

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3051-05  
Bill No.: SCS for SB 1180  
Subject: Education, Higher; Science and Technology; Taxation and Revenue; Saint Louis; Kansas City.  
Type: Original  
Date: March 8, 2004

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	(\$110,954 to Unknown)	(\$2,003,730 to Unknown)	(\$2,006,335 to Unknown)
<b>Total Estimated Net Effect on General Revenue Fund**</b>	<b>(\$110,954 to UNKNOWN)</b>	<b>(\$2,003,730 to UNKNOWN)</b>	<b>(\$2,006,335 to UNKNOWN)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Life Sciences Research Trust*	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>Other</u> State Funds**</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\* Unknown amount of income and disbursements are assumed to offset.

\*\* The fiscal impact of the enterprise zones 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.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</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 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
<b>Local Government*</b>	<b>\$0 to (Unknown)</b>	<b>\$0 to (Unknown)</b>	<b>\$0 to (Unknown)</b>

\* **The fiscal impact of the enterprise zones 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 **Department of Revenue (DOR)** state this legislation creates life sciences reinvestment districts. New tax revenues from life sciences companies and their employees are to be transferred by DOR to the reinvestment commission of the district.

DOR states Section 179.952 provides for an "estimate" of the amount of state income tax withheld by the life sciences companies, provided by DOR. If DOR requires companies to report under a different format than other employers, it is sure to generate incoming phone calls (1- Tax Collection Tech I for every 24,000 calls and 1- Tax Processing Tech I in the field for every 5,200 calls/2,150 walk-ins). DOR would also require 1 Tax Processing Tech I to maintain and track the new state revenues.

DOR states Section 172.952 requires "income tax withheld" to be used in determining additional tax. DOR will need to know the number of people employed by the life sciences companies and their salaries in order to provide a reasonable estimate of the withholding tax.

ASSUMPTION (continued)

DOR assumes the total cost of the three new FTEs (each at \$21,792 annually) would be roughly \$125,000 per year to the General Revenue Fund.

**Oversight** assumes DOR will require at least one of the new FTE and possibly all three as requested by the department. Therefore, Oversight will show a range of expense to the General Revenue Fund from the one FTE to all three FTE. Oversight assumes DOR will not need additional rental space for the required FTE(s).

In response to a previous version of the proposal, officials from the **Office of Administration - Budget and Planning (BAP)** stated the proposal had no impact on their agency.

BAP assumed that section 172.954 provides for the creation of life sciences reinvestment districts in Missouri. The districts together cover the entire state. Section 172.960 directs the DOR and other taxing districts to provide for the collection of new tax revenues attributable to a life science company, and the transfer of these revenues to the corresponding life science reinvestment commission. New tax revenues are defined as the incremental increase in income, sales, and property taxes of a life science firm, and the withholding taxes attributable to its employees, over a specified base year.

Information supplied by the Missouri Economic Research and Information Center indicates that 170,000 Missourians are employed by the life sciences industry, and earn about \$6.7 billion annually. The Center's definition of "life sciences industry" is very similar to the definition in this proposal. Assuming that about 4% of this payroll amount is withheld for tax purposes, this generates about \$268 million in withholding taxes. Assuming a 2% growth rate, the withholding increment to be transferred to the reinvestment districts in the first year is estimated \$5.4 million.

BAP stated it has no basis for estimating the increments of other taxes generated at life science firms. This proposal would have little impact on total state revenue. This proposal may negatively impact general revenue.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the life science reinvestment districts and commissions' authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 24 new pages of regulations in the Code of State Regulations at a cost of \$27.00 per page, and 36 new pages in the Missouri Register at a cost of \$23.00 per page. Costs due to this proposal are estimated to be \$1,476, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent

fiscal years would depend entirely on the number, length, and frequency of the rules filed,

ASSUMPTION (continued)

amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal, however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Insurance (INS)** state the legislation expands the enterprise zone designations by (9) and satellite zone designations by (1). Enterprise zone tax credits could then be utilized in the new designated areas. Various tax credits are allowed for enterprise zones under 135.200-135.270. If insurance companies invest or expend into the new enterprise zones they will be eligible for additional tax credits which will reduce premium tax revenues. Premium tax revenue is split 50/50 between GR and County Foreign Insurance Fund or deposited solely into the County Stock Fund depending on the type of company. County Foreign Insurance Fund and County Stock Fund are later distributed to school districts.

INS assumes they have no way to estimate how many, what type of company, or to what extent insurance companies will take advantage of the tax credits available with the new enterprise zone designations. Therefore, INS assumes an unknown loss of premium tax revenue to the three funds as a result of this proposal.

Officials from the **Department of Economic Development (DED)** state they would have no role in the Life Sciences Reinvestment Act and therefore would have no fiscal impact from this part of the proposal. DED also states that the proposal employs a tax increment financing method similar to that used in local and state TIF, MODESA and MORESA (latter two enacted via HB 289 in 2003). DED states it is also similar in other ways to HB 688 enacted in 2003, which authorized a portion of the tobacco settlement proceeds to be used for life science research grants, with decisions made by the Life Science Research Board.

DED states it appears the mechanism for using state and local revenue for a project would allow 100% of various state and local increments to be diverted to various life science reinvestment commissions to be disseminated via grants for "life science projects", which include the advancement of the life science industry. Therefore, DED assumes there would be no net benefit to the state and perhaps a net loss to the state in Total State Revenues.

ASSUMPTION (continued)

Regarding the Enterprise Zones, DED states the bill creates one new urban enterprise zone (\$892,178), one satellite zone (\$60,000 to unknown), and eight rural enterprise zones at a cost of \$118,745 each. These costs are projected but would be offset by some positive but undeterminable economic benefits to the state.

DED states they would be required to administer the new enterprise zones created, and therefore assume the need for one Economic Development Incentive Specialist II (at \$38,088 annually) plus E&E to administer the one new urban enterprise zone, one satellite zone, and eight rural enterprise zones. DED assumes the total cost of the proposal, including the enterprise zones as well as the requested FTE would be roughly \$197,000 to unknown.

**Oversight** assumes DED will not pay for additional office space for this single FTE.

**Oversight** also assumes the Life Sciences Reinvestment Act will utilize the Life Sciences Research Trust Fund (as established in 196.1100, RSMo) to receive new tax revenues in the districts as well as to make disbursements. Oversight assumes the expenses and disbursements resulting from this proposal to the Life Sciences Research Trust Fund will offset.

**Oversight** has ranged the loss of income to the local political subdivisions from \$0 to Unknown since taxing districts may by ordinance or order allocate their new tax revenue to the new commission.

**This proposal may decrease Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2005	FY 2006	FY 2007
<b>GENERAL REVENUE</b>			
<u>Cost - Department of Revenue</u>			
Personal Services (1 to 3 FTE)	(\$22,337 to \$67,011)	(\$22,895) to (\$68,686)	(\$23,468) to (\$70,403)
Fringe Benefits	(\$9,248 to \$27,743)	(\$9,478 to \$28,436)	(\$9,716 to \$29,147)
Expense and Equipment	(\$7,125 to \$21,376)	(\$585 to \$1,755)	(\$603 to \$1,808)
Total Cost - DOR	(\$38,710 to \$116,130)	(\$32,958 to \$98,877)	(\$33,787 to \$101,358)

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2005	FY 2006	FY 2007
<u>Costs - DED</u>			
Personal Service (1 FTE)	(\$39,040)	(\$40,016)	(\$41,017)
Fringe Benefits	(\$16,163)	(\$16,567)	(\$16,981)
Expense and Equipment	<u>(\$17,041)</u>	<u>(\$12,051)</u>	<u>(\$12,412)</u>
Total Costs - DED	<u>(\$72,244)</u>	<u>(\$68,634)</u>	<u>(\$70,410)</u>
<u>Loss</u> - Satellite Zone in Jackson Co.	\$0	(\$60,000 to Unknown)	(\$60,000 to Unknown)
<u>Loss</u> - Enterprise Zone in Laclede Co.	\$0	(\$118,745)	(\$118,745)
<u>Loss</u> - Enterprise Zone in Richland	\$0	(\$118,745)	(\$118,745)
<u>Loss</u> - Enterprise Zone in Crocker	\$0	(\$118,745)	(\$118,745)
<u>Loss</u> - Enterprise Zone in Nixa	\$0	(\$118,745)	(\$118,745)
<u>Loss</u> - Enterprise Zone in Ozark	\$0	(\$118,745)	(\$118,745)
<u>Loss</u> - Enterprise Zone in Douglas Co.	\$0	(\$118,745)	(\$118,745)
<u>Loss</u> - Enterprise Zone in Sugar Creek	\$0	(\$892,178)	(\$892,178)
<u>Loss</u> - Enterprise Zone in Saint Clair	\$0	(\$118,745)	(\$118,745)
<u>Loss</u> - Enterprise Zone in Pacific	\$0	(\$118,745)	(\$118,745)
<u>Transferred Out</u> - "new tax revenue" from life science districts now goes to the life sciences reinvestment commission	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT TO GENERAL REVENUE</b>	<b><u>(\$110,954 TO UNKNOWN)</u></b>	<b><u>(\$2,003,730 TO UNKNOWN)</u></b>	<b><u>(\$2,006,335 TO UNKNOWN)</u></b>



FISCAL IMPACT - Small Business

This proposal would impact small life science businesses within the new Life Sciences Project areas or within the new satellite zone and enterprise zones.

DESCRIPTION

The proposal establishes eight life science reinvestment districts. They are to be located in the areas of Kansas City, St. Louis, central Missouri, Springfield, St. Joseph, Joplin, Cape Girardeau and one that includes areas of Missouri not encompassed by the other districts.

The proposal also creates a satellite zone in Jackson County.

The proposal also creates nine enterprise zones. They are to be located in Laclede County, Douglas County, and the cities of Richland, Crocker, Nixa, Ozark, Sugar Creek, Saint Clair and Pacific.

The proposal has an emergency clause.

This legislation is not federally mandated and would not require additional capital improvements or rental space. This proposal may, however, duplicate existing programs within the State.

SOURCES OF INFORMATION

Department of Revenue  
Office of Administration  
    Budget and Planning  
Office of the Secretary of State  
Department of Economic Development



Mickey Wilson, CPA

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