COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4484-01
Bill No.: SB 1234
Subject: Enterprise Zones; Department of Economic Development; Tax Credits.
Type: Original
Date: February 18, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	(Unknown) to $20,000,000	(Unknown) to $25,600,000	(Unknown) to $31,200,000
Total Estimated Net Effect on General Revenue Fund*	**(Unknown) to $20,000,000**	**(Unknown) to $25,600,000**	**(Unknown) to $31,200,000**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Jobs Now	$0	$0	$0
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

***This does not reflect the possibility that some of the tax credit savings could be realized in premium tax collections through the County Foreign and County Stock Insurance Funds. The County Foreign Insurance Fund is split between General Revenue and local school districts. Therefore, an increase in premium tax collections would result in additional moneys to the local school districts.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

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

***This does not reflect the possibility that some of the tax credit savings could be realized in premium tax collections through the County Foreign and County Stock Insurance Funds. The County Foreign Insurance Fund is split between General Revenue and local school districts. Therefore, an increase in premium tax collections would result in additional moneys to the local school districts.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Coordinating Board of Higher Education** and the **Department of Natural Resources** each assume the proposal would not fiscally impact their respective agencies.

Officials from the **Department of Revenue (DOR)** do not anticipate the changes to the current statutes to have a significant impact on the amount of taxpayers claiming the credits. Therefore, DOR will not request FTE at this time. However, if the number of additional credits is larger than expected, DOR would need one Tax Processing Tech I for every 15,000 personal taxpayers claiming the credit and one for every 3,680 business taxpayers claiming the credit. These employees would maintain the certification of the credits and verify the amounts on the returns as claimed by the taxpayers.

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

ASSUMPTION (continued)

approximately 10 new pages of regulations in the Code of State Regulations at a cost of $27.00 per page, and 15 new pages in the Missouri Register at a cost of $23.00 per page. Costs due to this proposal are estimated to be $615, 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.

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 section 135.1070, RSMo, would allow a taxpayer who establishes a new business facility in such a zone a tax credit each year for up to 10 "tax years." No tax credit against taxes paid pursuant to chapter 148, RSMo (premium taxes), is mentioned. None of these additions appear to have any impact on the INS or the insurance industry, as the tax credits would not apply to taxes imposed by chapter 148, RSMo.

INS also states the two statutes being deleted include tax credits against taxes due under chapter 148, RSMo, which includes premium taxes paid to the INS. Losing those tax credits would increase the amount of premium taxes that are collectible from individuals that formerly could claim those credits.

In summary, INS assumes that additional premium tax revenue would be collected as a result of tax credits being eliminated with this proposal. Premium tax revenue is split between GR and County Foreign Ins. Fund. The unknown amount of increase to premium tax revenue would result in an increase to the General Revenue Fund and the County Foreign Insurance Fund, which is passed on to local school districts.

Officials from the **Department of Transportation (DOT)** state this legislation will have three (3) types of impacts on their agency:

(1) Under Section 100.293, a DOT representative serves on the "Jobs Now Recommendation Committee" and advises on grants, or low-interest, or interest-free loans from the Jobs Now Fund, to help fund Jobs Now projects;

(2) Under the same statute, subsection 4, the Missouri Highways and Transportation

ASSUMPTION (continued)

Commission (MHTC) and DOT may be asked to provide federal-aid matching highway or transportation funds, in conjunction with the Jobs Now project funds, to help develop a project with concurrent highway or transportation infrastructure development; and

(3) Under the real property tax assessment and payment exemptions in Section 135.1065 for real property in an "enhanced enterprise zone," any MHTC-authorized Transportation Development District (TDD) located in that same area and relying upon real property ad valorem taxation for part of its project revenues, will have those real property tax revenues reduced substantially or eliminated for at least 10 (and up to 25) years. Section 135.1065.4 & .5 could substantially hinder or adversely impact an MHTC/DOT-sponsored TDD project. In summary, DOT assumes the impact of the legislation is unknown.

Oversight will range the DOT loss from $0 to an Unknown amount.

Officials from the **Department of Economic Development (DED)** did not respond to our request for fiscal impact.

Officials from the **Department of Agriculture**, **Camden County**, **Wright County**, **City of Carl Junction** and the **City of Independence** did not respond to our request for fiscal impact.

Without DED's response, **Oversight** was unable to determine if there would be any departmental savings from the elimination of the tax credit programs in the proposal. Oversight therefore assumes that existing personnel within DED would be retained.

According to DED's Form 14 for the New and Expanded Business Facility Tax Credit, roughly $9 million credits for this program were issued in FY 2003. **Oversight** does not know how many facilities are receiving this credit or how much of the $9 million constitutes new facilities that earned the credit in the past year. Since this tax credit is allowed for new facilities each year for 10 years and this program is more than 10 years old, Oversight will make the assumption that on an average year, $900,000 ($9 million / 10 years) of these tax credits are issued to new facilities. Since $900,000 of new tax credits are added on each year for 10 years, the cumulative effect by the tenth year would be a total of $9 million in tax credits. Therefore, Oversight will assume the discontinuance of the New and Expanded Business Facility Tax Credit program will result in savings of $900,000 each year, compounded, starting in FY 2006.

According to DED's Form 14 for the Enterprise Zone Benefits program, roughly $47 million in benefits for this program were issued in FY 2003. **Oversight** does not know how many of these zones exist or what possible new facilities may commence operations after December 31, 2004. Since the benefits are realized by new facilities each year for 10 years and this program is more

ASSUMPTION (continued)

than 10 years old, Oversight will make the assumption that on an average year, $4.7 million ($47 million / 10 years) of these tax credits are issued to new facilities. Since $4.7 million of new benefits are added on each year for 10 years, the cumulative effect by the tenth year would be a total of $47 million in benefits. Therefore, Oversight will assume the discontinuance of the Enterprise Zone Benefits program will result in savings of $4.700,000 each year, compounded, starting in FY 2006.

Oversight will range the fiscal impact from the other programs affected by the proposal;

- Loss of $0 to $7,000,000 attributed to the new Enhanced Enterprise Zone program in Sections 135.1050 to 135.1075, RSMo;

- Savings of $0 to $10 million attributed to the repeal of the Qualified Research Expense Credit in Section 620.1039, RSMo. This program has a $10 million annual cap.

- Savings of $0 to $10 million attributed to the repeal of the Transportation Development Credit program in Section 135.545. This program has a $10 million annual cap.

Also, with this proposal, the Missouri Development Finance Board (MDFB)is given the power to make loans and grants from the new Jobs Now Fund based upon applications approved by the new Jobs Now Recommendation Committee. The MDFB may issue revenue bonds for the purpose of initially providing money for the Jobs Now Fund. Oversight assumes the Jobs Now Fund will disburse all proceeds and appropriations put into the fund.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE			
Loss - new Enhanced Enterprise Zone program	$0 to ($7,000,000)	$0 to ($7,000,000)	$0 to ($7,000,000)

Loss - Department of Transportation	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
Savings - potential savings from deletion of Qualified Research Expense Credit (620.1039)	$0 to $10,000,000	$0 to $10,000,000	$0 to $10,000,000
Savings - potential savings from deletion of Transportation Development Credit (135.545)	$0 to $10,000,000	$0 to $10,000,000	$0 to $10,000,000
Savings - potential savings from discontinuance of current New or Expanded Business Facility tax credit program (135.155)	$0	$900,000	$1,800,000
Savings - potential savings from discontinuance of current Enterprise Zone tax credit program (135.286)	$0	$4,700,000	$9,400,000
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND*	**(Unknown) TO $20,000,000**	**(Unknown) TO $25,600,000**	**(Unknown) TO $31,200,000**

Note: This does not reflect the possibility that some of the tax credit savings could be realized in premium tax collections through the County Foreign and County Stock Insurance Funds. The County Foreign Insurance Fund is split between General Revenue and local school districts. Therefore, an increase in premium tax collections would result in additional monies to the local school districts.

JOBS NOW FUND

Income - from sale of revenue bonds or appropriation from general assembly	Unknown	Unknown	Unknown

Costs - Loans or Grants to Jobs Now applicants	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT TO THE JOBS NOW FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that utilize the tax credit programs in the proposal could be fiscally impacted as a result of this proposal.

DESCRIPTION

This proposal implements the "Jobs Now" initiative.

The proposal creates the jobs now fund which will come under the industrial development authority, and will be able to receive funds similarly to the existing development and reserve fund and the guarantee fund. The moneys in the fund will be expended for grant and loans as approved by a new a "Jobs Now Recommendation Committee", comprised of representatives of the department of economic development, the department of agriculture, the department of natural resources, and the department of transportation. The proposal establishes and application process for such loans and grants.

The proposal creates a new type of enterprise zone. The proposal also prevents new revenue producing enterprises from utilizing the existing enterprise zone law after January 1, 2005. These new enhanced enterprise zones will have criteria for qualification.

To be in a zone, an area must meet all the following criteria:

(1) The area is one of pervasive poverty, unemployment, and general distress;

(2) At least sixty-five percent of the residents living in the area have incomes below eighty percent of the median income of all residents within the state of Missouri;

(3) The resident population of the area must be at least four thousand but not more than seventy-two thousand at the time of designation as an enterprise zone if the area lies within a metropolitan statistical area, as established by the United States Census Bureau, or if the area does not lie within a metropolitan statistical area, the resident population of the area at the time of designation must be at least one thousand but not more than twenty thousand inhabitants. If

<u>DESCRIPTION</u> (continued)

not, the population of the area must be at least fifty percent of the population of the jurisdiction. However, no enhanced enterprise zone shall consist of the total area within the political boundaries of a county; and

(4) The level of unemployment within the area exceeds one and one-half times the average rate of unemployment for the state of Missouri over the previous twelve months, or the percentage of area residents employed on a full-time basis is less than fifty percent of the statewide percentage of residents employed on a full-time basis.

In addition, an area, to qualify as an enhanced enterprise zone, must be demonstrated by the governing authority to have either:

(1) The potential to create sustainable jobs in a targeted industry; or

(2) A demonstrated impact on industry cluster development.

The enhanced enterprise zone designation, if approved by the joint committee, would be in effect for 25 years.

The benefits of an enhanced enterprise zone are similar to those of current enterprise zones, including tax credits. The director of the department of economic development shall evaluate the activity that has occurred within the zone on every five year anniversary.

Up to $7 million in benefits can be authorized annually for this program.

The proposal also deletes the Transportation Development tax credit program (Section 135.545) as well as the Research tax credit program (Section 620.1039, RSMo).

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
Department of Insurance
Office of the Secretary of State
Coordinating Board of Higher Education
Department of Natural Resources
Department of Transportation

NOT RESPONDING: Department of Economic Development, Department of Agriculture, Camden County, Wright County, City of Carl Junction, City of Independence

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