

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4472-02
Bill No.: SB 895
Subject: Business and Commerce; Corporations; Economic Development; Science and Technology; Taxation and Revenue
Type: Original
Date: February 16, 2010

Bill Summary: This proposal establishes the Missouri Science and Innovation Reinvestment Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(\$104,942)	(\$59,178) to (Unknown)	(\$60,954) to (Unknown)
Total Estimated Net Effect on General Revenue Fund	(\$104,942)	(\$59,178) to (Unknown)	(\$60,954) to (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Science and Innovation Reinvestment	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

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 2011	FY 2012	FY 2013
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Accounting** and the **University of Missouri** each assume the proposal would not fiscally impact their respective agencies.

Officials from the **Department of Economic Development (DED)** state the proposed legislation establishes the Missouri Science and Innovation Reinvestment Act and the Missouri Science and Innovation Authority. DED anticipates an unknown fiscal impact.

Officials from the **Department of Revenue (DOR)** state Section 348.265.1 requires DOR to assist the Department of Economic Development to establish the base year gross wages paid by science and innovation companies to their employees and report that amount to the corporation, the governor, and the general assembly. Within 180 days after the end of each fiscal year beginning with FY 10, DED with the assistance of DOR will be required to determine and report to the governor and the general assembly the amount by which aggregate science and innovation employee's gross wages for the fiscal year exceeds the base year gross wages.

DOR will have a difficult time determining an accurate base year gross wage amount. The Department does not currently collect data which would identify science and innovation companies or employees of a university who is associated with or supports the research, development, commercialization, or business of science and technology in the state. Following passage of this legislation, the Department can make changes to our tax forms and request these companies provide additional detail to identify them as a science and innovation company. Additionally, DOR would require each university to separately identify each employee who is a science and innovation employee. However, this data would not be available by June 30, 2010.

DOR's Personal Tax section states the need for one Management Analyst Specialist I (Range 23, Step Q) for reporting purposes to work with Labor and Industrial Relations to establish a base year and report out each year the amounts that exceeds the base year. DOR assumes a cost of the FTE of roughly \$70,000 per year.

DOR has access to a third party database (Info USA) that may have the potential to drill down to the employee level using NAICS codes. However, this data is up to three years old. A refresh of that data costs \$50,000.

DOR states this proposal requires their agency to be more involved administratively than similar proposals from this year.

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ASSUMPTION (continued)

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal should not result in additional costs or savings for their division. BAP has identified the following sections which may have budget or revenue implications:

- 196.1115.3 - Makes the MTC the administrative agent of the LSRB.
- 348.251.1 --- Definitions, in particular (3) "Base Year" is Fiscal Year 2010.
- 348.256.10 - The MTC may employ needed staff. Corporation employees shall be eligible to participate in MOSERS and MCHCP, but are not considered state employees. BAP assumes these costs will be borne by the MTC, by either the Missouri Science and Innovation Reinvestment Fund, or other funding available to MTC. BAP defers to DED /MTC for any estimated costs.
- 348.261(15) - MTC may establish a proof of concept finance program to make certain loans to qualifying companies.
- 348.261(16) - MTC may establish an angel investment finance program to make coinvestments in qualifying companies.
- 348.261(17) - MTC may establish a venture capital coinvestment fund to make investments in professionally managed venture capital funds. (Note: Other versions of this proposal also allowed for the creation of a seed capital finance program.)
- 348.263.3 --- The corporation is subject to open records laws, except as otherwise provided.
- 348.264 - The Missouri Technology Investment Fund is renamed the Missouri Science and Innovation Reinvestment Fund.
- 348.265.1 -
 - At the end of each fiscal year DED and DOR shall determine the growth in gross wages of Science and Innovation companies, as defined in this proposal by NAICS codes, as well as companies that DED and DOR may identify as qualifying organizations. They shall compare these wages to wages earned during the base year (FY 10), and the growth shall be reported to the Governor and General Assembly.
 - Based on data supplied to BAP by DED, BAP estimates that wage growth in these industries averages \$200M per year, but could vary substantially. The applicable percentage and calculated transfer is presented in the table below.
 - (Technical note: while language in the proposal alludes to a transfer, there is no specific language following this subsection to specifically authorize the DOR or any other agency to make a transfer from GR to the MSIRF.)
 - This transfer is subject to appropriation.

ASSUMPTION (continued)

BAP notes the base year is not adjusted for inflation in this proposal. Because there is no inflationary adjustment, this could lead to the redirection of normal increases in income tax growth from GR into the new fund.

Figures in Millions				
Fiscal Year	Growth from Prior Year	Growth From Base Year	Applicable Percentage	Estimated Transfer
2011	200	200	6%	12
2012	200	400	6%	24
2013	200	600	6%	36
2014	200	800	6%	48
2015	200	1000	6%	60
2016	200	1200	6%	72
2017	200	1400	6%	84
2018	200	1600	6%	96
2019	200	1800	6%	108
2020	200	2000	6%	120
2021	200	2200	6%	132
2022	200	2400	6%	144
2023	200	2600	6%	156
2024	200	2800	6%	168
2025	200	3000	5%	180
2026	200	3200	5%	160
2027	200	3400	5%	170
2028	200	3600	5%	180
2029	200	3800	5%	190
2030	200	4000	5%	200
2031	200	4200	4%	168
2032	200	4400	4%	176
2033	200	4600	4%	184
2034	200	4800	4%	192
2035	200	5000	4%	200

Officials from the **Missouri Consolidated Health Care Plan (MCHCP)** state the fiscal impact on MCHCP is the product of the predicted membership magnitude of Missouri Technology Corporation (MTC) and the estimated net payment per active employee per year. MCHCP assumes the health status of MTC subscribers and their number of dependents per subscriber is similar to MCHCP's existing active employee population. Net payments for active employee

ASSUMPTION (continued)

subscribers are approximately \$9,652 per subscriber per year based on 2010 estimates. Eventually, MTC would have retirees covered under their medical plan. Again, assuming the health status of MTC retirees and their number of dependents per subscriber is similar to MCHCP's existing retiree population; net payments for retiree subscribers are approximately \$8,564 per subscriber per year based on 2010 estimates.

In response to a similar proposal from this year (HB 1511) officials from the **Missouri State Employees Retirement System (MOSERS)** stated the contribution rate for state employees is 13.81 percent.

Oversight assumes that if the employee of the authority are allowed to join MOSERS, the contribution costs would be borne by the authority and not the State.

Officials from the **Office of the State Treasurer** and the **Department of Labor and Industrial Relations** did not respond to our request for fiscal impact.

Oversight assumes an unknown amount of withholding tax revenue may be redirected from the General Revenue Fund to the new Science and Innovation Reinvestment Fund beginning with the year starting on July 1, 2011 (or FY 2012). Oversight will reflect this as a potential loss of \$0 to an Unknown amount. Oversight will also assume that MTC will expend all of the proceeds deposited into the new fund

Oversight assumes this proposal could have positive fiscal benefits for the state; however, Oversight considers these benefits to be indirect and have not reflected them on the fiscal note.

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
<u>Costs - DOR</u>			
Personal Service	(\$30,859)	(\$38,141)	(\$39,286)
Fringe Benefits	(\$16,182)	(\$20,001)	(\$20,601)
Expense and Equipment	(\$7,901)	(\$1,036)	(\$1,067)
Refresh Data Costs	<u>(\$50,000)</u>	<u>\$0</u>	<u>\$0</u>
Total Costs - DOR	(\$104,942)	(\$59,178)	(\$60,954)
FTE Change DOR	1 FTE	1 FTE	1 FTE
 <u>Loss - Department of Revenue</u>			
percentage of withholding taxes lost to Science and Innovation Reinvestment	<u>\$0</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	<u>(\$104,942)</u>	<u>(\$59,178) to (Unknown)</u>	<u>(\$60,954) to (Unknown)</u>
 Estimated Net FTE Change for General Revenue			
	1 FTE	1 FTE	1 FTE
 SCIENCE AND INNOVATION REINVESTMENT FUND			
 <u>Income - withholding taxes redirected from the General Revenue Fund from companies within science and innovation area</u>			
	\$0	\$0 to Unknown	\$0 to Unknown
 <u>Costs - expenditures made by the MTC; including proof of concept loans, seed capital investments, angel investments, etc.</u>			
	<u>\$0</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
ESTIMATED NET EFFECT TO THE SCIENCE AND INNOVATION REINVESTMENT FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<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 act establishes the Missouri Science and Innovation Reinvestment Act. The act requires the advise and consent of the Senate for gubernatorial appointments to the Missouri Technology Corporation's board of directors and sets the terms and requirements for the various members of the board of directors. The powers and duties of the Missouri Technology Corporation are expanded to allow the corporation to assume all monies and assets of the Missouri Seed Capital Investment Board and to establish a proof of concept finance program, an angel investment finance program, and a venture capital co-investment fund. The act provides application, approval, and reporting requirements for programs established by the Missouri Technology Corporation. In addition to the exceptions to open records and meetings requirements provided under the Sunshine Act, the act authorizes the Missouri Technology Corporation to close certain meetings and records held by the corporation. The directors of the Department of Economic Development and the Department of Revenue must annually determine the incremental increase in gross wages paid within the state to science and innovation employees and apply a formula to such amount to determine the amount of funding necessary to administer the programs of the corporation. Once a determination is made, the directors of the Department of Economic Development and the Department of Revenue must report their findings to the Governor and the General Assembly. The act replaces the Missouri Technology Fund with the Missouri Science and Innovation Reinvestment Fund, which will receive annual appropriations made by the General Assembly, based upon recommendations made by the directors of the Departments of Economic Development and Revenue, and contributions made by private entities, the federal government, and local governments. The act requires that any contract entered into between the corporation and any not-for-profit organization must provide at least a one hundred percent match of funding received from the corporation.

FISCAL DESCRIPTION (continued)

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

Office of Administration
Department of Economic Development
Department of Revenue
Missouri State Employee Retirement Systems
Missouri Consolidated Health Care Plan
University of Missouri

NOT RESPONDING;

**Office of the State Treasurer
Department of Labor and Industrial Relations**



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Director
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