

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5337-03  
Bill No.: HCS for HB 1928  
Subject: Business and Commerce; Economic Development  
Type: Original  
Date: March 24, 2006

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	\$0 to (\$10,000,000)	\$0 to (\$10,000,000)	\$0 to (\$10,000,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0 to (\$10,000,000)</b>	<b>\$0 to (\$10,000,000)</b>	<b>\$0 to (\$10,000,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### **FISCAL ANALYSIS**

#### **ASSUMPTION**

Officials from the **Office of the State Treasurer** and the **Department of Revenue** each assume the proposal will not fiscally impact their respective agencies.

Officials from the **Office of Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$1,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Coordinating Board for Higher Education** state given the nature and responsibilities of the Missouri Discovery Alliance, it is possible that the CBHE may be involved with the efforts of this group. However, as that involvement is unknown, the fiscal impact is unknown.

ASSUMPTION (continued)

Officials from the **University of Missouri** assume they will incur no additional costs as a result of the passage of this bill.

Officials from the **Office of Administration - Budget and Planning (BAP)** state the legislation could have a negative impact on general revenue of \$10 million annually from the issuance of new tax credits. This legislation will also reduce the total amount of tax credits available for qualified investments in Missouri small businesses by \$3 million annually.

Officials from the **Department of Economic Development (DED)** state the bill deletes the Missouri Technology Corporation (MTC) and creates the Missouri Discovery Alliance in its place. Funding of \$200,000 for MTC was requested in the DED FY 2007 budget request and approved as part of the Governor's recommendation to the General Assembly and if approved, would be used to fund the new Missouri Discovery Alliance. Funding for approved Innovation Centers currently exists in House Bill 1007 totaling \$1,441,150. The funds for Innovation Centers would remain in the DED budget to be used for innovation center funding in conjunction with the new Missouri Discovery Alliance. Since funding has existed in the past for these programs and the programs are just being transferred to an newly named entity, DED considers this a cost neutral transaction and projects no cost in the fiscal note due to the deletion of MTC and the creation of a new entity similar to MTC.

DED states the bill creates the qualified business technology tax credit program which is authorized to issue \$10 million in tax credits per year. DED has worked with the Missouri General Assembly to craft this bill which should spur economic activity in the state. DED worked with our Missouri Economic Research and Information Center to project benefits of this proposal. While DED projects a positive economic benefit to Missouri based on the creation of this business technology tax credit, we show it as cost neutral for purposes of this fiscal note. DED projects the credit is not a cost to the state, but a long-term investment in the development of the technology industry sector. The development of these industries will bring revenue to the state of Missouri, through the creation of technology businesses, hiring of employees, and an increase in the local tax base. DED estimates that if the program is fully utilized, the tax credits would generate an economic output totaling \$708 million each year over a 10-year period.

DED states the bill enhances existing requirements under 620.500 RSMo. The operation of Small Business Assistance Office within DED would be re-established. This bill allows DED to contract with institutions of higher education to provide assistance from regional offices. Funding of approximately \$500,000 for contracting with regional offices would need to be added to the DED budget in order to fund these contracts. Currently Universities operate Small Business Development Centers (SBDC). DED makes the assumption that the Universities will

ASSUMPTION (continued)

continue to financially support the SBDCs and the therefore additional funds for contracting with universities for SBDC regional operations are not included in this fiscal note.

If existing SBDC programs are dropped by universities, DED may have to request budget approval of the funds for contracting for SBDC operations. This SBDC contract funding request would be pursued through the normal budget process should universities drop existing programs.

The changes to the Small Business Development Centers has no fiscal impact but does make minor changes to statute. The changes do require some additional reporting by the SBDCs

DED states the bill also makes changes to Chapter 135.400 - 403 RSMo. While the changes seem to lower the cap on tax credits from \$13 million to \$10 million and make some program changes, DED is aware this was not the intent of the change. The intent was to create a new \$10 million in tax credits to be issued as Small Business Development Tax Credits. DED makes the assumption that this section will be amended to reflect the new credit and assumes \$10 million in cost for the credit which will be offset by some positive but indeterminable economic benefits to Missouri. The small business investment tax credit will create new revenues for Missouri through the hiring of employees, payment of taxes to Missouri. DED projects a neutral impact to this credit as the costs will be offset by the gains.

In summary, DED assumes positive economic benefits from the creation of the Technology Business Tax Credit and cost neutral to positive economic benefits from the 135.400 - 403 changes.

**Oversight** assumes the new tax credit program will create some positive fiscal benefit to the state; however, Oversight considers the new jobs and tax revenue that may be generated from the new tax credits to be indirect fiscal benefits, and therefore, have not reflected DED's positive estimates in the fiscal note. Oversight will range the fiscal impact of the new tax credits from \$0 to the annual cap of \$10 million.

**Oversight** could not determine the tax years for which the tax credits may be issued, therefore, Oversight will assume tax credits could be issued in calendar 2006 and may be used against taxes in FY 2007.

**Oversight** assumes the changes to Sections 135.400 - 135.403 will not have a fiscal impact upon the state, because the cumulative \$13 million cap established in Section 135.403 for the Small Business Investment Tax Credit has already been exhausted. Oversight does not assume the changes made to these sections creates an additional \$10 million tax credit program under the

ASSUMPTION (continued)

Small Business Tax Credit Review Committee.

**This proposal could reduce Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
<b>GENERAL REVENUE</b>			
<u>Loss - tax credits issued by the Missouri Discovery Alliance</u>	\$0 to <u>(\$10,000,000)</u>	\$0 to <u>(\$10,000,000)</u>	\$0 to <u>(\$10,000,000)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b>\$0 to <u>(\$10,000,000)</u></b>	<b>\$0 to <u>(\$10,000,000)</u></b>	<b>\$0 to <u>(\$10,000,000)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This substitute creates the Missouri Discovery Fund and establishes the Missouri Discovery Alliance in the Department of Economic Development to assist with the recruitment, relocation, and expansion of technology businesses. The alliance replaces the Missouri Technology Corporation, and the substitute establishes a 13-member board of directors for the alliance. If an innovation center's annual report of its activities and operational plans to coordinate with the small business development centers is not approved by the department or the alliance, the department can withhold 75% of the state-allocated center's funding until the report is accurate and complete. The innovation center must provide 100% match for any funding received from

DESCRIPTION (continued)

the discovery fund. Beginning July 1, 2008, existing and new innovation centers established after that date will receive funding through the Missouri Discovery Fund for no more than five years.

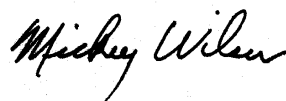
The alliance may authorize up to \$10 million in tax credits annually. A taxpayer will receive a 30% tax credit for a contribution toward the first \$500,000 in venture capital contributed to a qualifying company or a 40% tax credit if the company invested in is located in a rural area or distressed community. The alliance can reserve tax credits for investors who have a net loss of investment within five years of contributing the first \$5 million in venture capital to an approved company. A taxpayer will receive a 50% tax credit for contributions to a technology commercialization infrastructure project or for expenditures for industrial research conducted at a public research institution or private not-for-profit collaborative research project approved by the alliance. The credits can be used against current income tax, carried over for three consecutive years, or transferred.

The substitute also establishes the Small Business Tax Credit Review Committee and authorizes a 30% tax credit for a qualified investment of up to \$100,000 in a Missouri small business or a 40% credit if the investment is in a business in a distressed community. The tax credit can be held as a guarantee on a loan from a financial institution to a qualified business and only issued and redeemed if the small business defaults on the loan within the first five years of the loan.

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  
Office of Administration - Budget and Planning  
Coordinating Board for Higher Education  
Office of the State Treasurer  
Office of the Secretary of State  
University of Missouri  
Department of Revenue



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