COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2309-01
Bill No.: HB 1010
Subject: Economic Development; Taxation and Revenue.
Type: Original
Date: April 9, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(Unknown) to $2,902,113	(Unknown) to $2,879,523	(Unknown) to $2,876,434
Total Estimated Net Effect on All State Funds	**(Unknown) to $2,902,113**	**(Unknown) to $2,879,523**	**(Unknown) to $2,876,434**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 13 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** assumes there will be a need for two Economic Development Incentive Specialist II's (at $37,488 per year) plus expenses and equipment to conduct the additional work created by the Capital Tax Credit change and the Brownfield program changes. The personnel currently used for the deleted Individual Training Account program will be reassigned to the Job Development Fund program (Customized Training) to eliminate the need for additional personnel. The DED assumes that the Missouri Technology Corporation will not have funding for staff and that the DED personnel currently used for transferred programs will continue to support the programs. The DED assumes that all other changes will be personnel neutral. The overall savings will be the $3 million per year less the cost of these changes.

DED made the following assumptions regarding the fiscal impact of the proposal:

- Requirement of DED to prepare an annual tax credit allocation plan - can be absorbed by current FTE and E&E.
- Section 100.286 - removing the ability to award tax credits for contributions to the development and reserve fund and export finance fund of the Missouri Development Finance Board - cost neutral as these funds are currently not used.
- Sections 135.100 to 135.258 - changes the **New/Expanding Business Facility and Enterprise Zone Tax Credit Programs** from an uncapped entitlement program to an annual cap program of $4 million and $30 million respectively. DED anticipates a savings of $4 million annually for Business Facility Credit and a savings of $8 million annually for the Enterprise Zone Tax Credit.
- Section 135.400 to 135.430 - **Capital Tax Credit Program**, changing it from a cumulative cap (which was fully allocated in 1999) to an annual cap of $5 million - sets aside $2.5 million for distressed communities. DED assumes an annual cost of $5 million.
- Section 135.400 - **Community Bank Tax Credits**, replaces current definition of "Community Development Corporation" and remove definition of "target area" - DED assumes this is a technical clean up and would be cost neutral.
- Section 135.500 to 135.527 - **Certified Capital Company Program**, allocates an additional $30 million in tax credits to generate CAPCO funds for investment in distressed communities ($3 million per year for ten years). DED assumes the additional CAPCO allocation will cost $3 million per year for ten years beginning with 2002.

ASSUMPTION (continued)

- Section 135.535 - **Distressed Communities Tax Credit Program**, reduces percentage of employees a company must have in a distressed community from 75% to 60%, increase per company credit cap from $75,000 to $150,000 annually. DED assumes this part of the proposal is cost neutral since the program has an annual cap of $10 million that is not modified.
- Section 135.545 - **Transportation Development Tax Credit Program**, clarifies that DED shall put in place appropriate methods to ensure the tax credits issued for any year do not exceed the cap. The DED assumes this part of the proposal is cost-neutral.
- Section 135.700 - **Wine/Grape Tax Credit Program**, places an annual cap of $1 million and requires DED to put in place appropriate methods to ensure the tax credits issued for any year do not exceed the cap. DED states the program was previously uncapped. This is a new program, savings unknown at this time so deemed cost-neutral for this analysis.
- Section 178.892 - **Community College New Jobs Training Program**, changes the eligible industries to allow health firms and professional business firms to participate. These changes enables the DED to utilize the program for the new economy. The DED assumes this part of the proposal is cost-neutral.
- Sections 253.557 to 253.561 - **Historic Preservation Tax Credit Program**, states all applicants for tax credits must be filed no later than tax year following tax year project placed into service. Reduces 10 year carryforward to 5 for consistency among programs. DED assumes this part of the proposal would be cost-neutral.
- Section 348.254 to 348.264 - **Missouri Technology Corporation**, makes various changes so that it may administer the Research and Development tax credit program and a new technology transfer and applied research tax credit program. DED assumes this part of the proposal is cost-neutral.
- Section 348.302 - **Seed Capital Tax Credit Program** (not to be confused with New Enterprise Creation Act passed in 1999) changes the $9 million cumulative cap to an annual cap of $2 million (for distressed communities). The DED states that of the $9 million cap, $171,580 has not been allocated, therefore, DED assumes an annual cost of $2 million per year.
- Section 447.708 - **Brownfield Redevelopment Program**, places an annual cap on the program of $30 million, allows DED to authorize tax credits for demolition that is not part of the voluntary remediation of a hazardous substance so long as the demolition is part of a redevelopment plan approved by the local government entity and DED. DED states this program is already discretionary and this adds additional fiscal restraints in the law. DED assumes the addition of a demolition tax credit is not expected to be a significant cost, therefore, the DED assumes this part of the proposal is cost-neutral.

ASSUMPTION (continued)

- Section 620.474 to 620.478 - **Missouri Job Development Fund Program** (a.k.a. Customized Training Program) allows training through consortiums, allowing small companies to partner with larger companies for common training needs. The DED states this is a grant program with the amount based upon annual appropriations, therefore, this part of the proposal would be cost-neutral.
- Section 620.1039 - **Research and Development Tax Credit**, changes to a program operated by the Missouri Technology Corporation (subject to approval by the DED director). There is no change to the annual cap of $9.7 million. The DED assumes this part of the proposal is essentially cost-neutral - any change would be a savings to the state due to the authority of MTC to charge fees.
- Section 620-1400 to 620.1460 - **Individual Training Account Program**. DED assumes the repeal of this program would result in a $6 million savings to the state.
- Section 620.1600 - **Applied Research and Technology Transfer Tax Credit Program**. Up to 50% tax credit for costs of research performed at University of Missouri that leads to commercialization or certain costs of technology transfer from University to industry. Annual authority of $5 million. The DED assumes the this part of the proposal authorizes $5 million in tax credits annually, otherwise is cost-neutral because of MTC's authority to charge fee and hire own staff.

In summary, the DED assumes the fiscal impact for all of the changes withing the proposal will result in an annual savings to the General Revenue Fund of $3 million, less costs associated with 2 necessary FTE with annual costs of roughly $135,000 per year.

Officials from the **Department of Revenue (DOR)** do not anticipate a significant increase in the number of new credits filed. Therefore, they will not request additional FTE at this time.

However, if they are incorrect in this assumption, DOR will need one Temporary Tax Season Employee for every 75,000 additional credits, one Tax Processing Tech I for every 30,000 additional errors generated and one Tax Processing Tech I for every 3,000 additional pieces of correspondence received regarding this credit. Any FTE needed will be requested during the normal budget process.

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, Department of Revenue, and the Department of Insurance's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 84 new pages of regulations in the Code of State Regulations at a cost of $27.00 per page, and 126 new pages in the Missouri Register at a cost of $23.00 per page. Costs due to this proposal would be $5,166, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more

ASSUMPTION (continued)

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.

Officials from the **Department of Natural Resources** state 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 proposed legislation requires the department to approve any tax credit authorized by this provision.

Before 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 we review during our preliminary 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 DNR would ask that additional investigations are within or beneath the structure, then DNR would ask that additional investigations be conducted.

DNR estimates 25 to 30 sites per year. 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. DNR does not anticipate being significantly impacted by these provisions. However, if the number of sites exceeds our expectations, DNR may need to request additional resources.

DNR has the authority to cost recover any cost associated with reviewing the demolition tax credit. The associated cost for a six hour review is approximately $411 (ES III salary $3,393 x 12 months/2080 annual hours= $19.58 x 3.5 multiplier = $68.53 hrly rate x 6 hours). The associated cost for a 16 hours review is approximately $1,096 (ES III salary $3,393 x 12 months/2080 annual hours= $19.58 x 3.5 multiplier = $68.53 hrly rate x 16 hours). The amount of increased revenues depends on the number of demolition tax credit the department reviews and the amount of time to review each. Since 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.

ASSUMPTION (continued)

Officials from the **Department of Insurance (INS)** state Section 135.150 caps authorized tax credits at $4 million annually. Tax credit is not currently capped. Impact unknown. Section 135.250 caps tax credits for Enterprise Zones at $30 million annually. Tax credit not currently capped. Impact unknown. Section 135.403 Small business tax credit annual cap is reduced from $13 million to $5 million annually. Potential increase in state revenue of $8 million. Section 135.503 CAPCO tax credits are capped at $30 million for 2002 and cumulative credits are capped at $170 million. Tax credit is not currently capped. Impact unknown. Section 253.558 reduces carry-forward period from ten years to five years for historic structure tax credits. Potential increase in state revenue, Impact unknown. Section 348.302 Reduces MO Tech Credit from $9 million to $2 million annually. Potential increase in state revenue of $7 million. Section 620.1600 creates new tax credit for Technology research. Credit cannot exceed $5 million. Potential loss of state revenue up to $5 million annually.

Officials from the **State Treasurer's Office**, **Department of Higher Education** and the **Governor's Office** each assume this proposal would not fiscally impact their respective agencies.

Oversight assumes the Department of Economic Development will not require additional floor space for the two FTE requested.

Oversight assumes the revision of the Community College training program (RSMo 178) would expand the companies available to apply for assistance through the program. Currently certificates are sold by community colleges and are in effect paid off through a dedication of part of withholding tax on new employees' salaries. The DED stated that currently there is a cap on the total outstanding certificates of $55 million (which is set by the Missouri Job Training Joint Legislative Oversight Committee), of which $22 million is not issued. Part of the $22 million is committed to companies as incentive to relocate to Missouri, leaving roughly $10 million in available certificates. This cap is on outstanding certificates, therefore, it is a constantly changing number with older certificates being paid off as well as new certificates being issued. Oversight assumes the expansion of this program will allow additional companies to qualify for the program. Oversight has ranged the amount of cost from $0 to (unknown). Oversight acknowledges the creation of new jobs could result in additional tax revenue to the state. However, it would be difficult to assess whether the creation of the jobs would be a direct result of this program. For purposes of this fiscal note, unknown costs have been stated for the retirement of additional certificates.

Oversight also assumes the proposal would expand the Missouri Job Development program (RSMo 620) by allowing companies that are not in the manufacturing industry to apply for the grants from the Department of Economic Development. According to DED, last year $15

ASSUMPTION (continued)

million was appropriated for this program. $50 million in requests were received from 539 projects. Only 396 projects were approved. The total amount appropriated for this program currently is $20 million. It is assumed this proposal would result in more projects competing for funds which are already insufficient to fulfill requests.

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
Savings - New/Expanding Business Facility Tax Credit Program	$0 to $4,000,000	$0 to $4,000,000	$0 to $4,000,000
Savings - Enterprise Zone Tax Credit Program	$0 to $8,000,000	$0 to $8,000,000	$0 to $8,000,000
Costs - Capital Tax Credit Program	$0 to ($5,000,000)	$0 to ($5,000,000)	$0 to ($5,000,000)
Costs - Certified Capital Company Program	$0 to ($3,000,000)	$0 to ($3,000,000)	$0 to ($3,000,000)
Costs - Seed Capital Tax Credit Program	$0 to ($2,000,000)	$0 to ($2,000,000)	$0 to ($2,000,000)
Savings - Individual Training Account Program	$0 to $6,000,000	$0 to $6,000,000	$0 to $6,000,000
Costs - Applied Research and Technology Transfer Tax Credit Program	$0 to ($5,000,000)	$0 to ($5,000,000)	$0 to ($5,000,000)
Costs - withholding tax revenues used for the Community College job training program	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Costs - DED			
Personal Service (2 FTE)	($64,042)	($78,772)	($80,741)
Fringe Benefits	($21,345)	($26,255)	($26,911)
Expense and Equipment	($12,500)	($15,450)	($15,914)
Total Costs - DED	($97,887)	($120,477)	($123,566)

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**(Unknown) to $2,902,113**	**(Unknown) to $2,879,523**	**(Unknown) to $2,876,434**

FISCAL IMPACT - Local Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal would impact small businesses that qualify for tax credits.

DESCRIPTION

This proposal's purpose is to:

(1) Promote the responsible use of incentives for the continued economic development of the state;

(2) Ensure that the state's economic development resources are distributed to programs producing the greatest benefit for Missourians;

(3) Achieve a system of incentives to ensure that economic development programs position Missouri businesses competitively in the global economy;

(4) Reform the current incentives by repealing programs that are ineffective, duplicates of other programs, or that have goals and objectives that are unclear, ambiguous, or inconsistent

(5) Ensure fiscal responsibility by adjusting the cost of certain programs, capping the cost of others, and providing ful cost-benefits reports; and

(6) Provide adequate legal recourse against those companies and citizens who do not meet the requirements of their negotiated incentive agreements.

DESCRIPTION (continued)

In its main provisions, the proposal:

(1) Requires the Department of Economic Development to submit, by November 1 of each year, an annual tax credit allocation plan;

TAX CREDITS FOR NEW OR EXPANDED BUSINESS FACILITIES

(2) States that for all revenue producing enterprises relating to tax credits for a new or expanded business who begin operating prior to January 1, 2002, the right to receive tax credits for a new or expanded business facility will vest in the taxpayer when operations begin at the revenue producing enterprise;

(3) Limits tax credits for new or expanded businesses operating on or after January 1, 2002, to no more than $4 million in any year;

(4) Expands the definition of "revenue producing enterprise," as it relates to tax credit for a new or expanded business facility, to include local exchange telecommunications services and certain industries determined by the Director of the Department of Economic Development

TAX CREDITS FOR ENTERPRISE ZONES
(5) Expands the definition of "revenue producing enterprise," as it relates to enterprise zones, to include local exchange telecommunications services, photo-finishing laboratory activities and microfilm recording and developing services, and certain industries as determined by the director;

(6) Limits tax credits for taxpayers who begin operating on or after January 1, 2002, to no more than $30 million in any year for enterprise zones

TAX CREDITS FOR BOTH NEW OR EXPANDED BUSINESS FACILITIES AND ENTERPRISE ZONES
(7) Requires a taxpayer who begins operating between January 1, 1999, and January 1, 2002, in order to be entitled to receive tax credits associated with either the "New or Expanded Business Facility" or "Enterprise Zone" programs, to have a letter of intent approved by the director and to file its initial application for claiming tax credits in the tax period immediately following the one in which operations began at the new business facility;

TAX CREDIT FOR INVESTMENT IN MISSOURI SMALL BUSINESSES
(8) Expands the definition of a "community development corporation," as it relates to investment in Missouri small businesses, to include certain not-for-profit corporations;

DESCRIPTION (continued)

(9) Expands the definition of "Missouri small business" to require that the business maintain for a specified time period at least 80% of its employees;

(10) Limits tax credits available for qualified investments in Missouri small businesses to no more than $5 million annually, half of which must be invested in Missouri small businesses in distressed communities. Currently the cap is an aggregate total of $13 million;

(11) Requires tax credits to be used for 5 years after an initial investment is made in a distressed community;

(12) Limits single projects to no more than 20% of the tax credits available each year for investments in community banks or community development corporations for direct investment;

(13) Allows the department to prorate either the revocation of the tax credits or the repayment of any amount of the tax credit already applied against the state tax liability when the qualified investment made in a Missouri small business is withdrawn prior to the end of the prescribed 5-year time period;

(14) Allows the department to revoke a tax credit certificate or require repayment of the tax credit liability already applied against the investor's state liability if any portion of the application proves false, if the application violates any conditions stated on the certificate, or if the business fails to comply with the employee retention requirements;

TAX CREDITS FOR INVESTMENTS OF CERTIFIED CAPITAL (Sections 135.500 - 135.527)
(15) Expands the definition of "certified capital" to "certified capital investment" and adds that it is an investment of cash in a Missouri certified capital company that fully funds either the investor's equity interest in a certified capital company or a qualified debt instrument issued by a certified capital company;

(16) Includes a definition for "qualified debt instrument" and expands the definition of "qualified distribution," "qualified investment," and "qualified Missouri business"

(17) Requires the aggregate amount of certified capital for which earned and vested credits against state premium liability are allowed for calendar year 2002 to be set at an amount that entitles all Missouri certified capital company investors to take aggregate credits not to exceed $3 million for any year with the cumulative amount of tax credits authorized for the program limited to $170 million;

DESCRIPTION (continued)

(18) States specific requirements for a company to be certified;

(19) States several requirements regarding certified capital that is not required to be placed in qualified investments or which has been placed in qualified investments and can now be received by the company;

(20) Requires all certified capital companies to submit a report to the department for the period ending December 31 of the prior calendar year;

(21) Allows the department to audit the records of certified capital companies, certified investors, and qualified Missouri businesses that received qualified investments;

(22) Requires the department to provide the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate a report containing specific information on certified capital companies by March 31 of each even-numbered year, beginning with March 31, 2002;

TAX CREDITS FOR GRAPE AND WINE PRODUCERS (Section 135.700)
(23) Limits the tax credits for grape and wine producers to $1million annually;

MISSOURI TECHNOLOGY CORPORATION AND THE MISSOURI TECHNOLOGY INVESTMENT FUND (Section 348.254 - 348.264)
(24) Lists several specific activities that the Missouri Technology Corporation may undertake;

(25) Authorizes the Missouri Technology Corporation to administer the Missouri Technology Investment Fund;

TAX CREDIT FOR CONTRIBUTIONS TO INNOVATION CENTERS (Section 348.302)
(26) Places a new limit on tax credits of $2 million annually, instead of the current aggregate cap of $9 million.

ABANDONED PROPERTY AND REDEVELOPMENT PROJECTS (Section 447.708)
(27) Allows the director to grant a demolition tax credit for up to 100% of the cost of demolition given certain circumstances;

(28) Limits the number of years that remediation and demolition tax credits can be carried over to 5;

DESCRIPTION (continued)

(29) Limits tax credits for abandoned property and redevelopment projects to $30 million for any year;

MISSOURI JOB DEVELOPMENT FUND (Sections 620.470 - 620.474)
(30) Changes the description of "industry" and takes out manufacturing requirements.

TAX CREDITS FOR QUALIFIED RESEARCH EXPENSES (Section 620.1039)
(31) Defines the terms "corporation," "department," and "director" to encompass the Missouri Technology Corporation;

TAX CREDITS FOR TECHNOLOGY TRANSFER FEES AND APPLIED RESEARCH FEES (Section 620.1600)
(32) Defines the terms "applied research," "corporation," "director," "eligible applied research fees," "eligible Missouri business," "eligible technology transfer fees," "taxpayer," "technology transfer," and "university";

(33) Allows the director to authorize tax credits in an amount not to exceed 50% of the eligible technology transfer fees or eligible applied research fees incurred by the business

(34) Allows these tax credits to be carried forward for 5 years and to be transferred, sold, or assigned to a third party; and

(35) Limits tax credits for technology transfer fees and applied research fees to no more than $5 million in any given year.

MISSOURI INDIVIDUAL TRAINING ACCT. PROGRAM (Sections 620.1400 - 620.1450)

(36) Repeals this program.

The following parts of the proposal will be effective on January 1, 2002

(1) Tax credits for investment in Missouri small businesses

(2) Tax credits for investment in, or relocating a business to, a distressed community; and

(3) Tax credits relating to technology transfer fees and applied research fees.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

RAS:LR:OD (12/00)

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Department of Insurance
Office of the Secretary of State
State Treasurer's Office
Department of Natural Resources
Department of Higher Education
Office of the Governor

Jeanne Jarrett, CPA
Director

April 9, 2001