

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5280-01
Bill No.: HB 2377
Subject: Business and Commerce; Economic Development
Type: Original
Date: April 8, 2008

Bill Summary: This proposal establishes the Seed Capital Technology Business Program Act and the Proof of Concept Technology Business Finance Program Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on General Revenue	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Seed Capital Technology Business Finance Program Account	\$0	\$0	\$0
Proof of Concept Technology Business Finance Program Account	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the State Treasurer** assume this proposal would not fiscally impact their agency.

Officials from the **Office of the Secretary of State (SOS)** assume 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 \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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 **Department of Economic Development (DED)** state the bill provides for two new finance programs to be overseen by the Missouri Technology Corporation (MTC). DED would be required to submit a budget request for funding of the program. The bill gives MTC no authorization to recover any administrative costs for any personnel needed to administer the program. Some method of recovering administrative costs or appropriation to pay administrative costs would be needed. If this legislation passed, DED would not be able to request funding until FY 2009 via the emergency process or supplemental appropriation. Funding would not likely be available until sometime in calendar year 2009, at the earliest. DED or MTC would need to hire an unknown number of staff to administer the program. MTC is required to contract with a professional equity fund manager to review the applications and perform due diligence. Funding for this would be included in the funding request.

DED assumes the program will be administered by the MTC and that DED will need to request/receive some sort of funding for the program before it could begin. DED assumes the need for some sort of funding mechanism (authorization for collection of administrative fees or appropriation) to staff the program. MTC assumes the need for funding to hire a professional equity fund manager to review the applications and perform due diligence. DED/MTC assume an unknown positive economic benefit from the program.

ASSUMPTION (continued)

Oversight assumes these programs may be funded through an appropriation made by the General Assembly. Therefore, Oversight will range the cost to the General Revenue Fund of \$0 (no appropriation made) to (Unknown). Oversight also assumes the amounts appropriated to the two new accounts under the Missouri Technology Fund, would be spent entirely in the year of the appropriation on equity investments, loans, professional equity fund managers as well as administrative costs.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
<u>Transfer Out</u> - to Missouri Technology Investment Fund - Seed Capital Technology Business Finance Program Account	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Transfer Out</u> - to Missouri Technology Fund - Proof of Concept Technology Business Finance Program Account	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

**SEED CAPITAL TECHNOLOGY
 BUSINESS FINANCE PROGRAM
 ACCOUNT**

<u>Transfer In</u> - appropriation from General Revenue	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Costs</u> - Investments in Seed Capital Technology Businesses	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2009 (10 Mo.)	FY 2010	FY 2011
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Costs - Department of Economic Development / Missouri Technology Corp. - to administer the Seed Capital Technology Business Finance Program Act - including contracting with professional equity fund managers	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
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ESTIMATED NET EFFECT TO THE SEED CAPITAL TECHNOLOGY BUSINESS FINANCE PROGRAM ACCOUNT	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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**PROOF OF CONCEPT
 TECHNOLOGY BUSINESS
 FINANCE PROGRAM ACCOUNT**

<u>Transfer In</u> - appropriation from General Revenue	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
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Costs - Missouri Technology Corporation - loans to companies in the early development stage of commercializing advanced technology	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
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ESTIMATED NET EFFECT TO THE PROOF OF CONCEPT TECHNOLOGY BUSINESS FINANCE PROGRAM ACCOUNT	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small start-up businesses in specific industries may be positively fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

This bill establishes the Seed Capital Technology Business Finance Program Act and the Proof of Concept Technology Business Finance Program Act to assist in financing business programs.

SEED CAPITAL TECHNOLOGY BUSINESS FINANCE PROGRAM ACT

The Seed Capital Technology Business Finance Program Act creates within the Missouri Technology Investment Fund the Seed Capital Technology Business Finance Program Account. The account will consist of appropriations, gifts, contributions, bequests, payments on loans made from the account dividends paid on shares of stock purchased with moneys from the account, royalty proceeds, and any other form of return on authorized investments. The Missouri Technology Corporation may use moneys in the account to make investments in an advanced technology company that is at the early development stage of commercializing advanced technology. Investments must be loans convertible to equity, equity, or loans with stock subscriptions or similar warrants that are beneficially owned by the corporation.

An eligible company must have 50% or more of its employees and assets in Missouri, be at the seed or start-up stage, and have innovative products and services. Eligible advanced technology industries include animal health, biotechnology, information technology, communications technology, aerospace, electronics, robotics, medical devices and instruments, telecommunications, plant sciences, and energy. Ineligible industries include banking and lending, development, management and investment companies, finance, insurance, mining, oil and gas exploration, real estate, wholesale, and retail.

The corporation is required to hire professional equity fund managers for professional review of applications, performance of due diligence, and other advisory services before any investments can be made. Investments can only be made if the professional equity fund managers recommend it. The bill specifies the requirements which must be met before the corporation can make investments in eligible advanced technology companies.

Investments made by the corporation cannot be greater than the lesser of \$750,000 or the amount necessary to gain 49% ownership interest in any advanced technology company at the time of investment.

FISCAL DESCRIPTION (continued)

PROOF OF CONCEPT TECHNOLOGY BUSINESS FINANCE PROGRAM ACT

The Proof of Concept Technology Business Finance Program Act is established which creates within the Missouri Technology Investment Fund the Proof of Concept Technology Business Finance Program Account consisting of appropriations, gifts, grants, contributions, bequests, and payments on loans made from the account.

The Missouri Technology Corporation may use moneys in the fund to make a one-time loan to a company that is at the early development stage of commercializing advanced technology. The loan amount to any single company cannot exceed \$75,000. Loans must be repaid within five years in an amount equal to twice the amount loaned. Early repayment will result in prorating the repayment amount.

Eligible companies must be technology-based; sufficiently innovative to provide a competitive advantage in the marketplace; have the potential for significant, high-performance growth; be at the early development stage of commercializing advanced technology; have 50% or more of its employees and assets in Missouri; and have average wage levels of at least 35% higher than the average county wage level as determined by the Department of Economic Development for the most recently completed calendar year.

At the time a loan is made, the eligible company must be a small business concern that meets the requirements of the United States Small Business Administration's qualification size standards for its business loan program.

Eligible advanced technology industries include animal health, biotechnology, information technology, communications technology, aerospace, electronics, robotics, medical devices and instruments, telecommunications, plant sciences, and energy. Ineligible industries include banking and lending, development, management and investment companies, finance, insurance, mining, oil and gas exploration, real estate, wholesale, and retail.

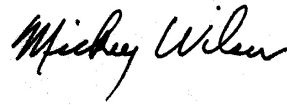
The bill specifies the requirements which must be met before the corporation can make a proof of concept loan.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Department of Economic Development
Office of the State Treasurer
Office of the Secretary of State

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
April 8, 2008