 2007
Loss - Tax credit for eligible industries paying assessment of up to 5% of gross wages to retire certificates issued by the Missouri Development Finance Board	$0	$0 to ($11,000,000)	$0 to ($11,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($234,523)**	**($32,287) to ($11,032,287)**	**($33,107 to $11,033,107)**

Note: This does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Insurance Funds, which ultimately goes to local school districts.

SPECIAL FUND FOR EACH PROJECT			
Income - assessment of up to 5% of the gross wages paid to all eligible employees for purposes of retiring MDFB certificates	$0	Up to $11,000,000	Up to $11,000,000
Income - Missouri Development Finance Board (MDFB) Proceeds of sales of certificates	$0	$90,000,000 to $100,000,000	$0
Costs - MDFB Proceeds of sold certificates used to finance projects	$0	($90,000,000 to $100,000,000)	$0
Costs - payments to retire certificates	$0	(Up to $11,000,000)	(Up to $11,000,000)
ESTIMATED NET EFFECT TO SPECIAL FUND FOR EACH PROJECT	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses could participate in the program established by this proposal.

DESCRIPTION

This proposal establishes the Missouri Business Use Incentives for Small Business Development (BUILD) Act.

The proposal allows the Missouri Development Finance Board to issue bonds for certain economic development projects undertaken by an eligible industry. The industry is required to remit to the board an assessment of up to 5% of the gross wages paid in one year to all eligible employees. The assessment is used to pay off the bonds issued by the board, and the industry receives a tax credit equal to the assessment. If 80% of an eligible industry's program costs are paid to other Missouri companies, the board can issue additional bonds in an amount equal to 25% of the program costs owed to the Missouri companies. The total amount of tax credits authorized cannot exceed $11 million annually.

An eligible industry must invest a minimum amount of money in an economic development project and create a minimum number of new jobs, depending on the size of the municipality where the project is located. A business which closes one location and moves to another location in the state is not considered an eligible industry. An eligible industry cannot utilize this program and the original BUILD program simultaneously. The eligible industry must agree to maintain operations at the project location for as long as credits are authorized in the financing agreement.

The proposal contains:

(1) Provisions of the financing agreement between the board and the eligible industry;

(2) Conditions that must exist before the board can enter into an agreement with an eligible industry for a tax credit;

DESCRIPTION (continued)

(3) Factors the board must consider before awarding tax credits to an eligible industry; and

(4) Provisions of an agreement between the board and an eligible industry.

The provisions of the proposal will expire six years after the effective date.

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
    Division of Purchasing and Materials Management
    Division of Accounting
    Budget and Planning
    Division of Design and Construction

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