COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4484-02
Bill No.: SCS for SB 1234
Subject: Enterprise Zones; Department of Economic Development; Tax Credits.
Type: Original
Date: March 15, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	$2,000,000	$0	$0
Total Estimated Net Effect on General Revenue Fund*	**$2,000,000**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Highway Fund	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Road Fund	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Jobs Now	$0	$0	$0
Total Estimated Net Effect on Other State Funds*	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**

***This does not reflect the possibility that some of the tax credits 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 14 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 credits 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.

In response to a previous version of this proposal, officials from the **Department of Revenue (DOR)** did not anticipate the changes to the current statutes to have a significant impact on the amount of taxpayers claiming the credits. Therefore, DOR did not request FTE at the 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 40 new pages of regulations in the Code of State Regulations at a cost of $27.00 per page, and 60 new pages in the Missouri Register at a cost of $23.00 per page. Costs due to this proposal are estimated to be $2,460, 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 **Office of Administration - Budget and Planning (BAP)** assume the proposal would not result in additional costs or savings to their agency. However, expanding the number of enterprise zones could decrease general revenue and total state revenues. BAP defers to the Department of Economic Development on other portions of the bill.

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.

ASSUMPTION (continued)

Officials from the **Department of Transportation (DOT)** state this legislation will have four (4) 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 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.

(4) Under new Section 100.255(11), it may actually cost the state money to save money, because of all of the mandated payouts it provides to an entity that provides a certified design or operation plan that allegedly costs less than the usual and customary average industry cost for construction and improvement of real estate; especially if the actual existence of such a cost savings is disputed and litigated, or this new design or plan is not accepted and used by the state but the entity seeks compensation for it anyway.

In summary, DOT assumes the impact of the legislation is an unknown loss to the Highway fund and the Road fund.

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

Officials from the **Department of Agriculture** did not respond to our request for fiscal impact.

Officials from **Wright County** assume the fiscal impact to businesses and employers will be $10,500 per year as a result of the decrease in the investment tax credit. A potential $4,000 to $8,000 per year cost increase could result from the elimination of the “special employees” tax credit and “training” tax credit under the current Enterprise Zone law.

ASSUMPTION (continued)

Officials from the **Department of Economic Development (DED)** did not respond to our request for fiscal impact for this substitute. However, in a late response to the first version of this proposal (4484-01), DED stated the proposal makes the following changes:

1. Amends 100.255, 100.260, 100.270, 100.275, 100.281 and enacts new section 100.293: Sets up the Jobs Now Infrastructure Program.

The Missouri Development Finance Board (MDFB) would issue revenue bonds based on the increased general revenue collected via the termination of several tax credit programs. There would be an appropriation for the payment of the bonds. DED has this line item in their current budget request for FY 2005. The proceeds from the sale of the bonds would be placed in a special MDFB fund called the "Jobs Now Fund." Development agencies, which essentially are governmental entities, can apply for grants or low-interest or no-interest loans from the MDFB from the Fund.

A Jobs Now Recommendation Committee is created with designees from DED, DNR, Agriculture and MoDOT. The Committee will work with MDFB to compile all necessary application materials and forms.

Applications will be submitted simultaneously to the Committee and to MDFB. The Committee will review the applications, prepare analyses and make recommendations for funding to the MDFB. MDFB makes the decisions as to the actual award of grants and low or no interest loans.

Eligible projects are basically public infrastructure. To make a grant or loan, MDFB must determine that the project needs the grant or loan to happen OR has a significant local economic impact OR it will create a lot of jobs. For the loans, MDFB has to ensure the project will create enough revenue to repay the loan. No loan or grant can exceed $5 million.

There is a 20% set-aside for projects otherwise meeting requirements but that also will leverage federal or other non-state funds for the project and a 20% set-aside for projects otherwise meeting requirements that are for infrastructure at public colleges and universities.

The bonds would be issued in FY 2005 with the first payments due in FY 2006. The payments would increase over time to reflect the greater tax credit savings over time. DED assumes bond payments for the Jobs Now program to be $0 in FY 2005, $12,700,000 in FY 2006 and $15,400,000 in FY 2007

ASSUMPTION (continued)

2. 135.155 - new section
Sunsets the New/Expanding Business Facility ("BFC") Tax Credit Program -- projects commencing operations before January 1, 2005 will continue to receive incentives; no new projects.

This would phase out the entitlement program over a ten year period. Although the FY 2005 projected costs of the program ($6,525,000) are lower than some previous years due to the economy, the average annual cost of the program from FY 1999 through FY 2001 (prior to the recession) was $6,720,345. In FY 2003 the cost was $7.9 million. The average of these years is $7.01 million. For the purposes of this note, DED is assuming an average of $7,000,000 per year cost that would be phased out over a ten year period in increments of 10% added each year. Given the processing time frame on this program, conservative estimates would suggest the tax credit savings would begin to be realized in FY 2006. Therefore, in FY 2006, DED assumes a savings of $700,000 (10% of $7,000,000) and then a savings of $1,400,000 ($700,000 + $700,000) in FY 2007.

3. 135.286 - new section
Sunsets the state incentives portion of the Enterprise Zone Program -- projects commencing operations before January 1, 2005 will continue to receive incentives; no new projects.

This would phase out the current entitlement program over a ten year period. The FY 2005 projected costs of the program ($18,440,000) are lower than previous years due to the nation still being in recovery from the recession. The average annual cost of the program for FY 1999 through FY 2001 (prior to the recession) was $23,744,860. For the purposes of this note, DED is assuming an average of $22,000,000 per year cost that would be phased out over a ten year period in increments of 10% added each year. Given the processing time frame on this program, conservative estimates would suggest the tax credit savings would begin to be realized in FY 2006. Therefore, in FY 2006, DED assumes a savings of $2,200,000 (10% of $22,000,000) and then a savings of $4,400,000 ($2,200,000 + $2,200,000) in FY 2007.

ASSUMPTION (continued)

4. 135.1050, 135.1055, 135.1060, 135.1065, 135.1070 & 135.1075 - new sections
Enacts Enhanced Enterprise Zone Program.

Fiscal impact differences are that this program is discretionary and is capped at issuance of $7,000,000 in tax credits annually. A business will receive, each year for up to ten years, the lesser of the amount of credits it is authorized to receive from DED up front based on the projected state economic benefit of the project or credits calculated according to a formula:

- $400 credit per new job
- $400 per new employee zone resident
- $400 per new employee receiving salary higher than county average
- $ = 2% of new investment

Credits must be applied to the tax liability of the year for which they are issued, but they are transferable (75¢ minimum) and refundable.

The law would be effective August 28, 2004, but it would take some time before enhanced EZs could be designated. Once zones were designated, and DED authorized businesses to receive credits, it would be another year before credits would be issued and redeemed. Accordingly, DED assumes that the earliest issuances and redemptions could occur is later FY 2006. DED also assumes that they will authorize the issuance of approximately $700,000 in credits each year (with a cumulative effect of $7 million). Given the transferability and refundability of the credits, DED projects 100% redemption of issued credits. <u>Therefore, in FY 2006, DED assumes a cost of $700,000 (10% of $7,000,000) then cost $1,400,000 ($700,000 + $700,000) in FY ‘07.</u>

5. 135.545
Repeal Transportation Development Tax Credit - no credits issued on or after August 28, 2004

Some projects already approved would complete contribution and apply for credits prior to August 28, 2004. Additionally, the credit has a 10 year carryforward attribute, so previously issued credits not yet redeemed can be redeemed despite the repeal of the program. Based on total credits issued and not redeemed as of close of FY 2003, assuming current projections of FY 2004 $6 million issued, $5.7 million redeemed, and modifying projections for FY 2005 issued from $2.5 million down to $1.5 million, total outstanding unredeemed credits would be less than $3 million. DED assumes, for purposes of this fiscal note, that $2 million of those credits would be redeemed in FY 2005 and $500,000 each year for FY 2006 and FY 2007. Current projected redeemed for FY 2005 is $4,000,000. DED assumes $3,500,000 per year redeemed without the bill in FY 2006 and thereafter. <u>Therefore, DED assumes a savings of $2 million in FY 2005 and $3 million in both FY 2006 and FY 2007.</u>

ASSUMPTION (continued)

6. 620.1039
Repeal Research Tax Credit - no credits issued on or after August 28, 2004

DED can issue up to $10 million in R&D credits per year. The credit can be carried forward for up to five years. Current projections for redeemed credits for FY 2004 and FY 2005 are $8.5 million each year given the effects of the current economic downturn ($10 million in credits would be issued each year and that amount would eventually be redeemed annually as the economy recovers). It is assumed for this fiscal note that $8.5 would be redeemed in FY 2006 and $9 million in FY 2007. With the repeal of the credit as set forth in this bill, and taking into account total credits issued since FY 1999 but not redeemed as of FY 2003, and current projected redemptions for FY 2004 and FY 2005 as above, with the remaining outstanding credits being redeemed in equal parts in FY 2006, FY 2007 and FY 2008. Therefore, DED assumes a savings of $7.5 million in FY 2006 and $8.0 million in FY 2007.

DED assumed there would be no net impact to their agency and that current staff working with repealed programs would be reassigned to work with new program. In summary, DED assumed on the previous version of this proposal the following impact regarding the repealed and new programs.

	FY 2005	FY 2006	FY 2007
BFC Sunset	$0	$700,000	$1,400,000
EZ sunset	$0	$2,200,000	$4,400,000
Enhanced EZ	$0	($700,000)	($1,400,000)
Transportation repeal	$2,000,000	$3,000,000	$3,000,000
R&D repeal	$0	$7,500,000	$8,000,000
Jobs Now bond payments appropriations (assumed)	$0	($12,700,000)	($15,400,000)
Net Total assumed by DED	$2,000,000	$0	$0

This substitute adds a satellite zone in Jackson County (Section 135.207) as well as nine new enterprise zones (Laclede Co., Richland, Crocker, Nixa, Ozark, Douglas, Jackson Co, St. Clair and Pacific) in Section 135.212. **Oversight** assumes that since new section 135.286 of the proposal disallows the state benefits for satellite and enterprise zones for facilities commencing operations on or after January 1, 2005, that these new satellite and enterprise zones will not fiscally impact the state revenues. Oversight assumes the local taxing and governing authorities

ASSUMPTION (continued)

may grant an exemption (in whole or in part) of property taxes to new or expanding businesses after holding the required public hearings on the matter, therefore, has estimated the local impact as zero. The fiscal note does not reflect any indirect positive result that may occur because of the enterprise zone tax credits issued.

Regarding Section 135.215, in response to a similar proposal from this year, officials from **DED** stated this amendment allows the City of Springfield to extend their "local abatement incentive" on their existing enterprise zone past the current timeframe (25 years from the date of Zone designation) allowed in state statute. DED stated the enterprise zone was established in Springfield on May 11, 1984, therefore, the 25 year local property abatement would expire in 2009. This proposal would extend it until 2016.

Oversight assumes the abatement of local property tax from this section (135.215) is beyond the scope of the fiscal note, since the proposal extends the time period from May, 2009 to May, 2016.

Oversight will utilize DED's estimates of program costs as well as savings from their response to the previous version of this proposal. Oversight notes, however, that the program savings could be larger or smaller than DED's projections. Below are the potential savings that could be realized from the elimination of programs that have annual caps on the amount of tax credits that can be issued.;

- 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			
Costs - Jobs Now bond payments	$0	($12,700,000)	($15,400,000)
Loss - new Enhanced Enterprise Zone program (Section 135.1070.5)	$0	($700,000)	($1,400,000)
Savings - potential savings from deletion of Qualified Research Expense Credit (620.1039)	$0	$7,500,000	$8,000,000
Savings - potential savings from deletion of Transportation Development Credit (135.545)	$2,000,000	$3,000,000	$3,000,000
Savings - potential savings from discontinuance of current New or Expanded Business Facility tax credit program (135.155)	$0	$700,000	$1,400,000
Savings - potential savings from discontinuance of current Enterprise Zone tax credit program (135.286)	$0	$2,200,000	$4,400,000
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND*	**$2,000,000**	**$0**	**$0**

Note: This does not reflect the possibility that some of the tax credits 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.

FISCAL IMPACT - State Government (continued)	FY 2005 (10 Mo.)	FY 2006	FY 2007
HIGHWAY FUND			
Loss - Department of Transportation	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO THE HIGHWAY FUND	**$0 TO (UNKNOWN)**	**$0 TO (UNKNOWN)**	**$0 TO (UNKNOWN)**
ROAD FUND			
Loss - Department of Transportation	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO THE ROAD FUND	**$0 TO (UNKNOWN)**	**$0 TO (UNKNOWN)**	**$0 TO (UNKNOWN)**
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 also 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 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

DESCRIPTION (continued)

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 repeals the New or Expanded Business Facility tax credit (Section 135.155), the Transportation Development tax credit program (Section 135.545) as well as the Research tax credit program (Section 620.1039, RSMo).

The substitute creates a satellite zone in Jackson County (Section 135.207).

The substitute creates eight new enterprise zones (Laclede County, Richland, Crocker, Nixa, Ozark, Douglas County, Jackson County, St. Clair and Pacific).

Current law allows improvements made to certain kinds of real property within an enterprise zone to be exempt from ad valorem taxes for up to 25 years, as long as certain requirements are met. This proposal allows the City of Springfield to continue this exemption until May 1, 2016.

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
Department of Economic Development
Wright County

NOT RESPONDING: Department of Agriculture

Mickey Wilson

Mickey Wilson, CPA
Director
March 15, 2004