COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1177-04
Bill No.: HCS for HB 313
Subject: Economic Development; Health Care
Type: Original
Date: March 25, 2009

Bill Summary: This proposal revises various economic development programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	($318,174) to ($15,818,174) to (Unknown)	($7,592,029) to ($25,444,720) to (Unknown)	($7,642,247) to ($37,994,938) to (Unknown)
Total Estimated Net Effect on General Revenue Fund*	**($318,174) to ($15,818,174) to (Unknown)**	**($7,592,029) to ($25,444,720) to (Unknown)**	**($7,642,247) to ($37,994,938) to (Unknown)**

* **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.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Best Projects Financing	$0	$0	$0
School District Trust	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Conservation Commission	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Parks, Soil and Water	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Total Estimated Net Effect on Other State Funds*	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**

* **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 21 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	5 FTE	8 FTE	8 FTE
Total Estimated Net Effect on FTE	**5**	**8**	**8**

☒ 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 2010	FY 2011	FY 2012
Local Government*	**Unknown to (Unknown)**	**Unknown to (Unknown)**	**Unknown to (Unknown)**

* **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 Administration - Budget and Planning (BAP)** state the proposed legislation should not result in additional costs or savings to their agency. The bill makes the following changes;

- 135.552 RSMo: This section creates a tax credit equal to the sales tax paid on sales of qualifying new motor vehicles assembled and sold in Missouri. Data from the DOR indicates there were 9,685 new vehicles that were assembled in Missouri and sold by Missouri dealers during FY08, accounting for $7,174,057 in state sales tax. In addition, there were 10,628 new ATV's sold by Missouri dealers accounting for $2,352,691 in state sales tax. DOR does not have information on how many of these units were assembled in Missouri. Therefore, BAP estimates that general and total state revenues may be reduced by ($7.2M to $9.5M) annually.

- 135.680 RSMo: This section increases the cap on the New Markets Tax Credit Program from $15M to $27.5M. DED may have such an estimate. Therefore, this could reduce general and total state revenues by $12.5M.

- 144.058 RSMo: The section exempts from state and local sales and use tax on certain utilities and equipment for qualified business facilities (NAICS 518210 and 519130). Therefore this program could lower general and total sales tax by an unknown amount.

- 348.274 RSMo: This section proposes a tax credit for investors making equity investments in qualified technology-based early stage Missouri companies. The tax credit is equal to 30% of the investor's equity investment or 40% of their investment if the business is located in a rural or distressed community. The total amount of tax credits available for this program is $5.0M per year. This could therefore reduce general and total state tax revenues by that amount.

- 620.495 RSMo: This section increases the cap on tax credits issued under the Small Business Incubators Fund program from $500,000 to $1.0M. This could therefore reduce general and total state tax revenues by $0.5M.

- 620.1039 RSMo: This section reauthorizes the tax credit for qualified research expenses. The amount of tax credits available for this program is $10.0M. This could therefore lower general and total state revenues by that amount. The taxpayers who receive tax credits under 620.1041 are not eligible under this program.

ASSUMPTION (continued)

- 620.1881 RSMo: This section eliminates the maximum amount of credits that an individual company can receive in a calendar year under the Missouri Quality Jobs Act. The bill also eliminates the $60.0M annual cap on tax credits issued. DED reports that currently there are no projects that have been unable to receive funding due to the annual limit on the program. Also, DED maintains that the economic benefit of the jobs created under the program will offset any additional costs proposed by this bill.

- 620.1892 RSMo: This proposal creates the Small Business and Entrepreneurial Growth tax credit for qualifying small businesses that create new jobs in Missouri. The businesses that increase total payroll by more than 20 percent can retain withholding taxes for one year and two years if they provide more than fifty percent of health insurance premiums for all employees. There is no cap on this program. Therefore this could reduce general and total state revenues by an unknown amount.

- 620.1892 RSMo: This section allows a governing body of a municipality to create a business, education, science, and technology (BEST) district. BEST revenues which include half of the incremental increase in qualifying state sales tax revenue and the state income tax withheld on behalf of new employees shall be made available for appropriation by the general assembly to DED for this purpose. Therefore, this could reduce future general and total state revenues by an unknown amount.

- This proposal may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. DED may have such an estimate.

Officials from the **Department of Economic Development (DED)** state the proposal creates several new tax credits that DED would be responsible for administering. There are also modifications to the caps on current tax credit programs administered by DED. The changes result in the need for 7 FTE and an unknown overall impact because of the positive economic benefits that would result from the new tax credits and the changes to the existing ones.

Section 135.680 - This section increases the cap on the New Markets Tax Credit from $15 million to $27.5 million and extends the program for 2 years through 2012. The increase in the cap for the New Markets Tax Credit would result in the need for one additional FTE. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program. In addition, the increase in the cap of $12.5 million for the New Markets Tax Credit Program would be a negative impact to total state revenue. However, there would be an offset of unknown positive

ASSUMPTION (continued)

economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

Section 348.273 - This section creates the Equity Investment Tax Credit, which will stimulate private investment in qualified Missouri businesses and create additional jobs in these businesses. The creation of this tax credit would result in the need for one additional FTE to administer the Equity Investment Tax Credit program due to the assumed amount of administration involved. The FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program. The cap for this new tax credit is $5 million so there would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

Section 620.472 - This section increases the cap on the Small Business Incubator Tax Credit from $500,000 to $1 million. The increase in the cap for this program would result in the need for one additional FTE. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program. In addition, the increase in the cap of $500,000 for the Small Business Incubator Tax Credit Program would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

Section 620.1039 - This section re-establishes the Qualified Research Expense Tax Credit program as an entitlement program with a $10 million cap. Business and Community Services (BCS) assumes the need for one additional FTE and related costs to administer the program. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program. The cap for this new tax credit is $10 million so there would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

Section 620.1892 - This section creates the Small Business and Entrepreneurial Growth Act. Business and Community Services (BCS) assumes the need for one additional FTE to administer the program. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the

ASSUMPTION (continued)

program, drafting and sending the tax credit awards and ensuring compliance with the program.

Section 620.1893 - This section creates the Business, Education, Science and Technology Districts (BEST). Funds are appropriated through DED's budget and then the department is responsible for approving the plan and projects. This section of the proposed legislation results in the need for two additional FTE to administer the new programs. The first FTE would be an Economic Development Incentive Specialist. and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program. The second FTE would be an Accountant II position.

In summary, DED assumes the need for seven additional FTE at a total annual cost of $447,267 in FY 2010, $480,248 in FY 2011 and $494,657 in FY 2012.

Oversight assumes DED would not need an additional FTE to the increase in the Small Business Incubator tax credit limit from $500,000 to $1,000,000. Oversight also assumes the amount of districts that are formed and apply for the BEST District incentive would not raise to the level to which DED would not need the requested Accountant II FTE. Therefore, Oversight will assume DED can implement the new programs and the various changes throughout the bill with five additional FTE.

Officials from the **Department of Revenue (DOR)** state their Personal Tax section would require one Revenue Processing Technician I for every 6,000 credits claimed in both section 135.552 (tax credit for motor vehicles assembled in Missouri) and 620.495 (Small Business Incubator). Also, DOR's Corporate Tax section would require for section 135.552 (tax credit for motor vehicles assembled in Missouri) one Revenue Processing Technician I for every 5,200 additional returns verified as well as one Revenue Processing Technician I for every 2,080 pieces of additional correspondence generated.

DOR's Business Tax section state the inclusion of Chapter 148 could potentially impact Premium Tax and may require the addition of a new field on the Insurance Tax System if DOR needs to key and track this credit information. This change would not require any additional FTE resources.

DOR assumes the cost of these additional FTE to total roughly $165,000 each year.

Oversight assumes DOR would not require additional FTE for implementation of the Small Businesses Incubator program. Regarding the FTE that DOR needs to implement Section

ASSUMPTION (continued)

135.552, Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expenditures in accordance with OA budget guidelines. Finally, Oversight assumes that the relatively small number of additional staff can be located in existing office space.

In response to other tax incentive proposals from this year, officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** stated it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. The department has no means to arrive at a reasonable estimate of loss 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 by tax credits each year.

Officials from the **Office of the State Treasurer** assume the Department of Economic Development will administer the fund and therefore assume the proposal would not fiscally impact their agency.

Officials from the **Department of Higher Education** assume the proposal would not fiscally impact their agency.

Officials from the **Department of Social Services - Division of Finance and Administrative Services (DFAS)** state RSMo 208.205 requires the MO HealthNet division to ensure recipients have access to job training, community service or other work activities as required by federal law. Federal law does not require access to job training, community service and other work activities. DFAS assumes that no further action would be needed.

The bill also requires that MO HealthNet recipients meet with job counselors at regular intervals throughout their eligibility for benefits. This is a standard beyond current standards and beyond what federal law allows. Federal law prohibits adding additional requirements on MO HealthNet (Medicaid) recipients in order to receive federal funding for the program. The Federal Medicaid

ASSUMPTION (continued)

statue specifies the characteristics of individuals eligible for Medicaid. Imposing additional criteria beyond that described in the Federal Medicaid statue would be considered a failure to comply with Federal requirements. If the procedure were established, making recipients meet with a counselor, Missouri would be imposing standards beyond federal requirements. If this bill was law, and the job counselor piece was implemented, Missouri may lose federal funding for MO HealthNet.

If the Department of Social Services were to use the Social Services Block Grant for job counselors, it would require a corresponding cut from current Block Grant spending because the entire Block Grant is allocated.

The Division of Finance and Administrative Services assumes that this bill would not require action because there is no federal law requiring access to job training, community service or other work activities. If further action were needed, it would likely result in loss of federal funds.

Officials from the **Department of Social Services** also states they cannot determine a fiscal impact for this legislation because, according to law, MO HealthNet recipients cannot be required to participate in work activities. Federal law prohibits adding additional requirements on MO HealthNet recipients. Imposing additional criteria beyond that described in the Federal Medicaid statute would be considered a failure to comply with Federal requirements and could jeopardize federal Medical matching funds for the entire MO HealthNet program.

While Missouri is a 209b state, which does allow for the use of more restrictive criteria, this is only in the application of more restrictive criteria than that used by the SSI program, which must have been in use by the state before the SSI program went into effect, and applies only to those eligible on the basis of being aged, blind or disabled.

In addition, all Social Service Block Grant funds are currently being used for other programs. If any SSBG funds were used to implement this program, there would be an additional cost to the General Revenue fund to replace SSBG funds that would no longer be available for those programs.

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 $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.

ASSUMPTION (continued)

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.

Section 99.1090;

Oversight assumes Section 99.1090 could potential save local political subdivisions tax proceeds if a third party donates money into the development fund and the municipality is allowed to retain the payments in lieu of taxes or economic activity taxes. Oversight will reflect this as a $0 to positive unknown to the municipalities.

Sections 100.710 - 100.770 - BUILD;

Oversight assumes the changes in these sections could increase the utilization of the BUILD program and therefore increase the amount of tax credits issued. Over the previous four fiscal years, the amount of tax credits issued under this program has averaged $7.3 million. Therefore, an average of $7.7 million of BUILD tax credits remains beneath the $15 million annual cap. Oversight assumes the annual limit for the program has not changed from $15 million annually. Since Oversight has already reflected the potential cost of this program of up to $15 million in previous fiscal notes, Oversight will not reflect additional lost revenue from the changes in this bill.

The amount of issuance and redemptions for this program for the previous four years has been;

Fiscal Year	Issuances	Redemptions
FY 2008	$7,489,456	$4,975,510
FY 2007	$7,032,080	$6,859,745
FY 2006	$6,247,701	$5,402,416
FY 2005	$8,419,707	$3,770,557

Section 135.155 - New or Expanded Business Facility;

Oversight assumes the changes within this section may increase the utilization of the Business Facility program. This credit is an entitlement program and does not have an annual cap. Therefore, Oversight assumes this proposal could potentially increase the amount of tax credits

ASSUMPTION (continued)

issued under the program. Oversight will assume a potential increase of $0 to an unknown amount of tax credits issued.

Section 135.552 - Tax credit for purchase of vehicle assembled in Missouri;

Oversight assumes that this part of the proposal would become effective in January, 2010 and that the fiscal impact to the state would begin with 2010 tax returns filed in January, 2011 (FY 2011). Oversight will include an adjusted estimate of DOR costs for six months in FY 2011.

Because the local sales tax exemption would depend on action taken by the local governments, Oversight will indicate a fiscal impact of $0 to (Unknown) for local governments.

Oversight has no information regarding ATV manufacturers in Missouri, and will utilize information provided by DED and assume the fiscal impact from this proposal could range from $7,174,057 to $9,526,748 per year.

Section 135.680 - New Markets Tax credit;

Oversight will range the fiscal impact of this proposal from $0 (no additional tax credits are issued above the current $12.5 million per year cap) to a negative $12.5 million (change in cap). The changes in this proposal would be effective in August 2009. Therefore, Oversight assumes the Department of Economic Development would be allowed to authorize additional qualified equity investments starting in FY 2010; however, under this program, taxpayers are not allowed tax credits for their investments in the first two years (seven percent in year three). Therefore, Oversight assumes additional credits may be issued and utilized in the third year after the effective date of this proposal, or FY 2012. Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal; however, Oversight considers these benefits to be indirect and therefore have not reflected them in the fiscal note.

Oversight assumes the extension of the time period for taxpayers to make qualified equity investments from FY 2010 to FY 2012 would not have a fiscal impact on the state within the time frame of this fiscal note. Taxpayers are given tax credits for qualified equity investments in the following amounts; zero percent for the first two years, seven percent for the third year, and eight percent for the next four years. Therefore, taxpayers making a qualified equity investment in FY 2011 (first extension year) would not receive a tax credit until FY 2013, which is beyond the scope of this note.

ASSUMPTION (continued)

Section 144.058 - Sales tax exemption for businesses that relocate to mine;

Oversight will range the fiscal impact of this part of the proposal from $0 to an unknown loss since a business may or may not relocate to such a mine. This loss would impact four state funds as well as local political subdivisions.

Sections 348.273 & 348.274 - Angel Investors tax credit;

Oversight will range the fiscal impact of this program from $0 to the annual cap of $5 million.

Section 620.495 - Small Business Incubator tax credit;

Oversight will range the fiscal impact of this program from $0 to the difference in the annual caps - $500,000.

Section 620.1039 - Qualified Research tax credit;

The Department of Economic Development has not been able allowed to issue Qualified Research Expense tax credits for all tax years beginning on or after January 1, 2005. Therefore, no tax credits have been issued under this program for the past three fiscal years. This proposal opens the program back up with a $10 million per calendar year limit. Oversight will reflect a new potential loss of income due to the tax credit issuances of $0 to $10 million each year.

Sections 620.1878 & 620.1881 - Quality Jobs;

Oversight assumes the changes made to these sections will increase the utilization of the Quality Jobs Program. The current cap of the program is $60 million; however, this bill removes the annual limit. Therefore, Oversight will reflect a $0 to negative Unknown amount of loss of income from the changes made to the program.

Section 620.1892 - Small Business and Entrepreneurial Growth Act;

Oversight assumes this part of the proposal would have a negative impact on Total State Revenues. There is no annual limit to this program; therefore, Oversight will assume an unknown loss of revenue.

ASSUMPTION (continued)

Section 620.1893 - BEST districts;

According to the program, BEST districts are allowed to retain up to one-half of the incremental increase in General Revenue sales tax revenue as well as the state income tax withheld on behalf of new employees within the district. This revenue will be transferred from General Revenue to the new 'BEST Projects Financing Fund' to be used by municipalities on the BEST projects. Oversight assumes an unknown amount of revenue may be transferred to this new fund. Oversight also assumes any monies transferred to this fund will be utilized in the same year.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous four years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 81 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, under this proposal, if $5,000,000 of credits are issued under a new program, Oversight would assume $4,150,000 (83%) of credits to be redeemed, reducing Total State Revenues.

Oversight assumes there would be some positive economic benefit to the state as a result of the numerous additions and changes in this proposal, however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

This proposal may decrease Total State Revenues.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE			
Costs - Department of Economic Development			
Personal Service (5 FTE)	($179,014)	($221,261)	($227,899)
Fringe Benefits	($87,055)	($107,599)	($110,827)
Expense and Equipment	($52,105)	($18,941)	($19,510)
Total Costs - DED	($318,174)	($347,801)	($358,236)
FTE Change - DED	5 FTE	5 FTE	5 FTE
Costs - Department of Revenue			
Personal Service (3 FTE)	$0	($35,041)	($72,184)
Fringe Benefits	$0	($17,040)	($35,103)
Expense and Equipment	$0	($18,090)	($2,667)
Total Costs - DOR	$0	($70,171)	($109,954)
FTE Change - DOR	0 FTE	3 FTE	3 FTE
Loss - DED			
Expansion of the New or Expanded Business Facility Credit for headquarters - Section 135.155	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Loss - DOR			
Tax credit for sales taxes paid for qualified vehicles - Section 135.552	$0	($7,174,057) to ($9,526,748)	($7,174,057) to ($9,526,748)
Loss - tax credits from New Markets Tax Credit program - increased annual cap from $15 million to $27.5 million - Section 135.680	$0	$0	$0 to ($12,500,000)
Loss - DOR			
Sales tax exemption for utilities, machinery and equipment used by a business that relocates to a mine. Section 144.058	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)

FISCAL IMPACT - State Government (continued)	FY 2010 (10 Mo.)	FY 2011	FY 2012
Loss - Tax Credit for equity investments in technology-based early stage Missouri companies (Section 348.274)	$0 to ($5,000,000)	$0 to ($5,000,000)	$0 to ($5,000,000)
Loss - Increase in the Small Business Incubators Tax Credit Program from $500,000 to $1,000,000 annually (620.495)	$0 to ($500,000)	$0 to ($500,000)	$0 to ($500,000)
Loss - DED Reauthorization of the Qualified Research Expense tax credit program (Section 620.1039)	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
Loss - DED Increased utilization of the Quality Jobs program and removal of the $60 million annual cap	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Loss - Small Business and Entrepreneurial Growth Act - has no annual limit (620.1892)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Transfer Out - One-half of incremental sales tax revenue generated in the BEST District flows to new 'BEST Projects Financing Fund'	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Transfer Out - Income tax withheld on new employees within a BEST District flows to new 'BEST Projects Financing Fund'	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($318,174) to ($15,818,174) to (Unknown)**	**($7,592,029) to ($25,444,720) to (Unknown)**	**($7,642,247) to ($37,994,938) to (Unknown)**

FISCAL IMPACT - State Government (continued)	FY 2010 (10 Mo.)	FY 2011	FY 2012
Estimated Net FTE Change for General Revenue Fund	5 FTE	8 FTE	8 FTE

Note 1: **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.**

BEST PROJECTS FINANCING FUND			
Transfer In - from General Revenue One - half of the incremental sales tax revenue increase from BEST District	$0 to Unknown	$0 to Unknown	$0 to Unknown
Transfer In - from General Revenue Income tax withheld on new employees within the district	$0 or Unknown	$0 or Unknown	$0 or Unknown
Cost - Transfer of proceeds to municipalities to cover expenses of BEST district project	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)
ESTIMATED NET EFFECT TO THE BEST PROJECTS FINANCING FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - State Government (continued)	FY 2010 (10 Mo.)	FY 2011	FY 2012
SCHOOL DISTRICT TRUST FUND			
Loss - sales tax exemption for items used by business facility that relocates operations in an underground mine (144.058)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**
CONSERVATION COMMISSION FUND			
Loss - sales tax exemption for items used by business facility that relocates operations in an underground mine (144.058)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**
PARKS, SOILS AND WATER FUNDS			
Loss - sales tax exemption for items used by business facility that relocates operations in an underground mine (144.058)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON PARKS, SOILS AND WATER FUNDS	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
LOCAL POLITICAL SUBDIVISIONS			
Savings - potential savings for municipalities if a third party makes a donation to the redevelopment fund in place of the municipality paying PILTS or economic activity taxes	$0 to Unknown	$0 to Unknown	$0 to Unknown
Loss - potential loss to local political subdivisions that opt to participate in the exemption of qualified vehicle purchases from sales tax	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Loss - Sales tax exemption for utilities, machinery and equipment used by a business that relocates to a mine. Section 144.058	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	**Unknown to (Unknown)**	**Unknown to (Unknown)**	**Unknown to (Unknown)**

FISCAL IMPACT - Small Business

Small businesses that qualify for the various programs within this proposal would be positively impacted by this proposal.

FISCAL DESCRIPTION

Section 99.1090 allows contributions to a downtown revitalization preservation development project from any private not-for-profit organization or local contributions from tax abatement or other sources to be substituted on a dollar-for-dollar basis for the local match of 100% of payments in lieu of taxes and economic activity taxes from the development's fund.

FISCAL DESCRIPTION (continued)

Sections 100.710 - 100.770 - Currently, an eligible industry with an economic development project that is an office industry must create a minimum of 500 new jobs for the purposes of the Business Use Incentives for Large-Scale Development (BUILD) Program. This bill reduces the minimum number of new jobs to 350. The bill also authorizes the Missouri Development Finance Board within the Department of Economic Development to allow the program to temporarily suspend or waive its requirements if market or economic conditions are such that an eligible industry is unable to meet the program's requirements. Currently, in order to approve an application, the board must find that there is at least one other state that the applicant verifies is being considered for the BUILD project and that there is a significant disparity in the project's costs based on the incentives offered by the competing state. The bill removes these requirements.

Section 135.155 expands the New and Expanded Facility Credit program to include expansions at headquarters facilities - and each to be entitled to the credits under this program if the number of new business facility employees attributed to each expansion is at least twenty-five.

Section 135.552 - would provide an income tax credit equal to 100% of the state sales tax paid on any motor vehicle assembled and purchased in Missouri.

Section 135.680 - Under current law, the Department of Economic Development is required to limit the monetary amount of qualified equity investments to a level necessary to limit tax credit utilization to no more than fifteen million dollars annually. Following fiscal year 2010, no equity investments may be made unless reauthorization is provided by enactment of a general law by the General Assembly. This act would require the department to limit the monetary amount of qualified equity investments to a level necessary to limit tax credit utilization to no more than twenty-seven million five hundred thousand dollars annually. The requirement for reauthorization by enactment of a general law by the General Assembly is moved back two fiscal years to fiscal years following fiscal year 2012.

Section 144.058 - creates a sales tax exemption on all electrical energy, gas, water and other utilities and machinery and equipment which is used or consumed by any person operating a business, which after August 28, 2009, relocates to a facility located within a portion of an underground mine that is not used for mining and contains at least five hundred thousand square feet.

Sections 348.273 & 348.274 - The Department of Economic Development is allowed to authorize up to $5 million in tax credits per year to encourage equity investment in technology-based early stage Missouri companies, commonly referred to as angel investments.

FISCAL DESCRIPTION (continued)

Investors who contribute the first five hundred thousand dollars in equity investment to a qualified Missouri business may be issued a tax credit equal to thirty percent of the investment or forty percent of the investment if the qualified business is located in a rural area or distressed community. An investor can receive a credit of up to fifty thousand dollars for an investment in a single qualified business and up to one hundred thousand dollars for investments in more than one qualified business per year. Tax credits for equity investment in technology-based early stage Missouri companies may be carried forward for up to three years or transferred.

Section 620.495 - The aggregate cap on small business incubator tax credit authorization is increased from five hundred thousand dollars to one million per tax year.

Section 620.1039 - re-authorizes the tax credits for qualified research expenses. The program had an aggregate cap of $9.7 million dollars and for all years beginning on or before January 1, 2005, no tax credits could be approved, awarded or issued since 2004 (SB 1155 - 2004). This proposal reauthorizes the program and changes the cap to $10 million.

Sections 620.1878 & 620.1881 - changes some requirements of the Quality Jobs Act. It also removes the $60 million annual limit on the program.

The Small Business and Entrepreneurial Growth Act is established to provide tax incentives for small business expansion. Beginning January 1, 2010, small business employers will be allowed to retain new employee income tax withholdings for one year, if such employer: employs more than five employees and increases payroll by at least twenty percent due to the creation of new jobs which pay at least the county average wage; or employs less than five employees and adds new employees so that the total number of employees is five or greater and such jobs pay at least the county average wage. Such employers will be allowed to retain all employee income tax withholding for two years if, in addition to the job creation and pay requirements, such employer offers health insurance and pays more than fifty percent of such premiums for all employees. No more than five million dollars in benefits will be available annually under the small business and entrepreneurial growth act.

Section 620.1893 allows the creation of Business, Education, Science and Technology (BEST) districts, projects and plans. If created, the district would be allowed to retain one-half of the incremental increase in General Revenue sales tax revenue generated within the district and income tax withheld on new employees within the district.

The proposal contains an emergency clause for the Equity Investors program, changes to the Qualified Research tax credit and for changes to the Quality Jobs program.

FISCAL DESCRIPTION (continued)

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
Office of the State Treasurer
Department of Higher Education
Office of the Secretary of State
Department of Social Services

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