COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2481-04
Bill No.: HCS for HB Nos. 1236 & 1230
Subject: Economic Development
Type: Original
Date: April 18, 2019

Bill Summary: This proposal establishes the Missouri Rural Workforce Development Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	($63,987)	($68,632 to $25,068,632)	($69,267 to $25,069,267)
Total Estimated Net Effect on General Revenue	**($63,987)**	**($68,632 to $25,068,632)**	**($69,267 to $25,069,267)**

Note: The fiscal note 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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**1 FTE**	**1 FTE**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning** (**B&P**) assume this proposal would create a tax credit for taxpayers making a capital investment in a rural fund against such investor's state tax liability. The tax credit shall be equal to a proportion of their investment into the rural fund. There is a cap of $25 million that can be redeemed each calendar year; therefore, Total State Revenue could be reduced by up to $25 million. The tax credit has a five year carry forward, so in a particular calendar year more than $25 million may be redeemed.

In addition, a rural fund that seeks to have an equity investment certified as a capital investment eligible for credits shall pay a non-refundable application fee of five thousand dollars to DED. B&P assumes this money would go into General Revenue. Therefore, General Revenue could be increased by an unknown amount. There is not enough available data for B&P to estimate the potential revenues.

The rural fund could be subject to a penalty. B&P assumes this money would go into General Revenue. Therefore, General and Total State Revenues could be increased by an unknown amount.

This proposal could impact the calculation pursuant to Art. X, Sec. 18(e).

Officials at the **Department of Economic Development** (**DED**) assume there is no annual cap on the program and no statistical way to determine the quantity of entities that might participate and/or how much those entities would contribute. This has the potential to be a large program. DED will need to hire 2 Economic Development Incentive Specialists III ($51,180) to administer it. DED has no estimate for any other fiscal impact because it cannot determine the amount of credits that will be issued. Thus the impact is unknown.

Oversight has, for fiscal note purposes only, changed the starting salary for the Economic Development Incentive Specialist III (from $51,108 to $45,052) to correspond to the starting salary for comparable positions at DED. Oversight also removed the $2,854 for travel expenses requested by DED. This proposal only requires the companies to submit paperwork to DED. It does not require DED to inspect or audit any sites.

Oversight notes that this proposal requires an entity that wants to participate in this program to demonstrate to DED that they have previously invested over $100 million in nonpublic companies in rural areas in the United States. DED stated they were unsure how many, if any, entities might participate; therefore, Oversight will only show one FTE in the fiscal note. If DED

ASSUMPTION (continued)

reaches the number of participants to justify additional FTE they can seek additional resources through the appropriation process.

Oversight notes this proposal states that the maximum capital investment in any one business (by one or more rural funds) shall be the greater of 20% of a rural fund's capital investment authority or $6,500,000. This proposal creates a $25 million tax credit for capital investments made under §620.3500 to §620.3530. Oversight will show an impact as $0 to $25,000,000 per year.

Oversight notes this proposal allows the recapture of any tax credits for failure of a rural fund to comply with the requirements of this proposal. Oversight will show an Unknown impact from the recapture provision.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** (**DIFP**) assume a potential unknown reduction of premium tax revenues as a result of the creation of the Missouri Rural Workforce Development Act tax credit. 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 throughout 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.

Oversight notes in §620.3510.1(5) requires any entity wanting to participate to submit a $5,000 application fee. Oversight will show an impact of Could exceed $5,000 annually. Oversight will show the fee going into General Revenue.

Oversight currently does not have the data or resources available to produce independent revenue projections, therefore Oversight uses the same assumptions for revenue growth as the FY 2020 Consensus Revenue Estimate (CRE) for revenue growth in all future years. The CRE assumes an increase in net general revenue collections of $192.6 million for FY 2020.

Oversight notes pursuant to §143.011 - §143.022 (SBs 509 & 496 2014) if the previous fiscal year's net general revenue collections exceed the highest net general revenue collections of the three previous fiscal years by at least $150 million, then there will be a reduction in the individual income tax rate by one-tenth of a percent and a reduction for individual income tax filers of 5% of "business income." These reductions will reduce net General Revenue collections by an estimated $160.0 million annually. Oversight notes the proposed legislation may impact

ASSUMPTION (continued)

future net revenue collections and could impact future triggering of the rate reductions required under §143.011 - §143.022.

FISCAL IMPACT - State Government	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
Cost - DED §620.3500			
Personal Service	($37,543)	($45,503)	($45,958)
Fringe Benefits	($21,949)	($26,477)	($26,615)
Equip & Exp	($9,495)	($1,652)	($1,694)
Total Cost -	($68,987)	($73,632)	($74,267)
FTE Change - 1	1 FTE	1 FTE	1 FTE
Revenue - DED §620.3510.1(5) application fee	Could exceed $5,000	Could exceed $5,000	Could exceed $5,000
Cost - DED §620.3505 tax credit for capital investments	$0	$0 to ($25,000,000)	$0 to ($25,000,000)
Revenue - DED recapture of tax credits	$0	$0	Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($63,987)**	**($68,632 to $25,068,632)**	**($69,267 to $25,069,267)**
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE

Note: The fiscal note 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.

FISCAL IMPACT - Local Government	FY 2020 (10 Mo.)	FY 2021	FY 2022
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This bill establishes the "Missouri Rural Workforce Development Act," which provides a tax credit for certain investments made in businesses located in rural areas in this state.

This bill allows investors to make capital investments in a rural fund, as defined in the bill. Such investors must be allowed a tax credit for a period of six years beginning with the year the investor made a capital investment. The tax credit will be equal to a percentage of the capital investment. The percentage will be zero for the first two years, and 15% for the subsequent four years. Tax credits issued in the bill will not be refundable or sellable, but may be carried forward to subsequent tax years, as described in the bill.

A rural fund wishing to accept investments as capital investments must apply to the Department of Economic Development. The application will include the amount of capital investment requested, a copy of the applicant's license as a rural business or small business investment company, evidence that the applicant has made at least $100 million in investments in nonpublic companies located in rural areas throughout the United States, and a business plan that includes a revenue impact statement projecting state and local tax revenue to be generated by the applicant's proposed qualified investments, as described in the bill. The rural fund will also submit a non-refundable application fee of $5,000.

The department must grant or deny an application within 30 days of receipt. The department will deny an application if the application is incomplete or insufficient, or if the revenue impact assessment does not demonstrate that the business plan will result in a positive economic impact on the state over a 10 year period or if the department has already approved the maximum amount of capital investment allowed.

The department may certify capital investments that would result in the authorization of up to $25 million dollars in tax credits to be claimed each year. Rural funds must use capital investments made by investors to make qualified investments, as defined in the bill, in eligible businesses. Eligible businesses are businesses that, at the time of the qualified investment, have fewer than 250 employees and is located in either an opportunity zone, as defined under federal law, or in a rural area in the state, defined as any county with a population of less than 90,000.

The department may recapture tax credits if the rural fund does not invest 60% of its capital investment authority in qualified investments within two years of the date of the capital

FISCAL DESCRIPTION (continued)

investment, and 100% of its capital investment authority within three years, or if the rural fund fails to maintain qualified investments equal to 90% of its capital investment authority in years three through six, as described in the bill.

Rural funds must submit annual reports to the department, including the location of each eligible business receiving a qualified investment, the number of jobs created and jobs retained as a result of qualified investments, the average salary of such jobs, and any other information required by the department, as described in the bill.

At any time after the sixth anniversary of the capital investment, a rural fund may exit the program if the fund has satisfied the job creation and retention requirements. A rural fund not meeting such job creation and retention requirements may exit the program upon the payment of a penalty, which will be calculated as described in the bill.

The department may not accept any new applications for tax credits after December 31, 2029.

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 Insurance, Financial Institutions and Professional Registration
Office of Administration Division of Budget and Planning

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April 18, 2019

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April 18, 2019

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