

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3551-01  
Bill No.: SB 998  
Subject: Taxation and Revenue - General; Tax Credits; Enterprise Zones; Economic Development.  
Type: Original  
Date: February 2, 2004

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	(Minimal)	(Minimal)	(Minimal)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(Minimal)</b>	<b>(Minimal)</b>	<b>(Minimal)</b>

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

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 6 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</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials from the **Department of Insurance** assume the proposal would have no fiscal impact on their agency

Officials from the **Department of Revenue (DOR)** state they do not anticipate a significant amount of additional credit claims will be received. However, if this assumption is incorrect, DOR will need one Tax Processing Tech I for every 4,000 additional credits claimed by this legislation. DOR will monitor the credit and if FTE are needed, the request will be made through the normal budgetary system.

DOR defers to the Department of Economic Development or the Office of Administration - Budget and Planning for an estimate on the revenue impact.

Officials from the **Department of Economic Development (DED)** did not respond to our request for fiscal impact, however, in response to a similar proposal from last year, DED had the following response regarding the change in definition for ‘distressed community’:

Based upon preliminary data, the changes proposed by this bill would increase the number of census block groups in metropolitan statistical areas that would be designated as “distressed

ASSUMPTION (continued)

communities.” It would also allow certain portions of metropolitan enterprise zones to also be designated as “distressed communities.” Several active programs are affected by the “distressed communities” designation as follows:

Rebuilding Communities Tax Credit Program (135.535, RSMo) – only businesses in distressed communities qualify for this credit. In DED’s fiscal note response to this bill when enacted (HB 1656, 1999) DED projected a cost of \$10 million annually – the cap on the program. If that fiscal note response is the baseline, then this bill will have no fiscal impact. If the baseline is actual amounts projected to be issued and redeemed, this program has never authorized or issued \$10 million in credits in any year. In FY 2002 DED authorized approximately \$5.5 million in credits, and approximately \$3.4 million in credits were redeemed. For FY 2004, DED projects \$6.25 million issued and \$5 million redeemed. Accordingly, the effect of this change could increase the authorized amounts anywhere from \$0 to \$3.75 million with a corresponding increase in projected credits redeemed of \$0 to \$3 million.

Transportation Development Tax Credit Program (135.545, RSMo) – only transportation projects in distressed communities qualify for this credit. In DED’s fiscal note response to this bill when enacted (HB 1656, 1999) DED projected a cost of \$10 million annually – the cap on the program. If that fiscal note response is the baseline, then this bill will have no fiscal impact. If the baseline is actual amounts projected to be issued and redeemed, this program has never authorized or issued \$10 million in credits in any year. In FY 2002 DED authorized approximately \$15,000 in credits, and approximately \$850,000 in credits were redeemed. For FY 2004, DED projects \$7.7 million issued and \$5.87 million redeemed. Accordingly, the effect of this change could increase the authorized amounts anywhere from \$0 to \$2.3 million with a corresponding increase in projected credits redeemed of \$0 to \$2.185 million.

Skills Development Tax Credit (a.k.a. individual training account 620.1400 – 620.1460, RSMo) - only projects in distressed communities qualify for this credit. In DED’s fiscal note response to this bill when enacted (HB 1656, 1999) DED projected a cost of \$6 million annually – the cap on the program. If that fiscal note response is the baseline, then this bill will have no fiscal impact. If the baseline is actual amounts projected to be issued and redeemed, this program has never authorized or issued any credits in any year. For FY 2004, DED projects \$10,000 issued and \$5,000 redeemed. Accordingly, the effect of this change could increase the authorized amounts anywhere from \$0 to \$5.9 million with a corresponding increase in projected credits redeemed of \$0 to \$2.95 million. Because of the lack of participation in this program, DED would not expect the addition of geographic areas to turn the program around such that the costs would more likely be minimal rather than the larger \$2.95 million.

ASSUMPTION (continued)

Neighborhood Preservation Program (135.475 - 135.487, RSMo) - The “qualifying areas” include areas designated as distressed communities. Regardless of whether the baseline is the original fiscal note or actual use, the change in designation would have no fiscal impact on this program because DED have always authorized the full \$8 million in credits set aside for qualifying areas.

New/Expanding Business Facility Tax Credit Program (135.100 – 135.150, RSMo) - Businesses in distressed communities under this program can receive a slightly larger tax credit amount for jobs and investment. This program is non-discretionary and is not capped. DED did not detect an increase attributable to this provision for distressed communities since the bill was effective in 1999. DED does not anticipate that the existence of more distressed communities in metro areas will correspond with a notable increase in the cost of this program and therefore project a zero fiscal impact as regards this program.

Other programs affected by the Distressed Community designation are either inactive or are discretionary programs where the cost is predictable and the change in designation should have no fiscal impact.

**Oversight** assumes the definition of “distressed communities” in Section 135.530 is used by various programs under DED, including CAPCO, Tax Credit for Contributions to Innovation Centers, Credit for New or Expanded Business Facilities as well as others. While some of these programs are capped, the New or Expanding Business Facility tax credit is not capped. A business in a newly created distressed community would be allowed a larger tax credit for expanding an existing business or creating a new business facility than they would if they were not in the newly defined distressed community. Companies not in a distressed communities are allowed the credit, but at a lower per-employee and per-capital rate. With DED’s assumption that expanding the definition of distressed communities would have no impact (or certainly negligible) on the amount of tax credits utilized, **Oversight** assumes this proposal would have a minimal fiscal impact on the General Revenue Fund.

**Oversight** assumes this proposal may result in the increased utilization of some of the various tax credit programs that use the definition of distressed communities, however, many of the programs are capped, therefore, Oversight has already reflected the potential losses to the General Revenue fund in previous fiscal notes.

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

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
<b>GENERAL REVENUE FUND</b>			
<u>Loss - Expansion of definition of "distressed community"</u>	<u>(Minimal)</u>	<u>(Minimal)</u>	<u>(Minimal)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b><u>(Minimal)</u></b>	<b><u>(Minimal)</u></b>	<b><u>(Minimal)</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that are in the newly expanded definition of 'distressed community' may be fiscally impacted by this proposal if they can now qualify for the various tax credit programs that utilize that definition.

DESCRIPTION

Current law defines "distressed community" to include various areas including metropolitan statistical areas and certain census block groups. Regarding census block groups, this proposal modifies the definition to say that a distressed community includes census block groups which have a population of at least 500, down from the current law population requirement of 2,500. The proposal also adds to the definition by including within the definition federal empowerment zones, federal enhanced enterprise communities, or a state enterprise zone designated before January 1, 1986, if such zones or communities lie in metropolitan statistical areas.

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 Insurance  
Department of Revenue

**NOT RESPONDING: Department of Economic Development**



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Director  
February 2, 2004