

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4494-11
Bill No.: Perfected SS for SCS for SB's 1221 and 1305
Subject: Bonds: Higher Education
Type: Original
Date: April 29, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	\$0	(\$5,000,000)	(\$5,000,000)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$5,000,000)	(\$5,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Missouri College Guarantee	\$0	\$23,600,000	\$23,600,000
Total Estimated Net Effect on Other State Funds	\$0	\$23,600,000	\$23,600,000

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 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 of the **Secretary of State** and of the **State Treasurer** stated, in response to earlier similar proposals, that the proposal would have no direct effect on their agencies.

Officials from the Office of the **Attorney General** stated that any duties required by this proposal could be accomplished with existing resources.

Officials of the **University of Missouri (UM)** prepared an economic impact analysis for the original version of the proposal. That version proposed \$190,000,000 in projects at campuses of the University of Missouri. That analysis projected an indirect economic impact of \$162,977,310 and 3,365 jobs created after one year. The model projected a ten-year impact of \$1,629,773,100 and 33,650 jobs created. The model assumed \$85,365,977 of outside grant support for the proposed projects.

Since this proposal authorizes up to \$372,500,000 for life sciences projects but does not specify projects, UM officials simply noted that the proposal could benefit the University.

Oversight notes that there is no indication of when or in what amounts bonds would be issued. Annual debt service on \$372,500,000 worth of 25-year bonds at 5% interest would be about

ASSUMPTION (continued)

\$26,400,000 per year or \$660,000,000 over twenty-five years. Oversight assumes that, since a mechanism for paying debt service on the bonds would begin realizing income in FY 2006, bonds would be issued in 2005 and that debt service payments would begin in 2006.

This proposal would eliminate the corporation income tax deduction for federal income tax liability until all bonds issued for life sciences projects under terms of this proposal are retired. According to the January, 2004, Tax Expenditure Report of the State and Regional Fiscal Studies Unit of the University-Columbia, that deduction would be \$50,000,000 to \$60,000,000 per year for 2001 through 2007.

Oversight will, for fiscal note purposes, assume this part of the proposal would increase revenues by \$50,000,000 per year.

Oversight assumes that the \$5,000,000 annual cap on the tax credit for hiring graduates of Missouri institutions of higher education who have received aid from the Missouri College Guarantee Program would be reached every year.

The 2002 Annual Report of the Department of Higher Education noted that Missouri institutions of higher education granted 28,672 Bachelor's degrees in FY 2001 (compared to 26,035 in FY 1996). The Department's 2003 Progress Report noted that twenty-eight percent (28%) of qualifying students received aid from the College Guarantee Fund. It also noted that about sixty-eight percent (68%) of students receiving Bachelor's degrees gained employment in Missouri. Oversight projects that $28,672 \times .68 \times .28 = 5,459$ recipients of Bachelor's degrees could be eligible employees for tax credit purposes. $5,459 \times \$10,000 = \$54,590,000$ in potential credits just for Bachelor's degree graduates for one year.

Oversight assumes that the **Office of Administration** should be able to estimate the amount of revenue derived from the elimination of the corporation federal income tax deduction with existing resources. Oversight notes that the **Department of Revenue** will have to change forms and reprogram the Corporation Income tax System (COINS) in order to accommodate tax changes. The Department will also have to enter additional lines from returns and answer taxpayer inquiries.

However, neither the Office or the Department has not had time to make formal responses to the perfected version of the proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
<u>Income</u> - Increased Corporation Income Tax Collections	\$0	\$50,000,000	\$50,000,000
<u>Cost</u> - Debt Service on Bonds	\$0	(\$26,400,000)	(\$26,400,000)
<u>Cost</u> - Transfers to Missouri College Guarantee Fund	\$0	(\$23,600,000)	(\$23,600,000)
<u>Loss</u> - Increased Tax Credits	\$0	(\$5,000,000)	(\$5,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$5,000,000)</u>	<u>(\$5,000,000)</u>
MISSOURI COLLEGE GUARANTEE FUND			
<u>Income</u> - Transfers from the General Revenue Fund	\$0	\$23,600,000	\$23,600,000
ESTIMATED NET EFFECT ON MISSOURI COLLEGE GUARANTEE FUND	<u>\$0</u>	<u>\$23,600,000</u>	<u>\$23,600,000</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

Small businesses which deduct federal corporation income tax liability from state corporation income taxes and small businesses which hire qualified employees could be affected by this proposal.

DESCRIPTION

This proposal would provide that bonds issued under terms of sections 8.660 to 8.670, RSMo Supp. 2003, after January 1, 2004, excluding refunding bonds issued before that date, could be used for life sciences projects. It would also increase the amount of revenue bonds which could be issued for permitted projects to \$542,500,000 from \$170,000,000.

It would also grant a tax credit to employers who hired certain graduates of Missouri institutions of higher education. The credit would be \$10,000 per qualified employee; however, the total amount of credits which could be redeemed in any fiscal year would be limited to \$5,000,000.

The proposal would eliminate the corporation tax deduction for federal corporation income taxes paid until all life science project bonds issued under terms of this proposal were retired.

The repeal of the federal tax deduction and the tax credit would take effect for taxable years beginning after December 31, 2004.

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

SOURCES OF INFORMATION

Attorney General

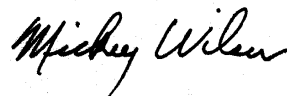
Secretary of State

State Treasurer

Tax Expenditure Report January 2004 - State and Regional Fiscal Studies Unit, University of Missouri-Columbia

FY 2002 Annual Report - Department of Higher Education

2003 Progress Report - Department of Higher Education



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Director

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