

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3051-03
Bill No.: SB 1180
Subject: Education, Higher; Science and Technology; Taxation and Revenue; Saint Louis;
Kansas City.
Type: Original
Date: February 17, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	(\$38,710 to Unknown)	(\$32,958 to Unknown)	(\$33,787 to Unknown)
Total Estimated Net Effect on General Revenue Fund	(\$38,710 to UNKNOWN)	(\$32,958 to UNKNOWN)	(\$33,787 to UNKNOWN)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Life Sciences Research Trust*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

* Unknown amount of income and disbursements are assumed to offset.

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 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 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this legislation creates life sciences reinvestment districts. New tax revenues from life sciences companies and their employees are to be transferred by DOR to the reinvestment commission of the district.

DOR states Section 179.952 provides for an "estimate" of the amount of state income tax withheld by the life sciences companies, provided by DOR. If DOR requires companies to report under a different format than other employers, it is sure to generate incoming phone calls (1- Tax Collection Tech I for every 24,000 calls and 1- Tax Processing Tech I in the field for every 5,200 calls/2,150 walk-ins). DOR would also require 1 Tax Processing Tech I to maintain and track the new state revenues.

DOR states Section 172.952 requires "income tax withheld" to be used in determining additional tax. DOR will need to know the number of people employed by the life sciences companies and their salaries in order to provide a reasonable estimate of the withholding tax.

DOR assumes the total cost of the three new FTEs (each at \$21,792 annually) would be roughly \$125,000 per year to the General Revenue Fund.

RAS:LR:OD (12/02)

ASSUMPTION (continued)

Oversight assumes DOR will require at least one of the new FTE and possibly all three as requested by the department. Therefore, Oversight will show a range of expense to the General Revenue Fund from the one FTE to all three FTE. Oversight assumes DOR will not need additional rental space for the required FTE(s).

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal has no impact on their agency.

BAP assumes that section 172.954 provides for the creation of six life sciences reinvestment districts in Missouri. The six districts together cover the entire state. Section 172.960 directs the DOR and other taxing districts to provide for the collection of new tax revenues attributable to a life science company, and the transfer of these revenues to the corresponding life science reinvestment commission. New tax revenues are defined as the incremental increase in income, sales, and property taxes of a life science firm, and the withholding taxes attributable to its employees, over a specified base year.

Information supplied by the Missouri Economic Research and Information Center indicates that 170,000 Missourians are employed by the life sciences industry, and earn about \$6.7 billion annually. The Center's definition of "life sciences industry" is very similar to the definition in this proposal. Assuming that about 4% of this payroll amount is withheld for tax purposes, this generates about \$268 million in withholding taxes. Assuming a 2% growth rate, the withholding increment to be transferred to the reinvestment districts in the first year is estimated \$5.4 million.

BAP states it has no basis for estimating the increments of other taxes generated at life science firms. This proposal would have little impact on total state revenue. This proposal may negatively impact general revenue.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the life science reinvestment districts and commissions' authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 16 new pages of regulations in the Code of State Regulations at a cost of \$27.00 per page, and 24 new pages in the Missouri Register at a cost of \$23.00 per page. Costs due to this proposal are estimated to be \$984, however, 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.

ASSUMPTION (continued)

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 Economic Development (DED)** state they would have no role in the proposal and therefore would have no fiscal impact from the proposal. DED also states that the proposal employs a tax increment financing method similar to that used in local and state TIF, MODESA and MORESA (latter two enacted via HB 289 in 2003). DED states it is also similar in other ways to HB 688 enacted in 2003, which authorized a portion of the tobacco settlement proceeds to be used for life science research grants, with decisions made by the Life Science Research Board.

DED states it appears the mechanism for using state and local revenue for a project would allow 100% of various state and local increments to be diverted to various life science reinvestment commissions to be disseminated via grants for “life science projects”, which include the advancement of the life science industry. Therefore, DED assumes there would be no net benefit to the state and perhaps a net loss to the state in Total State Revenues. DED states that more detailed information on impacts is unknown and they defer to more precise projections by DOR or OA- Budget and Planning.

Officials from the counties of **Clay, Platte, Jackson, St. Louis, Boone, Greene** and **Andrew**, as well as the cities of **Springfield, St. Joseph, Kansas City** and **St. Louis** did not respond to our request for fiscal impact.

Oversight also assumes the Life Sciences Reinvestment Act will utilize the Life Sciences Research Trust Fund (as established in 196.1100, RSMo) to receive new tax revenues in the districts as well as to make disbursements. Oversight assumes the expenses and disbursements resulting from this proposal to the Life Sciences Research Trust Fund will offset.

Oversight has ranged the loss of income to the local political subdivisions from \$0 to Unknown since taxing districts may by ordinance or order allocate their new tax revenue to the new commission.

<u>FISCAL IMPACT - State Government</u>	FY 2005	FY 2006	FY 2007
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GENERAL REVENUE

Cost - Department of Revenue

Personal Services (1 to 3 FTE)	(\$22,337 to \$67,011)	(\$22,895) to (\$68,686)	(\$23,468) to (\$70,403)
Fringe Benefits	(\$9,248 to \$27,743)	(\$9,478 to \$28,436)	(\$9,716 to \$29,147)
Expense and Equipment	(\$7,125 to \$21,376)	(\$585 to \$1,755)	(\$603 to \$1,808)
Total Cost - DOR	(\$38,710 to \$116,130)	(\$32,958 to \$98,877)	(\$33,787 to \$101,358)

Transferred Out - "new tax revenue" from
 life science districts now goes to the life
 sciences reinvestment commission

(Unknown)	(Unknown)	(Unknown)
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**ESTIMATED NET EFFECT TO
 GENERAL REVENUE**

<u>(\$38,710 TO UNKNOWN)</u>	<u>(\$32,958 TO UNKNOWN)</u>	<u>(\$33,787 TO UNKNOWN)</u>
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**LIFE SCIENCES RESEARCH
 TRUST FUND**

Transferred In - new tax revenue received
 from General Revenue as well as local
 political subdivisions

Unknown	Unknown	Unknown
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Costs - Travel and other costs of the
 commissioners

(Unknown)	(Unknown)	(Unknown)
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Costs - distributions to increase the
 capacity for life sciences research,
 development, etc. at life sciences
 institutions within these districts

(Unknown)	(Unknown)	(Unknown)
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**ESTIMATED NET EFFECT TO LIFE
 SCIENCES RESEARCH TRUST**

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Local Government

FY 2005

FY 2006

FY 2007

LOCAL POLITICAL SUBDIVISIONS

Loss - "new tax revenue" from life science districts now goes to the life sciences reinvestment commission

\$0 to
(Unknown)

\$0 to
(Unknown)

\$0 to
(Unknown)

**ESTIMATED NET EFFECT TO
LOCAL POLITICAL SUBDIVISIONS**

\$0 to
(UNKNOWN)

\$0 to
(UNKNOWN)

\$0 to
(UNKNOWN)

FISCAL IMPACT - Small Business

This proposal would impact small life science businesses within the new Life Sciences Project areas.

DESCRIPTION

The proposal establishes six life science reinvestment districts. They are to be located in Kansas City, St. Louis, central Missouri, Springfield, St. Joseph, and one that includes areas of Missouri not encompassed by the other districts.

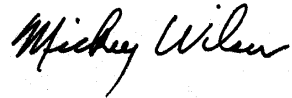
The proposal has an emergency clause.

This legislation is not federally mandated and would not require additional capital improvements or rental space. This proposal may, however, duplicate existing programs within the State.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
 Budget and Planning
Office of the Secretary of State
Department of Economic Development

NOT RESPONDING: counties of Clay, Platte, Jackson, St. Louis, Boone, Greene and Andrew, as well as the cities of Springfield, St. Joseph, Kansas City and St. Louis

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

Mickey Wilson, CPA
Director
February 17, 2004