

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5605-02
Bill No.: HCS for HB 1729 with SA 1
Subject: Business and Commerce
Type: Original
Date: May 1, 2014

Bill Summary: This proposal requires the Department of Economic Development to establish an office in Israel for the purpose of promoting strategic partnerships between Israel based companies and Missouri based companies.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	(\$250,000)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue Fund	(\$250,000)	(Unknown)	(Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Economic Development Advancement	\$0 to \$1,935,506	\$0 to \$1,935,506	\$0 to \$1,935,506
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 to \$1,935,506	\$0 to \$1,935,506	\$0 to \$1,935,506

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
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 2015	FY 2016	FY 2017
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Economic Development (DED)** assume that this proposal requires DED to open an international trade and investment office in Israel. Currently DED has 14 international trade and investment offices (including Jefferson City) which are located in 12 different countries. DED assumes opening an office in Israel may have a negative fiscal impact ranging from \$0 - \$250,000. DED would need to take into consideration the Gross Domestic Product (GDP) for Israel and any demographic or geopolitical considerations for the market. DED also assumes that this is an estimate of costs to open the office only. Once the office has been established DED will need an annual appropriation to cover administration costs of the office.

Oversight will reflect the \$250,000 cost of opening of the office in FY 2015, and additional Unknown costs for the administration of the office in future fiscal years.

Officials at the **Department of Conservation**, the **Department of Natural Resources** and the **Missouri Department of Transportation** each assume there is no fiscal impact to their respective organizations from this proposal.

Senate Amendment 1 - Increase in Tax Credit Fee

Officials at the **Department of Economic Development (DED)** assume §620.1900 proposes a 2.5% increase in the fees DED is authorized to collect for each recipient of a DED tax credit. DED assumes this proposal will have an additional positive impact on Total State Revenue ranging from \$0 - \$1.9 million. The positive impact may not occur until FY 2017 or later because the increase in the fee will not take effect immediately and may not apply to projects currently awaiting issuance.

The Economic Development Advancement Fund (EDAF) which was created by statute 620.1900 is a fund consisting of monies derived from a 2.5% fee that DED is authorized to charge each recipient of any DED tax credit. At least fifty percent of the money is statutorily required to be used for marketing, technical assistance, training and contracts for specialized economic development services.

ASSUMPTION (continued)

The chart shows the fee revenues from the current fees collected in the past years for the EDAF:

Year	Revenues from 2.5% fee
FY06	\$553,594.16
FY07	\$1,712,420.60
FY08	\$3,603,835.52
FY09	\$3,927,659.56
FY10	\$4,174,721.02
FY11	\$4,402,352.50
FY12	\$3,722,281.63
FY13	\$3,209,227.74
FY14	\$1,311,933.26 (Actual July through January)

ASSUMPTION (continued)

The projected revenue for FY 14 is illustrated below:

FY14 TC Fee Revenues		
Month	Month	Revenues
01	July	181,978
02	August	326,614
03	September	140,406
04	October	315,229
05	November	160,908
06	December	141,918
07	January	41,117
08	February	390,280
09	March	237,056
10	April	
11	May	
12	June	
TOTAL		1,935,506

During the past 4 years, several budget items for BCS have been moved from General Revenue to EDAF. The fund will not be able to sustain the current spending level as the revenues into the fund are not substantial enough to cover the expenditures.

This past year the DED has seen a decrease in the number of taxpayers applying for tax credits. The reduction in tax credit recipients has caused a reduction in the amount currently collected in the fund.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal would not fiscally impact BAP. This changes the fee on tax credits issued by DED from 2.5% to 5%. Based on the current trend in FY 2014, BAP projects fee revenues to be \$2.3 million for FY 2014. Since this proposal doubles the fee, BAP estimates that this may increase Total State Revenues by up to \$2.3 million or more.

In response to similar legislation filed this year, SB 917, officials at the **Department of Revenue** and the **Office of State Treasurer** each assumed there was no fiscal impact to their organization from this proposal.

ASSUMPTION (continued)

Oversight assumes this proposal would become effective on August 28, 2014 since no other effective date is listed. Oversight will reflect the impact as \$0 (no additional credits authorized and no additional fees paid) up to the Department of Economic Development's estimate.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
<u>Cost</u> - Department of Economic Development - opening an office in Israel	<u>(\$250,000)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$250,000)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ECONOMIC DEVELOPMENT ADVANCEMENT FUND			
<u>Additional Revenue</u> - payment of increased fee	\$0 to <u>\$1,935,506</u>	\$0 to <u>\$1,935,506</u>	\$0 to <u>\$1,935,506</u>
ESTIMATED NET EFFECT ON ECONOMIC DEVELOPMENT ADVANCEMENT FUND	<u>\$0 to \$1,935,506</u>	<u>\$0 to \$1,935,506</u>	<u>\$0 to \$1,935,506</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that are recipients of the tax credits must pay the fee.

FISCAL DESCRIPTION

This act requires the Department of Economic Development to open an office in Israel if an appropriation is made for such purpose. The purpose of the office is to promote strategic partnerships between Missouri based companies and Israel based companies.

Currently, the Department of Economic Development may collect a fee for issuance of certain tax credits. The amount collected cannot exceed 2.5% of the amount of the tax credit. The fees collected are deposited into the Economic Development Advancement Fund. This act raises the amount that may be collected to 5% of the amount of the tax credit.

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 Conservation
Department of Economic Development
Department of Natural Resources
Department of Revenue
Missouri Department of Transportation
Office of Administration
Division of Budget and Planning
Office of State Treasurer



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