COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3327-11
BILL NO.: SCS for HS for HCS for HB's 1566 & 1810
SUBJECT: Economic Development; Taxation and Revenue; Administrative Rules.
TYPE: #Updated
DATE: May 5, 2000
Updated with the late response from the Department of Economic Development

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
#General Revenue*	$7,100,000 to (unknown)	$300,000 to (unknown)	$300,000 to (unknown)
Tobacco-Dependent Communities Revitalization	$0	$0	$0
#Total Estimated Net Effect on All State Funds*	**$7,100,000 to (Unknown)**	**$300,000 to (Unknown)**	**$300,000 to (Unknown)**

***Subject to appropriation from the General Assembly.**

FUND AFFECTED	FY 2001	FY 2002	FY 2003
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	**Unknown**	**Unknown**	**Unknown**

Numbers within parentheses: ( ) indicate costs or losses
This fiscal note contains 14 pages.

FISCAL ANALYSIS

ASSUMPTION

Eligible New Generation Cooperatives: Sec 32.105 to Sec. 32.110;

In response to similar legislation from this year, officials from the **Department of Economic Development (DED)** state this would expand the neighborhood assistance program (NAP) to allow "eligible new generation cooperatives" to qualify for NAP credits. The DED believes this bill allows certain types of "for profit" organizations (Cooperative Marketing Associations and Cooperative Companies) to qualify for and receive NAP credits. The DED assumes this would make administration of tax credits more difficult but believe this could be incorporated with existing staff. Therefore, the DED assumes this proposal will not have a fiscal impact to the state because the NAP credits are capped at a set amount and this proposal would simply create new entries to be eligible for the same amount of NAP credit dollars.

Officials from the **Department of Agriculture (AGR)** and the **Office of Administration** assume this part of the proposal will not have a fiscal impact to their respective agencies.

In response to similar legislation from this year, officials from the **Department of Revenue** anticipated an increase in the number of neighborhood assistance credits, however, the increase is unknown. The Division of Taxation, Personal Tax Bureau, will need one temporary tax season employee (a cost of $6,067) for every 130,000 credits filed with this credit (key entry) and one Tax Processing Tech I for every 2,000 credits claimed (processing). The Personal Tax Bureau will also need one Tax Processing Tech I for every 30,000 additional errors generated. The Division of Taxation, Business Tax Bureau, will need one Tax Processing Tech I for every 3,680 credits received.

Oversight assumes the Department of Revenue could request additional FTE to process the additional tax credits if the need arises, but for purposes of this fiscal note, the DOR is assumed to have no additional costs from this proposal. Oversight also assumes this proposal would not have a fiscal impact on the state since the Neighborhood Assistance Program credits are capped and this proposal would only add a different clientele to be eligible to receive the credits. Oversight assumes that $2.5 million of the NAP credits in fiscal years 2002 to 2006 would be earmarked for the eligible new generation cooperatives.

Community Improvement District Act: Sec. 67.1401 to Sec. 67.1551;

The **Department of Revenue (DOR)** states that if the Community Improvement Districts are not made up entirely of already existing political subdivisions, there could be substantial costs to the DOR for the administration (including major expensive system changes) of the new sales taxes

ASSUMPTION (continued)

that could be approved by voters.

Officials from the **State Tax Commission (TAX)** states this part of the proposal cleans up ballot/statutory language regarding local option business license and property tax, as well as enables imposition of local option sales tax "for any district purpose". The TAX assumes this proposal would not impact their agency.

Officials from the **City of Springfield** assume this part of the proposal would have no fiscal impact on them, however, they state that since there is a change in who may sign a petition to create a Community Improvement District, there may be a negligible cost impact on a new District creation and renewing existing ones.

Officials from the **City of St. Louis**, and the **City of Kansas City** did not respond to our request for fiscal impact.

Oversight assumes that this proposal is permissive and would require voter approval before any fiscal impact to local districts would be realized. Oversight also assumes that any community improvement districts to pass a sales tax would be made up of an already existing local political subdivision, therefore would not create substantial additional costs for the DOR.

Various modifications to tax credit programs: Sec. 135.200 to Sec. 178.892;

Enterprise Zone Tax Credit Program. Section 135.200 et seq. The program is changed from an entitlement program to a discretionary program so that DED can better target the use of its incentives. This proposal should be revenue neutral, but could result in some savings.

Capital Tax Credit Program. Section 135.403. The formula for credits will remain the same. As all of the credits authorized for this program have been allocated (it was established with a cumulative cap), this draft establishes credits in the amount of $6 million per year which will result in a negative impact on total state revenues. The proposal adds a provision that requires companies that receive investments as a result of this program to retain 80% of its employees working in Missouri for 5 years.

ASSUMPTION (continued)

Community Bank Tax Credit. Also Section 135.403. The program is changed by removing the mandated involvement of the Department of Social Services from the program and by removing the targeting of the program to give it increased geographic flexibility. Five hundred thousand annually would be allocated from the tax credit cap in Chapter 32, RSMo for the Community Bank Tax Credit Program. The definition of Community Development Corporation is revised. The fiscal impact is projected to result in <u>$4.8 savings for FY 2001 only</u>.

Rebuilding Communities and Neighborhood Preservation Act. Section 135.475 et seq. The draft corrects an error in SB 20, which established the program, by properly outlining the distribution of credits between qualifying areas and eligible areas so that new construction projects are able to receive credits. The impact is projected to be <u>revenue neutral</u>.

Distressed Communities Tax Credit Program. Section 135.535 This program change makes minor technical changes to including repealing a version as two different versions are currently printed in the Revised Statutes. This proposal is considered <u>cost neutral</u>. It lowers the percent of employees in a distressed community to 60% from 75%, allows companies to have a maximum of 150 employees vs 100, allows credits for capital lease or purchase of computer equipment, and increases the per company credit to $150,000 up from $100,000.

Transportation Development Tax Credit. Section 135.545 This proposal changes the program from an entitlement program to a discretionary program, and makes the statute clearly state that not-for-profits are ineligible to receive tax credits. In addition, the amount of credits authorized pursuant to this program is decreased from $10 million annually to $8 million annually which is a <u>$2 million annual savings</u>.

Small Business Administration Guarantee Fee Tax Credit. Section 135.766 This change deletes the credit. This credit has no cap and was just enacted last year. The revenue impact is projected at a <u>positive $4 million per year.</u>

Community College New Jobs Training Program. Section 178.892 This part of the proposal changes the industries that are eligible for the credit by allowing health firms and professional services firms. This should be a <u>revenue neutral</u> proposal but could possibly result in some positive impact on TSR.

Defining "Cotton Linters": Sec. 260.285;

Officials of the **Department of Revenue (DOR)** stated this part of the proposal redefines an existing sales tax credit for certain food processors. They assume it will have no administrative impact on the DOR and believe the loss of revenue to the state would be very minimal to non-

<u>ASSUMPTION</u> (continued)

existent.

The **Department of Natural Resources (DNR)** stated this part of the proposal does not change the department's authority, therefore, DNR will not be impacted.

Officials from the **Office of Administration - Budget and Planning** stated this proposal would have no impact on their agency and have no basis for estimating its fiscal impact on the state. The OA deferred to the fiscal impact estimate of the Department of Revenue.

Various modifications to tax credit programs: Sec. 348.300 to Sec. 620.1560;

#The **Department of Economic Development** responded late to our request for fiscal impact.

Officials from the **Department of Social Services** assume this proposal will not fiscally impact their agency.

#Oversight based the fiscal estimates on similar legislation from this year. Oversight has updated the estimated fiscal impact on three tax credit programs with DED's response received May 1, 2000.

Seed Capital Tax Credit Program Section 348.300 et seq. The existing program has a cumulative credit program, and if unchanged would have been out of credits within a year or two. There is roughly $1.8 million remaining in the original $9 million cumulative cap.

<u>#The DED stated the revenue impact is projected to result in a cost of $4 million per year because it is possible that all credits would have been used up prior to the proposed change.</u>

Brownfield Redevelopment Program. Section 447.708 The proposal allows DED to use the tax credits offered through this program for demolition that is not part of the voluntary remediation activities, as long as the demolition is part of a redevelopment plan approved by the local government entity and the DED. This program is discretionary so the change <u>does not have a fiscal impact</u>.

Missouri Job Development Fund (Customized Training Program) Section 620.470 et seq. This change proposes to allow for training through consortiums (where large and small companies that have similar training needs can join together). Makes other technical changes to open the program to more industries, as this program has typically focused on manufacturing in the past.

<u>ASSUMPTION</u> (continued)

Consortiums enable the program to reach more small business throughout the state, would enable the program to take advantage of efficiencies, potentially lowering cost. The fiscal impact is projected to be a <u>neutral</u>.

Research and Development Tax Credit. Section 620.1039 The proposal changes the program from an entitlement program to a discretionary program. It also allows the credits to be transferred and allows a percentage of credits earned but not redeemed in the past few fiscal years to be transferred. Decreases the annual cap from $10 million to $9.7 million per year. Transferability should increase utilization by small businesses. Fiscal impact is projected at a positive $300,000 per year which will be offset by the transfers of an estimated $6.0 million earned credits in fiscal year 2001 for a net impact of a negative $5.7 million and then a positive impact of $300,000 per subsequent years.

#The DED estimated that the current proposal would not have a negative $6 million fiscal impact on the state, since credits could only be transferred, sold or assigned on a going-forward basis. Therefore, the DED projected a fiscal impact of a $300,000 cost saving per year.

Section 620.1400 et seq. The proposal combines the Mature Worker Program and the Individual Training Account (ITA) Program by establishing that the ITA credits can be used in non-distressed communities for child care and other high-demand industries. The ITA program is renamed the Skills Development Account Program. As currently written, the program is only for training in distressed communities. The proposal allows for training of mature workers in high demand industries on a statewide basis. The proposal also establishes a tiered system of awarding credits which allows for limited credits to be authorized for training for workers earning higher wages in distressed communities. The proposal essentially combines two program DED is trying to implement by making changes so that the training credits are tiered:

- Employees whose wages are under 200% of poverty (max $2500 per)
- Employees whose wages were over 200% of poverty (max $1500 per)
- Mature Workers in a high demand industry (max $2500 per)

The fiscal impact is projected to be an annual savings of $4 million since the annual limit was reduced from $6 million to $2 million.

Mature Worker Tax Credit Program. Section 620.1560 This program is repealed (combined with ITA – see previous paragraph). The repeal results in a positive impact on TSR of $2 million per year.

#The DED assumes the repeal of this program would result in a positive impact on total state revenue of $2 million for FY 2001 only.

ASSUMPTION (continued)

The committee substitute also establishes new reporting requirements for the DED regarding certain programs in the legislation. The DED would submit an annual tax credit allocation plan to the Joint Committee on Economic Development Policy and Planning. The DED would also report to the Joint Committee on a quarterly basis regarding the utilization of credits for Missouri businesses for those same programs. The fiscal impact with these new duties is estimated at minimal impact.

The DED assumed the need for one (1) additional FTE, an Economic Development Incentive Specialist II (at $36,468 annually) to cover increased work associated with the Capital Credit and Research Tax Credit programs. The DED assumes, by making these programs more review will need to be conducted. The DED also anticipates the need for associated expenses and equipment.

Oversight assumes the DED could administer the changes specified in this proposed legislation with existing resources and have not reflected the costs of an additional FTE.

Officials from the **Department of Revenue (DOR)** state they do not anticipate an increase in the number of tax credits received and therefore will not request additional FTE at this time. However, if the number of tax credits increases, the Division of Taxation, Personal Tax Bureau, will need one temporary tax season employee (a cost of $6,067) for every 130,000 credits filed with this credit (key entry) and one Tax Processing Tech I for every 2,000 credits claimed (processing). The Personal Tax Bureau will also need one Tax Processing Tech I for every 30,000 additional errors generated. The Division of Taxation, Business Tax Bureau, will need one Tax Processing Tech I for every 3,680 credits received.

Officials from the **Department of Natural Resources (DNR)** state the proposed legislation creates a demolition tax credit. However, since the department does not know the amount of tax credits that may be approved, the department is unable to determine the impact on total state revenues. The DNR assumes they will be able to recover any costs associated with reviewing the demolition tax credit. The revenues generated for this activity would not be considered part of total state revenue.

The DNR states the proposed legislation would allow for demolition tax credits for up to one hundred percent of the costs of demolition that are not part of the voluntary remediation activities. The department would have to approve any tax credits authorized by this provision.

Before the DNR approves the demolition tax credit, the participant will have to demonstrate to the department that hazardous substances are not contained within or beneath the structure. This demonstration could be made in the documents the DNR reviews during their preliminary

ASSUMPTION (continued)

review, if the documents are comprehensive enough. However, if the initially reviewed documents are not comprehensive and leave some doubt as to whether hazardous substances are within or beneath the structure, then the department would ask that additional investigations be conducted.

The DNR estimates 25 to 30 sites per year. The DNR also estimates the review time to approve the tax credit, as illustrated above, is apt to vary depending on the adequacy of the data submitted. If only a preliminary review is necessary, the review time would be approximately 6 hours. If review beyond the preliminary review is needed, the review time could increase to approximately 16 hours. The department does not anticipate being significantly impacted by these provisions. However, if the number of sites exceeds our expectations, we may need to request additional resources.

The DNR has the authority to cost recover any costs associated with reviewing the demolition tax credit. The associated cost for a 6 hour review is approximately $400 (ES III salary $3,308 x 12 months / 2,080 annual hours = $19.08 x 3.5 multiplier = $66.78 hourly rate x 6 hours). The associated cost for a 16 hour review is approximately $1,068 (ES III salary $3,308 x 12 months / 2,080 annual hours = $19.08 x 3.5 multiplier = $66.78 hourly rate x 16 hours). The amount of increased revenues depends on the number of demolition tax credits the department reviews and the amount of time to review each. Since the DNR does not know the number of applications that would be submitted or the amount of time it would take to review, the amount of increased revenues would be unknown.

Tobacco Dependent Community Tax Credit: Sec. 620.1575;

In a similar proposal from this year, **Department of Economic Development** (DED) officials stated the proposal creates a grant program to provide assistance to communities with economies dependent on tobacco production. Grants would be issued by DED to assist with creating new sources of income for communities affected by loss of tobacco related revenue, due to the Tobacco Settlement. DED assumes personnel, equipment and expenses would be needed to implement the proposal, but the amount of operations budget would depend on clarifying language. (NOTE: Officials note that there are twenty-five counties which have U.S. Department of Agriculture tobacco quotas. There are 318 cities in those counties.)

For purposes of this note **Oversight** assumes:

1) unknown revenues from the General Revenue Fund would be appropriated to the Tobacco-Dependent Communities Revitalization Fund for grants;

2) unknown expenditures for grants to the sponsoring organizations and ultimately to the tobacco-dependent communities would occur;

3) unknown administrative costs would be incurred by the Department of Economic Development;

4) grants and administrative costs would equal income from appropriations to the Tobacco-Dependent Communities Revitalization Fund; and

5) Political subdivisions would receive income in the form of the grants.

The **Department of Agriculture, State Treasurer's Office, University of Missouri - Outreach & Extension, and the Department of Health** assumed in a similar proposal, that this would not fiscally impact their agencies.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Economic Development's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 30 new pages of regulations in the Code of State Regulations at a cost of $26.50 per page, and 45 new pages in the Missouri Register at a cost of $22.50 per page. Costs due to this proposal are estimated to be $1,808, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal; however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

FISCAL IMPACT - State Government	FY 2001	FY 2002	FY 2003
GENERAL REVENUE FUND			
Costs - Capital Tax Credit	($6,000,000)	($6,000,000)	($6,000,000)

FISCAL IMPACT - State Government (continued)	FY 2001	FY 2002	FY 2003
Savings - Community Bank Tax Credit	$4,800,000	$0	$0
Savings - Transportation Dev. Tax credit	$2,000,000	$2,000,000	$2,000,000
Savings - Small Business Adm. Guarantee Fee Tax Credit	$4,000,000	$4,000,000	$4,000,000
#Costs - Seed Capital Tax Credit	($4,000,000)	($4,000,000)	($4,000,000)
#Savings - Research and Development Tax Credit	$300,000	$300,000	$300,000

Savings - Mature Worker and Individual Training Account Program	$4,000,000	$4,000,000	$4,000,000
#Savings - Mature Worker Tax Credit Repeal	$2,000,000	$0	$0
Loss - Appropriations to the Tobacco * Dependent Communities Revitalization Fund	(unknown)	(unknown)	(unknown)
#ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$7,100,000 to (Unknown)**	**$300,000 to (Unknown)**	**$300,000 to (Unknown)**

*
–SUBJECT TO APPROPRIATION–

TOBACCO-DEPENDENT COMMUNITIES REVITALIZATION FUND

Department of Economic Development (DED)

Income - Transfers from General Revenue Fund	Unknown	Unknown	Unknown
Costs - DED administrative costs	(Unknown)	(Unknown)	(Unknown)
Costs - Grants to tobacco-dependent comm.	(Unknown)	(Unknown)	(Unknown)

FISCAL IMPACT - State Government (continued)	FY 2001	FY 2002	FY 2003
NET EFFECT ON TOBACCO-DEPENDENT COMMUNITIES REVITALIZATION FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2001	FY 2002	FY 2003
POLITICAL SUBDIVISIONS			
Income - Grants from Tobacco-Dependent Communities Revitalization Fund	Unknown	Unknown	Unknown

FISCAL IMPACT - Local Government	FY 2001	FY 2002	FY 2003

NET EFFECT ON POLITICAL SUBDIVISIONS	**UNKNOWN UNKNOWN UNKNOWN**

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses that qualify for tax credits or are in a tobacco-dependent community.

DESCRIPTION

This substitute makes various changes to economic development programs.

The substitute permits new generation cooperatives formed in Missouri to participate in the Neighborhood Assistance Act.

Organizations which perform community service or economic development activities are permitted to qualify as neighborhood organizations under the act by contributing to the construction of a building used to sell agricultural food products produced in Missouri by members of a new generation cooperative, but are limited to $2.5 million in tax credits for fiscal year 2002 to fiscal year 2006. Under the act, business firms making contributions to neighborhood organizations receive tax credits.

DESCRIPTION (continued)

The proposal also makes several changes to the "Community Improvement District Act". Community improvement districts (CIDs) create a special benefit district to allow districts to assess and tax themselves for community improvement and services. The changes include changing the definition of "per capita" to include any entity having sole fee ownership of a parcel or real property located within a district. The proposal also contains other clarifying language regarding voting rights, petition stipulations and real property distinctions located within such districts. This part of the proposal also allows any district, by resolution, to impose a district sales tax on all retail sales at a rate of one-eighth of one percent, one-fourth of one percent, three-eighths of one percent, one-half of one percent, or one percent. This sales tax is subject to voter approval and ballot language is included.

This proposal also modifies several tax credit programs administered by the Department of Economic Development for enhanced programmatic control and oversight. Programs modified include:

1. Low-income housing tax credit;

2. Community Bank and Small Business Investment tax credits;

3. Rebuilding Communities and Neighborhood Preservation Act tax credits;

4. Tax credits for businesses relocating to distressed Communities;

5. Tax credits for transportation development activities in distressed communities;

6. Deletes program giving credits for amounts paid to the U.S. Small Business Administration;

7. Tax credits for contributions to innovation centers;

8. Tax credits for remediation activities on abandoned properties;

9. Tax credit allowed for job training programs;

10. Tax credits for qualified research expenses;

11. Requires the DED to provide for an independent evaluation of the program every two years and must submit an annual tax credit allocation plan to the joint committee on economic development policy and planning;

DESCRIPTION (continued)

12. Deletes the Mature Worker Child Care Program;

This proposal also makes a technical changes in the definition of recyclable cellulose and requires the Department of Natural Resources to certify that the cellulose used to package meats is recycled.

This proposal also establishes the Tobacco-Dependent Communities Revitalization Fund in the state treasury. The fund may receive appropriations from the state general revenue fund.

Moneys in the fund will be used solely for providing grants to certain sponsoring organizations which provide plans to reverse the dependence of tobacco-dependent communities on tobacco production and that revitalize the area. The Office of Rural Development will administer the grant program.

No grant will be awarded after August 28, 2012. Any moneys remaining in the fund after August 28, 2018, will revert to general revenue.

These provisions will expire on August 28, 2018.

The substitute contains an emergency clause.

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 Revenue
Office of the Secretary of State
Department of Health
University of Missouri - Outreach Program
Department of Social Services
Department of Natural Resources
Department of Agriculture
Office of Administration
State Tax Commission
City of Springfield
Office of the State Treasurer
Department of Economic Development
SOURCES OF INFORMATION (continued)

NOT RESPONDING: **City of St. Louis**
City of Kansas City

Jeanne Jarrett, CPA
Director
May 5, 2000