

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5383-06
Bill No.: Truly Agreed To and Finally Passed SS for SCS for HCS for HB 2393
Subject: Economic Development; Economic Development Department
Type: Original
Date: May 27, 2008

Bill Summary: This proposal modifies provisions of the enhanced enterprise zone tax benefit program and establishes the mega-projects tax credit.

FISCAL SUMMARY

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 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 Administration - Budget and Planning (BAP)** state this proposal creates a new tax credit for "mega-projects" in enterprise zones with an annual cap of \$40 million. Tax credits can be issued starting January 1, 2013. This will decrease general and total state revenues by that amount. The total amount of tax credits shall not exceed \$240 million over eight years. Tax credits shall be suspended if the tax credits issued less the total amount of repayments received equals \$155 million.

Further, the taxpayer is required to develop an acceptable repayment plan for the tax credits received. BAP presumes the entire amount of tax credits redeemed will eventually be repaid. Thus, it appears the net fiscal impact of this proposal is neutral over the life of the project and repayment plan.

Finally, these changes may induce economic activity which may indirectly generate additional general and total state revenues. BAP defers to the Department of Economic Development for an estimate of any such revenues.

Officials from the **Department of Economic Development (DED)** state while the change allows for \$40 million per year in credits with a cap of \$240 million, the bill calls for all costs to be re-paid. DED has analysis from our Missouri Economic Research and Information Center (MERIC) that indicates the present value of future benefits for one project will be \$250 million at a minimum and create many indirect jobs and service related jobs in addition to jobs created directly. DED has also worked with one private analyst which indicates a much higher rate of return on investment. Based on these facts, DED shows no negative impact and assumes there would be a positive but unknown over all fiscal impact.

The bill should have no major administrative or fiscal impact on DED. The bill expands the Enhanced Enterprise Zone (EEZ) program to include "Mega" projects. DED can't approve any mega-projects after December 31, 2008 and no credits can be issued prior to January 1, 2013. A professional third party feasibility analysis has to be conducted on behalf of the state and a professional third party financial analysis on the project must be completed. DED assumes these will be paid through a cost share of local, regional and state economic development organizations. A contract must be executed between DED and the tax credit recipient. DED assumes the fiscal impact is unknown but positive. DED assumes minimal to no administrative impact from this proposed legislation.

ASSUMPTION (continued)

In response to a previous version of this proposal, officials from the **Department of Revenue (DOR)** assumed this new credit will require the Form MO-TC to be modified as programming changed to the MINITS Tax System. Individuals without a Missouri tax liability would be allowed to attach the MO-TC to the MO-1040 Form and write "Mega Project" on the top of the form to claim the refund. Personal tax will require one Tax Processing Technician for every 6,000 claims. However, at this time, the Department believes the number of claims will be significantly less than 6,000. Thus, the increase will be handled with existing personnel.

DOR's Corporate Tax section assume:

- programming changes will be required to the COINs system;
- form MO-TC will require modifications;
- one Revenue Processing Technician I for every 5,200 of additional errors generated; and
- One Revenue Processing Technician I for every 2,080 pieces of additional correspondence generated.

Due to the Statewide Information Technology Consolidation, DOR's response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed To and Finally Passed, the OA-IT costs shown will be requested through appropriations by OA-IT.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources; however, if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 2 existing CIT III for 2 month for modifications to MINITS. The estimated cost is \$16,744.

DOR assumed a cost for three additional FTE of roughly \$115,000 per year.

With the limited number of businesses that will qualify for the new Mega-Projects tax credit, **Oversight** assumes DOR will be able to administer this tax credit program with existing resources.

Oversight assumes the new mega-projects program is above and beyond the benefits from the Enhanced Enterprise Zone program (overall cap of \$14 million). Therefore, Oversight assumes this change may increase the amount of tax credits issued by DED (the total amount of tax credits that may be issued shall not exceed \$240 million). The tax credits under the mega-project may

ASSUMPTION (continued)

not be issued before January 1, 2013; therefore, the impact of the tax credits is beyond the scope of this fiscal note.

Oversight assumes there would be some positive benefit to the state for issuing these credits (and getting a mega-project established in Missouri), but Oversight considers those benefits to be indirect, and have not reflected them in this fiscal note. Oversight also assumes repayment of the credits would occur in years beyond the scope of this fiscal note.

This proposal may reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	<u>FY 2009</u> <u>(10 Mo.)</u>	<u>FY 2010</u>	<u>FY 2011</u>
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This bill prohibits taxpayers from simultaneously receiving tax credits from the Enhanced Enterprise Zone Program and the Quality Jobs Program for the same facility.

This proposal also establishes a tax credit for mega-projects.

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 - Budget and Planning



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