

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1612-02
Bill No.: HB 1028
Subject: Economic Development; Tax Credits
Type: Original
Date: April 6, 2009

Bill Summary: This proposal establishes incentives for alternative energy production.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	(\$63,552) to (\$5,730,219)	(\$69,458) to (\$5,736,125)	(\$71,541) to (\$5,738,207)
Total Estimated Net Effect on General Revenue Fund	(\$63,552 to \$5,730,219)	(\$69,458) to (\$5,736,125)	(\$71,541) to (\$5,738,207)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
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 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1	1	1

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	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal creates a tax credit for qualifying Missouri small businesses involved in the manufacture of alternative power generation equipment. The proposal increases the cumulative cap on Capital tax credit program from \$13 million to \$30 million. Therefore, this proposal could lower general and total state revenues by up to \$17 million.

Officials from the **Department of Revenue** and the **Office of the State Treasurer** each assume the proposal will not fiscally impact their respective agencies.

Officials from the **Department of Economic Development (DED)** state the proposed legislation re-establishes the Small Business Investment Capital Tax Credit program. The cap for this program is \$30 million (cumulative cap, not annual 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 related costs for this FTE include one-time expenditures for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, computer, professional development and travel.

The proposed legislation would have a negative impact on total state revenues of an additional \$30 million over a period of several years because this is a cumulative cap rather than an annual one. The Department of Economic Development is unable to determine the duration of the cap or the exact amount of impact to total state revenue.

DED assumes the cost of the additional FTE would total roughly \$70,000 per year.

This proposal increases the aggregate cap on the Capital tax credit program from \$13 million to \$30 million. The \$13 million aggregate cap has already been exhausted; therefore, no additional Capital tax credits are being issued. The additional \$17 million in credits that will be available with passage of this bill could be all issued in a single year, or could be spread over many years. In order to reflect the full potential of an additional \$17 million in credits that can be issued under this revamped program, **Oversight** will spread the \$17 million in tax credits over the three years of the fiscal note.

ASSUMPTION (continued)

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. Therefore, under this proposal, if \$17,000,000 of additional credits are issued, Oversight would assume \$14,110,000 (83 percent) of credits to be redeemed, reducing Total State Revenues.

Oversight assumes there would be some positive benefit to the state from the changes in this proposal; however, Oversight considers those benefits to be an indirect effect and have not reflected such on the fiscal note.

This proposal could decrease Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE			
<u>Costs - DED</u>			
Personal Service (1 FTE)	(\$35,803)	(\$44,252)	(\$45,580)
Fringe Benefits	(\$17,411)	(\$21,520)	(\$22,166)
Expense and Equipment	(\$10,338)	(\$3,686)	(\$3,795)
<u>Total Costs - DED</u>	(\$63,552)	(\$69,458)	(\$71,541)
FTE Change - DED	1 FTE	1 FTE	1 FTE
 <u>Loss - Capital Tax Credits - program</u>			
expanded from \$13 million cumulative cap (which has been exhausted) to \$30 million cumulative cap	\$0 to (\$5,666,667)	\$0 to (\$5,666,667)	\$0 to (\$5,666,666)
 ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	 (\$63,552) to <u>(\$5,730,219)</u>	 (\$69,458) to <u>(\$5,736,125)</u>	 (\$71,541) to <u>(\$5,738,207)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the program could be positively impacted by this proposal.

FISCAL DESCRIPTION

This bill changes the laws regarding the Linked Deposit Loan Program. In its main provisions, the bill:

- (1) Expands the program to include eligible alternative energy consumers and eligible governmental entities;
- (2) Revises the definition of "eligible job enhancement business" to limit the amount of the linked deposit to not exceed \$50,000 per job created or retained plus the initial cost of the physical expansion, renovation, or capital outlay when an applicant can demonstrate the significant costs associated with the physical expansion, renovation, or modernization of a facility or equipment;
- (3) Increases from less than 25 to less than 100 the number of employees a company can employ in order to be considered an eligible small business; and
- (4) Specifies that the total amount of tax credits available for qualified investments in Missouri small businesses cannot exceed \$30 million and at least \$20 million must be for the manufacture of alternative power generation equipment. Currently, the total amount of tax credits cannot exceed \$13 million.

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

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

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, slightly slanted style.

Mickey Wilson, CPA
Director
April 6, 2009