

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5586-01
Bill No.: HB 2040
Subject: Economic Development; Revenue Department; Taxation and Revenue
Type: Original
Date: March 28, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	Unknown to (Unknown)	Unknown to (Unknown)	Unknown to (Unknown)
Total Estimated Net Effect on General Revenue Fund*	Unknown to (Unknown)	Unknown to (Unknown)	Unknown to (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Other State Funds	(\$2,164)	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds*	(\$2,164)	\$0	\$0

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

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 9 pages.

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

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

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (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 the State Treasurer, Department of Agriculture** and the **Department of Natural Resources** each assume this proposal would not fiscally impact their respective agencies.

Officials from the **Department of Revenue (DOR)** state this legislation contains various sections of law including tax credits, as well as, benefits for the economic development of political subdivisions.

DOR states the proposal would have the following administrative impact:

The establishment of Section 135.444 creates a new tax credit administered by DED. There is no language in this section requiring DED to certify the credit to DOR. It is suggested that this be added to the language. Personal Tax will require 1 Tax Processing Technician I for every 6,000 credits claimed.

ASSUMPTION (continued)

Section 620.1878.5 - changes the amount of tax credits from \$12 million to \$24 million. This doubles the program and will result in the need for 1 Tax Processing Technician I.

This legislation will require modifications to individual and corporate income tax systems. Taxation estimates these modifications will require a MINITS programming costs of \$46,170 (1,384 hours). COINS will also need to be modified for a programming cost of \$23,085 (692 hours). The department proposes to cover these costs with current IT staff. Effective July 1, 2006, our IT staff will be moved to the Office of Administration pursuant to consolidation, but we have no reason to believe this transfer will limit our ability to absorb these costs. In the event multiple new credits/deductions are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

Officials from the **Department of Economic Development (DED)** state this proposal provides for various changes, additions, deletions, and improvement provisions related to economic development programs. DED states the bill should have no fiscal or administrative impact on their agency. DED states the proposal will not impact Total State Revenues and DED projects that changes will enhance revenues of Missouri in an unknown but positive manner.

Officials from the **Department of Insurance (INS)** state the bill has various revisions to existing tax credits/programs and adds three new tax credit programs

- 1) Community Assistance Program tax credit
- 2) Small Business Incubator tax credit
- 3) Development Tax Credit Program

It is unknown how many insurance companies will choose to participate in these programs and take advantage of the tax credits. The department can not estimate how much would be lost in premium tax revenue as a result of tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted tax credits each year.

The department will require \$2,164 for contract computer programming to add these new tax credits to the premium tax database.

ASSUMPTION (continued)

Officials from the **Office of Administration - Budget and Planning** stated the proposal should not result in additional costs or savings to their agency. BAP states the legislation could have a negative impact on total state revenues and general revenues depending upon the amount of credits issued. BAP provided the following schedule:

Section	Cap amount deleted	Cap amount enacted	net change
32.105	(\$32,000,000)	\$26,000,000	(\$6,000,000)
99.845	(\$32,000,000)	\$50,000,000	\$18,000,000
99.960	(\$108,000,000)	\$58,000,000	(\$50,000,000)
99.1045	(\$12,000,000)	\$58,000,000	\$46,000,000
100.286	(\$10,000,000)	\$20,000,000	\$10,000,000
100.297	(\$50,000,000)	\$75,000,000	\$25,000,000
135.446	\$0	\$6,000,000	\$6,000,000
135.448	\$0	\$26,000,000	\$26,000,000
135.700*	(\$313,000)	\$500,000	\$187,000
620.1881	(\$12,000,000)	\$24,000,000	\$12,000,000
32.110	(\$26,000,000)	\$0	(\$26,000,000)
32.117	(\$1,000,000)	\$0	(\$1,000,000)
135.460*	(\$4,500,000)	\$0	(\$4,500,000)
135.766*	(\$103,000)	\$0	(\$103,000)
207.770	(\$4,000,000)	\$0	(\$4,000,000)
620.495*	(\$360,000)	\$0	(\$360,000)
TOTALS	(\$292,276,000)	\$343,500,000	\$51,224,000

* 2005 amount issued

Oversight did not have adequate time to fully study and analyze the proposal before a fiscal note was required to be prepared for the hearing scheduled on the bill. Therefore, Oversight will assume a fiscal impact of positive unknown to negative unknown, and will continue to study the fiscal impact of the proposal. Oversight will issue a new fiscal note on the bill when we are able to discern the fiscal impact to the state government.

Oversight will assume the proposal could impact state funds other than the General Revenue fund and will list them as "Other State Funds".

This proposal could impact Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Possible Savings</u> - reduction and/or deletion of various programs in the bill may result in a savings	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
<u>Costs</u> - Department of Revenue			
Personal Service (2 FTE)	(\$39,278)	(\$48,312)	(\$49,520)
Fringe Benefits	(\$17,306)	(\$21,286)	(\$21,819)
Expense and Equipment	<u>(\$13,206)</u>	<u>(\$1,063)</u>	<u>(\$1,095)</u>
<u>Total Costs</u> - DOR	(\$69,790)	(\$70,661)	(\$72,434)
<u>Possible Losses</u> - increases and/or new programs in the bill may result in additional losses	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND*	Unknown to <u>(Unknown)</u>	Unknown to <u>(Unknown)</u>	Unknown to <u>(Unknown)</u>

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 Foreign Insurance Fund, which ultimately goes to local school districts.

INSURANCE DEDICATED FUND

<u>Cost</u> - Dept. of Insurance			
Reprogramming costs	<u>(\$2,164)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	<u>(\$2,164)</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Local Government

FY 2007
(10 Mo.)

FY 2008

FY 2009

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small businesses that qualify for these tax credits could be fiscally impacted from this proposal.

DESCRIPTION

Section 32.100 changes the title of act to reflect removal of Neighborhood Assistance Program (NAP) and Development Tax Credit Program (DTC) and retention of Affordable Housing Tax Credit Program. Section 32.105 deletes definitions of "community services", "crime prevention", "job training", and physical revitalization" since NAP will be relocated to 135.442. Deletes the definition of "defense industry contractor" and deletes defense conversion pilot project language from the definition of "economic development" since that program has been discontinued. In definition of "economic development" removes requirement of distressed or blighted area and moves \$6 million DTC cap to 135.442-135.448, where it will be made part of the cap for the new Community Assistance Program. Deletes definition of "homeless assistance pilot project" since that program has been discontinued. Section 32.110 relocates NAP to 135.442-135.448 as part of new Community Assistance Program. Relocates \$26 million cap to 32.115.2. Section 32.115 deletes NAP details. Relocates \$26 million cap from 32.110. Section 32.117 - homeless assistance pilot project has been discontinued. Section 32.120 related to 32.110 (NAP), which will be repealed.

Section 99.845 amends state TIF definition of "new state revenues" to clarify the test for determining displacement and to make it consistent with the MODESA and Downtown Preservation programs. Section 99.845 raises state TIF cap from \$32 million to \$50 million.

Section 99.918 amends MODESA's definition of "state sales tax increment" to clarify the test for determining displacement and to make it consistent with the State TIF and Downtown Preservation programs. Section 99.960 removes Mo Development Finance Board (MDFB) approval from Mo Downtown Economic Stimulus Act (MODESA) process. Section 99.960 reduces cap for Mo Rural Economic Stimulus Act (MORESA) and MODESA from \$100 million to \$58 million. Section 99.963 combines cap for MODESA and MORESA. Corrects the requirement that the first \$150 million of other net new revenues be deposited in the state supplemental downtown development fund. Section 99.975 removes MDFB from the approval process for MORESA/MODESA set-aside for Kansas City. Section 99.980 removes MDFB

DESCRIPTION (continued)

from the review process for MORESA/MODESA. Section 99.1045 combines cap for MODESA and MORESA. Sets combined cap at \$58 million. Section 99.1048 corrects the requirement that the first \$12 million of other net new revenues be deposited in the state supplemental downtown development fund.

Section 99.1082 amends the Downtown Preservation definition of "local sales tax increment" to exclude economic activity taxes. It also amends Downtown Preservation definition of "state sales tax increment" to clarify the test for determining displacement and to make it consistent with the State TIF and MODESA programs. Section 99.1090 clarifies that Downtown Preservation excludes withholding taxes. Section 99.1092 clarifies that Downtown Preservation excludes withholding taxes.

Section 100.255 broadens definition of who may contribute to a MDFB program. Section 100.275 extends maturity limit of bonds issued by MDFB from 30 years to 40 years to match the terms of local industrial development agencies. It also establishes a time limit under which persons at the local level may object to defects or omissions in the security for bonds/notes issued by MDFB. Section 100.281 removes the \$10 million cap for MDFB loans for infrastructure facility projects. Section 100.286 increases the cap on MDFB credits from \$10 million to \$20 million. Section 100.297 increases the cap on the amount of outstanding bonds from \$50 million to \$75 million.

Section 100.760 eliminates the requirement that Business Use Incentives for Large-Scale Development (BUILD) applicants obtain a proposal from another state.

Section 135.440 defines terms used in the new Community Assistance Program, the Small Business Incubator Program, and the DTC program. Section 135.442 creates a new Community Assistance Program, which integrates NAP, Youth Opportunites and Violence Prevention program (YOP), and Family Development Account program (FDA). Section 135.444 relocates the Small Business Incubator program from 620.495 to this new section. Section 135.446 relocates the DTC from 32.105 to this new section. Section 135.448 states for the Community Assistance Program, Small Business Incubator program, and DTC, (1) establishes to which taxes the credits may be applied, (2) allows credits to be carried forward 5 years, (3) allows credits to be sold, transferred, or assigned, (4) establishes clawback remedy for failure to abide by program requirements. For Community Assistance Program and Small Business Incubator programs, sets combined cap at \$26 million and allows for set-asides of up to \$6 for youth development and \$8 million for rural community projects. Section 135.449 provides for winding up of old NAP, YOP, FDA, and Small Business Incubator programs. Section 135.460 repeals the YOP program, which is integrated into the new Community Assistance program -- 135.442.

DESCRIPTION (continued)

Section 135.700 transfers administrative authority for the Wine and Grape Growers credit from DED to the Mo Agriculture and Small Business Development Authority (MASBDA). Limits credits issued to \$500,000 annually. Allows credits to be sold, assigned, or transferred. MASBDA has discretion to issue credits.

Section 135.766 repeals the credit to small businesses that pay a guarantee fee to the Small Business Administration. (SB 894 (2000) repealed this section, but was declared unconstitutional as a violation of the clear title requirement of Art. III, Section 23 of the Mo Constitution).

Section 135.800 in the Tax Credit Accountability Act, changes references to repealed, relocated, and new statutes.

Section 135.950 in the Enhanced Enterprise Zone (EEZ) program, adds definitions consistent with Quality Jobs section (620.1878).

Section 135.967 adds Department of Revenue check of delinquent taxes to EEZ process.

Sections 208.750 - 208.775 repeals the FDA program, which is integrated into the new Community Assistance program -- 135.442.

Section 447.708 combines the Brownfield Demolition program with the Brownfield Remediation program.

Section 620.495 moves the Small Business Incubator program to new section 135.444.

Section 620.1100 - 620.1103 repeals the YOP program, which is integrated into the new Community Assistance program -- 135.442.

Section 620.1878 revises the definitions of terms used in the Quality Jobs program. Section 620.1881 in the Quality Jobs Act, adds a requirement of over 500 new jobs before DED and the quality jobs advisory task force may consider raising a qualified company's tax credit limit from \$750,000 to up to \$1 million. Section 620.1881 clarifies the circumstances under which benefits are withheld, reduced, or granted. Section 620.1881 raises Quality Jobs cap from \$12 million to \$24 million. Section 620.1881 adds Dept of Revenue check of delinquent taxes to Quality Jobs process.

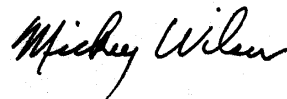
DESCRIPTION (continued)

Section 620.1900 , for the 2.5% fee imposed on tax credit recipients, amends the statutory references to tax credits exempt from the fee due to the consolidation of the YOP, NAP, and FDA programs into the new Community Assistance Program.

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 - Budget and Planning
Department of Insurance
Office of the State Treasurer
Office of the Secretary of State
Department of Agriculture
Department of Natural Resources



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