

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2456-06
Bill No.: Truly Agreed To And Finally Passed HCS for SS for SCS for SBs 740, 886, & 1178
Subject: Agriculture Dept.; Cooperatives
Type: Original
Date: May 20, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> State Funds	\$0	\$0	\$0

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Missouri Department of Conservation, Department of Natural Resources** and **Department of Agriculture** assume the proposal will have no fiscal impact on their organizations.

Officials from the **Office of State Treasurer** defer to Office of Administration for the impact to the state.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** state Section 148.330 is amended to move the County Stock Insurance Fund back into the state treasury. This will increase total state revenue by approximately \$4.7 million. The fund also earned \$25,138 in interest for calendar year 2003. Earned interest would be included in calculations pursuant to Article X, Section 18.

This section makes New Generation Cooperative Tax Credits and Agriculture Product Utilization Tax Credits hold harmless for the school district and county treasurer in which the principal office of the company utilizing the same is located. Pursuant to current law, these tax credits can be redeemed against domestic insurance company tax liability. However, the school district and county treasurer of origin absorbs the loss. This proposal would hold the school and county harmless. This proposal could increase the redemption of outstanding tax credits and also promote the sale of un-issued tax credits by the authority. Currently, it appears there are \$10

ASSUMPTION (continued)

million in unredeemed credits outstanding. Also, there are an average of lapsed credits over a four year period of \$1.9 million. These lapsed credits could be sold to promote the value added program. Under current law, any credits not issued can be sold. Based on increased usage, all outstanding new generation cooperative tax credits could be redeemed within three to five years. This would increase the marketability of un-issued credits.

Section 348.406.1 increases the state's liability to cover guaranteed losses of Agriculture Product Utilization loans from 25% to 50% and decreases the escrow the state must have available to cover losses from 40% to 20%. In the FY 2004 budget the General Revenue escrow was replaced with a \$1E and recently the state experienced its first default.

Oversight assumes this proposal has no net impact on the state since the proposal does not increase or reduce the amount of tax credits available.

Officials from the **Department of Revenue (DOR)** state the proposal will have the following impact on their organization:

Administrative Impact:

Corporate Tax -

348.430 - This section will allow the Agricultural Products Utilization Contributor tax credit to be used to offset quarterly estimated tax payments. The DOR already allows this procedure; therefore, no fiscal impact. The section was also changed to allow the credit to be claimed in the initial year of contribution or in a carryback year. The credit will no longer have to be utilized in the year of contribution. This will be a change to DOR procedures. Changes to forms and programming will be needed.

348.432 - This section will allow the New Generation Cooperative Incentive tax credit to be used to offset quarterly estimated tax payments. The DOR already allows this procedure; therefore, no impact. This section was also changed to allow the credit to be claimed in the initial year of contribution or in a carryback year. The credit will no longer have to be utilized first in the year of contribution. This will be a change to DOR procedures. Changes to forms and programming will be needed.

It is estimated that 173 hours of programming (\$5,771) will be needed on the corporate computer system and Café systems to handle the implementation of the proposal.

ASSUMPTION (continued)

Insurance Tax -

148.330.4 - Adds Agricultural Product Utilization Credit and New Generation Cooperative Credit to the list of Insurance Tax credits that will not affect the distribution amounts to the schools. In addition, the county treasurers are also to be held harmless.

This will require programming to the Insurance Tax system by both DOR and the Department of Insurance. Forms will also need to be revised. Programming should be minimal, approximately 87 hours, at a cost of \$2,902.

Therefore, the DOR estimates the total fiscal impact of this proposal to be one-time programming and form changes costs of \$8,673.

Oversight assumes the DOR could absorb these minimal costs within current funding levels.

Officials from the **Office of the Secretary of State (SOS)** state this proposal modifies various sections pertaining to agriculture programs. Based on experience with other divisions, the rules, regulations and forms issued by the Department of Agriculture could require as many as 18 pages in the *Code of State Regulations*. For any given rule, roughly one-half again as many pages are published in the *Missouri Register* as are published in the Code because cost statements, fiscal notes and notices are not published in the Code. The estimated cost of a page in the *Missouri Register* is \$23.00. The estimated cost of a page in the *Code of State Regulations* is \$27.00. The actual costs could be more or less than the numbers given. The fiscal impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded and withdrawn. The SOS estimates the cost of this legislation to be \$1,107 [(18 pp x \$27) + (27 pp x \$23)].

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 Insurance (INS)** state currently the tax credits are allowed to be taken annually and are applied against the County Stock Fund. No funds collected in the county stock fund are deposited into General Revenue (GR). All funds are distributed to the county treasurer and school district in which the principal office of the company is located. This change shifts the liability of the tax credits to GR, which previously was not impacted by the redeemed credits against County Stock Funds.

ASSUMPTION (continued)

In 2002, there were no agricultural, new generation cooperative or new generation processing entity tax credits taken against the County Stock Fund. In 2001, there were \$303,633 in agricultural utilization credits taken by county stock companies. Legislation allows these tax credits to now immediately apply to three prior tax years. The INS anticipates, at a minimum, an amount equal to that used in 2001 would be used against prior tax years. This would create a tax liability to General Revenue of approximately \$300,000, which had not been calculated before. The INS also anticipates that future tax burdens would be increased to General Revenue. It is anticipated that more entities would purchase and use these tax credits if allowed to take them against quarterly taxes. The fiscal impact is estimated at a range of \$300,000 loss of revenue to GR to an unknown loss of revenue to GR. The State would also lose interest earned on premium tax collected through the year if credits are allowed on a quarterly basis.

The INS would require contract computer programming of \$54,400 (640 hours @ \$84/hour) to make modifications to the premium tax system so credits could be processed quarterly.

Oversight assumes this proposal has no net impact on the state since the proposal does not increase or reduce the amount of tax credits available. Also, **Oversight** assumes that a small number of insurance companies would claim the tax credits quarterly. INS could absorb costs related to this proposal by maintaining a manual or personal computer based system for the insurance companies that take the tax credits rather than reprogramming their system. Should more than a few insurance companies take the quarterly tax credit or should other existing premium tax credits be allowed to be taken quarterly, the INS could request additional funding through the appropriation process.

This proposal will increase Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
	<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.

DESCRIPTION

This proposal pertains to agriculture programs. A breakdown of the proposal follows:

SECTION 148.330 - Pertaining to agricultural tax credits. This section makes changes to subsection 4 of Section 148.330, RSMo, with regard to holding both schools and counties harmless with the apportioned moneys from the county stock insurance fund. Additional language was added that clarifies that the county stock insurance fund shall be included in the calculation of state revenue pursuant to article x, section 18, the Missouri Constitution.

SECTION 261.115 - Records and documents submitted to the department of agriculture that may endanger the competitiveness of a business shall be deemed a "closed record".

SECTIONS 261.256 and 261.259 - Pertaining to grower's districts. This section creates voluntary districts for individuals who are owners or operators of land used in the cultivation of commercial crops within the physical boundaries of the district.

SECTION 263.534 - Pertaining to boll weevil eradication. This section allows the department of agriculture to attach an assessment lien to any cotton crop grown by the grower who has not paid the assessment levied under sections 263.500 to 263.537 as well as the proceeds of the cotton sale; such lien shall be perfected sixty days after the department mails notice of the assessment. The department shall notify the farm service agency and first handlers of cotton of liens attached within thirty days of the date of perfection. This lien is not subject to the provisions of Article 9 of the UCC-Secured Transactions as embodied in sections 400.9-101 to 400.9-508 RSMo.

SECTION 265.475 - Pertaining to meat inspection programs. This section authorizes the director of the department of agriculture to promulgate regulations consistent with and equal to the Federal Meat Inspection Act, the Federal Poultry Products Inspection Act, and all other similar federal regulations.

SECTIONS 348.406 and 348.412 - Pertaining to the Agricultural Business Development Loan Program. This section allows the Missouri Agricultural and Small Business Development Authority (MASBDA) to issue certificates of guaranty covering a first loss up to but not more than fifty percent for eligible borrowers. This section states that outstanding guaranteed loans shall at no time exceed an amount which would allow immediate redemption of twenty percent of the outstanding loans guaranteed by the fund at any one time.

DESCRIPTION (continued)

SECTIONS 348.430 to 348.432 - Pertaining to agricultural tax credits. These sections allow contributors to take the tax credits for new generation cooperatives and agricultural product utilization on a quarterly basis. Language clarifies that if a quarterly tax credit claim or series of claims contributes to causing an overpayment of taxes for a single year, such overpayment shall not be refunded but shall be applied to the next taxable year. An allowance is made for tax credits allowed under this section, for all fiscal years beginning on or after July 1, 2004, to be carried back to any of the contributor's three prior tax years and forward to any of the contributor's five subsequent taxable years - a change that mirrors the "carry back three prior tax years and forward any five" language already present in the new generation cooperative provision - new language also clarifies that the option can be entertained regardless of the type of tax liability to which such credits are applied. Current law states that these tax credits may be sold or transferred, new language states that the new owner of the tax credit shall have the same rights as the contributor. A change has been made to the new generation cooperative provision, the number of employees needed under the definition of "employee qualified capital project" has been changed from one hundred to sixty.

SECTION 537.115 - Pertaining to "Share the Harvest" program. New language has been added to the circumstances where criminal and civil liability are waived when venison is distributed by a charitable organization; the venison must be processed in a facility approved by the Missouri department of agriculture meat inspection program.

SECTIONS 267.470 to 267.556 - Obsolete provisions repealed with this act pertaining to animal health and inspections.

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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Page 8 of 8

May 20, 2004

SOURCES OF INFORMATION

Department of Agriculture

Office of Administration -

Division of Budget and Planning

Department of Natural Resources


Department of Revenue

Department of Insurance

Missouri Department of Conservation

Office of Secretary of State

Office of State Treasurer

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

Mickey Wilson, CPA

Director

May 20, 2004